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Application Proof of



JD Logistics, Inc. 京东物流股份有限公司

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

(the “Company”)

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IMPORTANT

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JD Logistics, Inc.
京东物流股份有限公司

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

[REDACTED]

Number of [REDACTED] under [REDACTED] : [REDACTED] (subject to [REDACTED])
Number of [REDACTED] : [REDACTED] (subject to [REDACTED])
Number of [REDACTED] : [REDACTED] (subject to [REDACTED] and [REDACTED])
Maximum [REDACTED] : [REDACTED]
Nominal value : US\$0.000025 per Share
Stock code : [REDACTED]

Joint Sponsors

(in alphabetical order)

BofA SECURITIES



**Goldman
Sachs**



Financial Advisor



[REDACTED]

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[REDACTED]

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to [REDACTED] in [REDACTED].

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in [REDACTED] are set out in the section headed “Risk Factors.” You should read that section carefully before you decide to [REDACTED] in [REDACTED].

OUR VISION

To become the world’s most trusted supply chain solutions and logistics services provider.

OUR MISSION

To drive superior efficiency and sustainability for global supply chain through technology.

OVERVIEW OF OUR BUSINESS

We are the leading technology-driven supply chain solutions and logistics services provider in China. We offer a full spectrum of supply chain solutions and high-quality logistics services enabled by technology, ranging from warehousing to distribution, spanning across manufacturing to end-customers, covering regular and specialized items. According to the CIC Report, we are the largest player in China’s integrated supply chain logistics services market in terms of total revenue in 2019.

Our value proposition is to empower our customers’ supply chains and substantially improve their operational efficiencies, which in turn enhance their own customer experience and stickiness. We help our customers reduce redundant distribution layers, improve the agility of their supply chains, and optimize inventory management. Our solutions are powered by our proprietary technology, industry know-how and insights of product merchandizing. In 2020, we served more than 190,000 corporate customers across a wide array of industries, such as fast moving consumer goods (FMCG), apparel, home appliances, home furniture, 3C, automotive and fresh produce, among others.

Our journey began with the establishment of JD Group’s in-house logistics department in 2007, and we have been continually building our logistics infrastructure, technologies, as well as operational and industry know-hows for over a decade. Starting from 2012, we helped JD Group maintain its inventory turnover days consistently below 40 days despite the significant increase in the number of SKUs. In 2020, approximately 90% of the total online retail orders processed for JD Group through our networks were delivered on the same day or the day after the order was placed. With the fundamental approaches of minimizing the number of transits and shortening the distance between merchandises and consumers, we believe we have revolutionized and led the upgrade of supply chains of the e-commerce industry in China. Through this process, we have built up our nationwide and strategically-located logistics infrastructure and technology platform from ground up, redefined the industry standards for service quality, and accumulated deep know-hows in key industry verticals. We have then opened up our solutions and services to external customers since 2017 with the goal of empowering their supply chains.

We believe China’s rapid digitalization of the economy has created increasingly multi-faceted customer demands. Such demands are currently serviced by a fragmented group of incumbent logistics players and are severely underserved, which present significant opportunities for supply chain solutions and logistics services providers like us. According to the CIC Report, the market size of the integrated supply chain logistics services industry is expected to grow from RMB2,023 billion in 2020

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to RMB3,185 billion by 2025, representing a CAGR of 9.5%, which is approximately 1.8 times the growth of China’s logistics spending over the same period. The integrated supply chain logistics services market in China is highly fragmented due to the vast size of the market and specific requirements across industry verticals. According to the CIC Report, the top ten players only accounted for 7.9% market share in terms of revenue in 2019.

Supply chain technology is the bedrock of our operations and differentiates us from our competitors. We leverage fundamental technologies such as 5G, AI, big data, cloud computing and IoT to continuously improve our capabilities in automation, digitalization, and intelligentization. We use advanced unmanned technologies and robotics, such as automated guided vehicles (AGVs), autonomous mobile robots (AMRs) and sorting robots, self-driving vehicles, among others, to deliver critical improvements in speed, accuracy and productivity in all key logistical operations including warehousing, transportation, sorting and delivery. As of September 30, 2020, we operated 28 Asia No. 1 smart mega warehouses covering 18 cities in China, including a fully unmanned warehouse located in Shanghai, which can process more than 1.3 million orders per day during peak seasons. Our proprietary warehouse management system (WMS), transportation management system (TMS) and order management system (OMS) support the digitalization of our customers’ supply chains, and are coordinated and synchronized by our intelligent algorithms to enable centralized decision making in areas such as sales forecasting, merchandise distribution planning and supply chain network optimization. As of December 31, 2020, we were entitled to over 4,400 patents and computer software copyrights (including applications thereof), of which over 2,500 relate to our automation and unmanned technologies.

We have established six highly synergized logistics networks which are extensive, flexible and digitally integrated, providing us with strong competitive advantages in delivering compelling customer experience and serving as an effective entry barrier against our competitors. These six logistics networks are our warehouse network, line-haul transportation network, last-mile delivery network, bulky item logistics network, cold-chain logistics network and cross-border logistics network. Our logistics networks cover almost all districts and counties in China as well as China’s total population. As of September 30, 2020, we operated over 800 warehouses, which covered an aggregate gross floor area of approximately 20 million square meters, including warehouse space managed under our Open Warehouse Platform. As of December 31, 2020, we had a team of over 190,000 delivery personnel and also connect with an extensive crowd-sourced on-demand delivery network.

While we control and operate our mission-critical logistics infrastructure to deliver high-quality services and best-in-class customer experiences, we embrace synergistic collaborations in building our supply chain network in order to bring together the complementary capabilities of various industry participants and strategic partners in China and globally. As an example, utilizing our Open Warehouse Platform, we can improve the operating efficiencies of our customers’ warehouses through implementation of our advanced warehouse management systems. Furthermore, we also utilize capacity from these warehouses to further expand the reach of our warehouse network. As part of our global strategy, we are also continually building our international supply chain network, which covered more than 220 countries and regions as of December 31, 2020.

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We have achieved rapid growth during the Track Record Period. Our revenue grew by 31.6% from RMB37.9 billion in 2018 to RMB49.8 billion in 2019, and grew by 43.2% from RMB34.6 billion in the nine months ending September 30, 2019 to RMB49.5 billion in the same period in 2020. We incurred net losses of RMB2.8 billion, RMB2.2 billion and RMB11.7 million in 2018, 2019 and for the nine months ended September 30, 2020, respectively.

SUMMARY

OUR STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

- Largest integrated supply chain logistics services provider
- Strong operational efficiency driving high service quality
- Superior brand image and customer experience
- Advanced proprietary technology empowering the entire supply chain
- Open supply chain solutions platform with synergistic partnerships
- Experienced and visionary management team and strong corporate culture

OUR STRATEGIES

Our growth strategies are centered on customer experience, technological capabilities and operational efficiency. We believe superior customer experience is the bedrock of our continued success, as we can only solidify our market leadership by achieving customer satisfaction. Our technological capabilities are the tools we utilize to drive the continuous improvements in our solutions and services, which ultimately leads to higher operational efficiency for ourselves and our customers. To achieve this goal, we intend to pursue the following strategies:

- Enhance our customers’ supply chain efficiency by expanding the breadth and depth of our solutions and services
- Further invest in supply chain technologies to drive sustainable growth
- Continue to improve our operational efficiency through strengthening our logistics network
- Expand internationally to achieve global footprint

RISK FACTORS

Our operations and the [REDACTED] involve certain risks and uncertainties, which are set out in the section headed “Risk Factors.” You should read that section in its entirety carefully before you decide to [REDACTED] in our Shares. Some of the major risks we face include:

- the fact that our business and growth are significantly affected by the development of the e-commerce industry, as well as macroeconomic and other factors that affect demand for supply chain solutions and logistics services, in China and globally;
- intense competition that we face that could adversely affect our results of operations and market share;
- the fact that a significant portion of our revenue was associated with JD Group during the Track Record Period and significant portion of our revenue may continue to be associated with JD Group in the foreseeable future;
- the fact that we may have different development prospects or conflicts of interest with JD Group;
- any negative development with respect to our relationship with JD Group or negative publicity concerning JD Group;

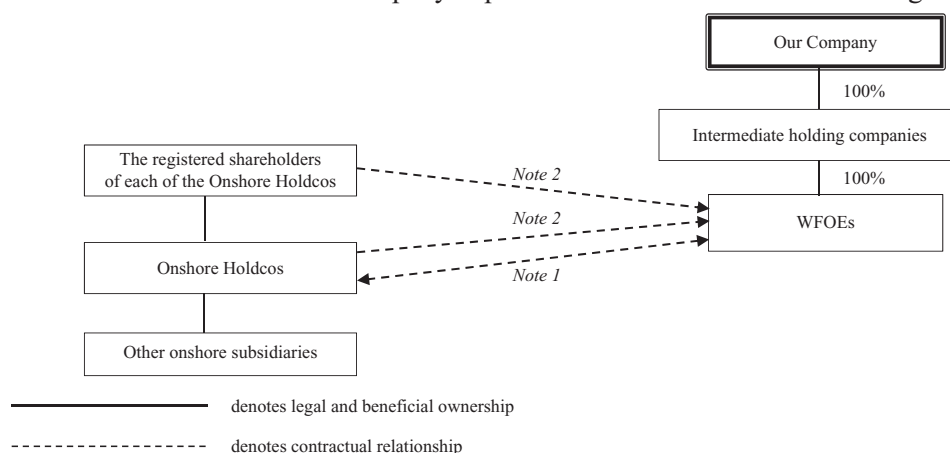
SUMMARY

- the fact that we incurred significant net losses in the past and may not be able to achieve or maintain profitability in the future;
- the fact that our historical results of operations and financial performance are not indicative of future performance;
- our reliance on our technology infrastructure and platform in our business operations;
- the fact that our investments in warehouses and equipment may not match customer demand or there may be a lack of funding for these investments; and
- severe weather conditions and other natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19.

CONTRACTUAL ARRANGEMENTS

Our Company operates or may operate in certain industries that are subject to restrictions under the current PRC laws and regulations. In order to comply with such laws, while availing ourselves of international capital markets and maintaining effective control over all of our operations, we control our Consolidated Affiliated Entities through the Contractual Arrangements entered into on January 25, 2021. Hence, we do not directly own any equity interest in our Consolidated Affiliated Entities. Pursuant to the Contractual Arrangements, we have effective control over the financial and operational policies of our Consolidated Affiliated Entities and are entitled to all the economic benefits derived from the Consolidated Affiliated Entities’ operations. For further details, please see section headed “Contractual Arrangements” in this document.

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



Notes:

1. The WFOE and Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) provide business support, technical and consulting services in exchange for service fees from the Onshore Holdco and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司), respectively. Please refer to “Contractual Arrangements—Our Contractual Arrangements—Exclusive Business Cooperation Agreement”.
2. The Registered Shareholders, executed the exclusive option agreement in favor of the WFOE for the acquisition of all or part of the equity interests in and all or part of the assets in the Onshore Holdco. Jian Cui (崔建) and Dingkai Yu (禹定凱) executed the exclusive option agreement in favor of Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) for the acquisition of all or part of the equity interests in and all or part of the assets in Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司). See section headed “Contractual Arrangements—Our Contractual Arrangements—Exclusive Option Agreement”. The Registered Shareholders executed shareholders’ rights entrustment agreement and the powers of attorney in favor of the WFOE, for the exercise of all shareholders’ rights in the Onshore Holdco. Jian Cui (崔建) and Dingkai Yu (禹定凱) executed shareholders’ rights entrustment agreement and the powers of attorney in favor of the Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), for the exercise of all shareholders’ rights in the Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司). See section headed “Contractual Arrangements—Our Contractual Arrangements—Shareholders’ Rights Entrustment Agreement and Powers of Attorney”.

SUMMARY

The Registered Shareholders granted security interests in favor of the WFOE, over the entire equity interests in the Onshore Holdco. Jian Cui (崔建) and Dingkai Yu (禹定凱) granted security interests in favor of Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), over the entire equity interests in Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司). See section headed “Contractual Arrangements—Our Contractual Arrangements—Share Pledge Agreement”.

OUR CONTROLLING SHAREHOLDERS AND CONTINUING CONNECTED TRANSACTIONS

As of the Latest Practicable Date, JD.com, through its wholly-owned subsidiary, Jingdong Technology Group Corporation, indirectly controlled in aggregate 79.12% of our issued Shares. Immediately after the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and excluding shares to be issued under the [REDACTED] ESOP), JD.com, through such wholly-owned subsidiary, will indirectly control in aggregate [REDACTED]% of our issued Shares. Accordingly, our Company will remain as a subsidiary of JD.com after [REDACTED], and JD.com, Jingdong Technology Group Corporation, Fortune Rising Holdings Limited, Max Smart Limited and Mr. Richard Qiangdong Liu (劉強東) will constitute a group of Controlling Shareholders of our Company.

We have entered into a number of partially exempt or non-exempt continuing connected transactions with JD Group, including (i) provision of supply chain solutions and logistics services, advertising and promotional services to JD Group; (ii) various property leasing and shared services provided by JD Group; and (iii) certain other partially exempt or non-exempt continuing connected transactions. In relation to these transactions, we are of the view that we do not and will not significantly rely on JD Group. Please refer to the section headed “Relationship with our Controlling Shareholders—Operational Independence” and “Connected Transactions” in this document for further details.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our combined financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this document and the Condensed Combined Financial Statements set out in Appendix IA to this document. The summary combined financial data set forth below should be read together with, and is qualified in its entirety by reference to, the combined financial statements in this document, including the related notes. Our combined financial information was prepared in accordance with IFRSs.

SUMMARY

Selected Combined Statements of Profit or Loss Items

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

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Revenue	37,873,445	100.0	49,847,639	100.0	34,575,812	100.0	49,507,217	100.0
Cost of revenue	(36,793,265)	(97.1)	(46,415,425)	(93.1)	(31,632,343)	(91.5)	(44,088,570)	(89.1)
Gross profit	1,080,180	2.9	3,432,214	6.9	2,943,469	8.5	5,418,647	10.9
Selling and marketing expenses	(593,809)	(1.6)	(946,853)	(1.9)	(643,976)	(1.9)	(1,087,013)	(2.2)
Research and development expenses	(1,519,528)	(4.0)	(1,677,949)	(3.4)	(1,242,163)	(3.6)	(1,442,335)	(2.9)
General and administrative expenses	(1,731,098)	(4.6)	(1,874,391)	(3.8)	(1,429,459)	(4.1)	(1,454,077)	(2.9)
Other income, gains/(losses), net	28,441	0.1	(527,977)	(1.1)	(198,613)	(0.6)	407,201	0.8
Finance income	326,519	0.9	386,140	0.8	299,662	0.9	202,773	0.4
Finance costs	(63,224)	(0.2)	(430,105)	(0.9)	(333,702)	(1.0)	(314,882)	(0.6)
Fair value changes of convertible redeemable preferred shares	(239,142)	(0.7)	(315,477)	(0.6)	(236,608)	(0.7)	(1,556,464)	(3.1)
Impairment losses under expected credit loss model, net of reversal	(52,330)	(0.1)	(137,131)	(0.3)	(118,487)	(0.3)	(165,318)	(0.3)
Share of results of an associate	—	—	(68,627)	(0.1)	(3,834)	(0.0)	(12,130)	(0.0)
Loss before income tax	(2,763,991)	(7.3)	(2,160,156)	(4.3)	(963,711)	(2.8)	(3,598)	(0.0)
Income tax expense	(556)	(0.0)	(77,330)	(0.2)	(32,587)	(0.1)	(8,116)	(0.0)
Loss for the year/period	(2,764,547)	(7.3)	(2,237,486)	(4.5)	(996,298)	(2.9)	(11,714)	(0.0)
Owners of the Company	(2,764,547)	(7.3)	(2,233,900)	(4.5)	(996,299)	(2.9)	(71,226)	(0.0)
Non-controlling interests	—	—	(3,586)	(0.0)	1	0.0	59,512	0.0
Non-IFRS Measure:⁽¹⁾								
Non-IFRS (loss)/profit for the year/period (unaudited)	(1,601,956)	(4.2)	(274,648)	(0.6)	241,775	0.7	2,279,875	4.6

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

Non-IFRS Measure: Non-IFRS Profit/(Loss) For The Year/Period

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

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

We define non-IFRS profit/(loss) as profit/(loss) for the year/period, excluding share-based payments, fair value changes of financial assets at fair value through profit or loss, impairment of investments, amortization of intangible assets resulting from acquisitions, fair value changes of convertible redeemable preferred

SUMMARY

shares and reconciling items on the share of results of an associate. We exclude these items because they do not involve any cash outflow and are neither operating in nature nor indicative of our core operating results and business outlook. We account for the compensation cost from share-based payment transactions with employees based on the grant-date fair value of the equity instrument issued by JD.com, Inc., us and Kuayue Express. The grant-date fair value of the award is recognized as compensation expense, net of forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. The reconciling item is non-cash and does not result in cash outflow, and the adjustment has been consistently made during the Track Record Period, which complies with GL103-19. In addition, we account for the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. The fair value of convertible redeemable preferred shares has been determined by using the income approach and is affected primarily by the changes in our equity value. The convertible redeemable preferred shares will automatically convert into ordinary shares upon the completion of [REDACTED], and no further loss or gain on fair value changes is expected to be recognized afterwards. The reconciling item is non-cash, non-recurring and does not result in cash outflow, which complies with GL103-19.

The following table (in absolute amounts and as percentages of total revenue for year/period indicated) reconciles our non-IFRS profit/(loss) for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year/period:

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)		(Unaudited)	
Reconciliation of loss to non-IFRS (loss)/profit:								
Loss for the year/period	(2,764,547)	(7.3)	(2,237,486)	(4.5)	(996,298)	(2.9)	(11,714)	(0.0)
Add:								
Share-based payments	910,385	2.4	997,912	2.0	721,132	2.1	741,759	1.5
Fair value changes of financial assets at fair value through profit or loss	13,064	0.0	469,241	0.9	130,333	0.4	(50,967)	(0.1)
Impairment of investments	—	—	150,000	0.3	150,000	0.4	—	—
Amortization of intangible assets resulting from acquisitions	—	—	—	—	—	—	44,333	0.1
Fair value changes of convertible redeemable preferred shares	239,142	0.7	315,477	0.6	236,608	0.7	1,556,464	3.1
Reconciling items on the share of results of an associate	—	—	30,208	0.1	—	—	—	—
Non-IFRS (loss)/profit for the year/period	(1,601,956)	(4.2)	(274,648)	(0.6)	241,775	0.7	2,279,875	4.6

SUMMARY

Selected Combined Statements of Financial Position Items

The following table sets forth selected information from our combined statements of financial position as of the dates indicated:

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
			(Unaudited)
Total non-current assets	6,342,753	15,777,656	24,218,141
Total current assets	22,101,312	24,275,462	32,376,394
Total assets	28,444,065	40,053,118	56,594,535
Total non-current liabilities	17,462,915	23,684,960	28,673,776
<i>Including: Convertible redeemable preferred shares</i>	<i>17,462,915</i>	<i>18,069,639</i>	<i>19,591,129</i>
Total current liabilities	11,897,755	18,453,154	27,058,570
Total liabilities	29,360,670	42,138,114	55,732,346
Share capital	610	610	611
Reserves	1,178,058	2,215,313	3,060,991
Accumulated losses	(2,095,273)	(4,333,365)	(4,404,591)
Equity attributable to owners of the Company	(916,605)	(2,117,442)	(1,342,989)
Non-controlling interests	—	32,446	2,205,178
Total equity and liabilities	28,444,065	40,053,118	56,594,535
Net current assets	10,203,557	5,822,308	5,317,824

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

SUMMARY

Selected Combined Statements of Cash Flows Items

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

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2018	2019	2019	2020
		(in thousands of RMB)	(Unaudited)	(Unaudited)
Net cash generated from operating activities	1,021,769	2,630,294	2,260,084	6,635,354
Net cash used in investing activities	(3,408,482)	(2,609,912)	(2,474,252)	(7,408,940)
Net cash generated from/(used in) financing activities	18,776,658	(9,894,983)	(11,478,380)	1,513,404
Net increase/(decrease) in cash and cash equivalents	16,389,945	(9,874,601)	(11,692,548)	739,818
Net contribution from JD Group	1,342,208	—	—	—
Cash and cash equivalents at the beginning of the year/period	293,250	19,249,997	19,249,997	9,274,203
Effects of foreign exchange rate changes on cash and cash equivalents	1,224,594	(101,193)	5,861	(229,149)
Cash and cash equivalents at the end of the year/period	19,249,997	9,274,203	7,563,310	9,784,872

[REDACTED]

FUTURE DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. Any future decision to declare and pay any dividends will be at the discretion of our Board and will depend on, among other things, the availability of dividends received from our subsidiaries, our earnings, capital and investment requirements, level of indebtedness, and other factors that our Board deems relevant. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us. We do not have a fixed dividend payout ratio.

[REDACTED]

SUMMARY

[REDACTED]

RECENT DEVELOPMENTS

Our Directors confirm that there have been no material adverse changes in our financial, operational or trading positions or prospects since September 30, 2020, being the date of our reviewed financial statements as set out in the Accountant’s Report in Appendix IA to this document, and up to the date of this document.

Impact of COVID-19 on Our Operations

Our revenue is primarily derived from provision of supply chain solutions and logistics services. Our results of operations and financial condition have been and may continue to be affected by the spread of COVID-19. Although China had substantially controlled the spread of COVID-19 by the end of 2020, the extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak which are highly uncertain.

In response to the initial spread of COVID-19, the Chinese government has taken a number of actions, which included compulsory quarantining arrangement, travel restrictions, remote work arrangement and public activities restrictions, among others. COVID-19 also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China and around the world. We have also taken a series of measures in response to the initial outbreak, including, among others, remote working arrangements for some of our employees and temporary closure of some of our branch offices, warehouses, delivery stations and service stations from late January to late February 2020. These measures temporarily reduced the capacity and efficiency of our operations, which negatively affected our results of operations. The measures and timing for business resumption varied across different localities in the PRC, and our branch offices, warehouses, delivery stations and service stations closed and opened in accordance with measures adopted by their respective local government authorities. We also experienced a temporary labor shortage in January and February 2020. We have taken measures to reduce the impact of the COVID-19 outbreak, including strictly implementing self-quarantine and disinfection measures at our headquarters, warehouses, delivery stations and service stations in accordance with government-issued protocols. We have also provided our delivery personnel with masks, hand sanitizers and other protective equipment immediately after the outbreak. As of April 2020, we had resumed substantially all of our businesses.

Despite an initial drop in our business activities at the start of the COVID-19 outbreak due to the nationwide lockdown imposed in the PRC, we have seen a swift resumption in our business growth starting in the second quarter of 2020. As consumers became accustomed to online shopping in order to minimize exposure to the virus, there was an increase in the demand for our supply chain solutions and logistics services especially in certain industry verticals, such as FMCG. In addition, several government subsidy programs, such as reduction in social security fund contribution and waiver of toll

SUMMARY

charges, have improved our financial performance during the nine months ended September 30, 2020. Despite the impact of the COVID-19 outbreak, our revenue increased by 43.2% from RMB34.6 billion for the nine months ended September 30, 2019 to RMB49.5 billion for the nine months ended September 30, 2020.

As of September 30, 2020, we had cash and cash equivalents of RMB9.8 billion and term deposits of RMB1.0 billion. For the nine months ended September 30, 2020, we had net cash generated from operating activities of RMB6.6 billion. We believe our liquidity is sufficient to successfully navigate an extended period of uncertainty.

Taking into account (i) the worst case scenario that our operations and businesses are adversely affected by the COVID-19 outbreak, (ii) the financial resources available to us, including cash and cash equivalents, term deposits and the portion of the estimated [REDACTED] from [REDACTED] expected to be used for working capital and general corporate purposes, and (iii) the prudent estimates for the settlement of trade receivables and trade payables, we believe we retain substantial ability to manage our business growth and achieve an optimal balance between business expansion and operating efficiency. Accordingly, we believe that we can further utilize our internal resources and [REDACTED] from [REDACTED] designated for general working capital and our operations based on the low-end of the [REDACTED], and remain financially viable for more than five years.

[REDACTED]

SUMMARY

[REDACTED]

USE OF [REDACTED]

Assuming an [REDACTED] of [REDACTED] (being the [REDACTED] of the [REDACTED] of between [REDACTED] and [REDACTED]), we estimate that we will receive [REDACTED] of approximately [REDACTED] from [REDACTED] after deducting the [REDACTED] and other estimated expenses paid and payable by us in connection with [REDACTED] and assuming that the [REDACTED] is not exercised. In line with our strategies, we intend to use our [REDACTED] from [REDACTED] for the purposes and in the amounts set forth below:

- approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to be used for the upgrade and expansion of our logistics networks;
- approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to develop advanced technologies to be used in our supply chain solutions and logistics services;
- approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to be used for expanding the breadth and depth of our solutions, as well as for penetrating existing customers and attracting potential customers; and
- approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to be used for general corporate purposes and working capital needs.

[REDACTED]

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the following meanings.

“3C”	computer, communication, and consumer electronics
“ADSs”	American Depositary Shares (each representing two Class A ordinary shares) of JD.com
“affiliate(s)”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted by special resolutions passed on [●] with effect from [REDACTED], a summary of which is set out in “Summary of the constitution of our Company and Cayman Islands company law” in Appendix III to this document
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audited Financial Statements”	the audited combined financial statements of our Company for the two years ended December 31, 2019, as included in the section headed “Accountants’ report” in Appendix I to this document
“Board”	the board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Cayman Companies Act” or “Companies Act”	the Companies Act, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time

[REDACTED]

DEFINITIONS

[REDACTED]

“China” or “the PRC”	the People’s Republic of China, and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Class A ordinary share(s)”	Class A ordinary shares in the share capital of JD.com with par value of US\$0.00002 each, conferring a holder of a Class A ordinary share to one vote per share on any resolution tabled at JD.com’s general meeting
“Class B ordinary share(s)”	Class B ordinary shares in the share capital of JD.com with par value of US\$0.00002 each, conferring weighted voting rights in JD.com such that a holder of a Class B ordinary share is entitled to 20 votes per share on any resolution tabled at JD.com’s general meeting
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company”, “our Company”, or “the Company”	JD Logistics, Inc. (京东物流股份有限公司), an exempted company with limited liability incorporated in the Cayman Islands on January 19, 2012
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely the Onshore Holdco, Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) and their respective subsidiaries. For further details of these entities, see the section headed “History, Reorganization and Corporate Structure” in this document
“Contractual Arrangement(s)”	the series of contractual arrangements entered into, among others, (i) between the WFOE, the Onshore Holdco and the Registered Shareholders, and (ii) between Jian Cui (崔建), Dingkai Yu (禹定凱), Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司), as detailed in the section headed “Contractual Arrangements”
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Jingdong Technology Group Corporation, JD.com, Mr. Richard Qiangdong Liu (劉強東), Max Smart Limited and Fortune Rising Holdings Limited
“CSRC”	China Securities Regulatory Commission
“Dada Group”	Dada Nexus Limited and its subsidiaries
“Director(s)”	the director(s) of our Company
“Extreme Conditions”	any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the [REDACTED] or [REDACTED]
“GFA”	gross floor area [REDACTED]
“Governmental Authority(ies)”	any governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organization, or other

DEFINITIONS

non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational

[REDACTED]

“Group”, “our Group”, “the Group”, “we”, “us”, or “our”

the Company, its subsidiaries and the Consolidated Affiliated Entities from time to time, including where the context otherwise requires, any companies and businesses transferred to our Group as part of the Reorganization (as the case may be)

“HK” or “Hong Kong”

the Hong Kong Special Administrative Region of the People’s Republic of China

[REDACTED]

“Hong Kong dollars” or “HK dollars” or “HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong Takeovers Code” or “Takeovers Code”

Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

[REDACTED]

DEFINITIONS

[REDACTED]

“IFRS(s)” International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board

“independent third party(ies)” any entity or person who is not a connected person of our Company or an associate of such person within the meaning ascribed to it under the Listing Rules

“INFORMS” The Institute for Operations Research and the Management Sciences

[REDACTED]

“JD.com” JD.com, Inc., one of our Controlling Shareholders, a company incorporated in the BVI on November 6, 2006 and subsequently redomiciled to the Cayman Islands on January 16, 2014 as an exempted company registered by way of continuation under the laws of the Cayman Islands

DEFINITIONS

and the shares of which are listed on the Main Board (stock code: 9618) under Chapter 19C of the Listing Rules and the ADSs of which are listed on NASDAQ under the symbol “JD”

“JD Group”

JD.com and its subsidiaries and consolidated affiliated entities, excluding our Group upon the Reorganization and including our Group prior to the Reorganization

“JD Share(s)”

Class A ordinary shares and Class B ordinary shares in the share capital of JD.com

“JD Shareholder(s)”

holder(s) of JD Shares and ADSs

[REDACTED]

“Joint Sponsors”

the Joint Sponsors of **[REDACTED]** of the Shares on the Main Board of the Hong Kong Stock Exchange, being Merrill Lynch (Asia Pacific) Limited, Goldman Sachs (Asia) L.L.C. and Haitong International Capital Limited

“Kuayue Express”

Kuayue-Express Group Co., LTD.

“Latest Practicable Date”

February 8, 2021, being the latest practicable date for ascertaining certain information in this document before its publication

“Laws”

all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions

[REDACTED]

“Listing Committee”

the Listing Committee of the Stock Exchange

[REDACTED]

“Listing Rules”

the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Major Subsidiaries”	our subsidiaries and consolidated affiliated entities as identified in “History, Reorganization and Corporate Structure—Major Subsidiaries and Operating Entities”
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted by special resolutions passed on [●], with effect from [REDACTED]
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NPC”	National People’s Congress (全國人民代表大會) [REDACTED]
“Onshore Holdco”	Xi’an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司), a Consolidated Affiliated Entity
“Onshore Holdcos”	Onshore Holdco and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司), both Consolidated Affiliated Entities

DEFINITIONS

[REDACTED]

“PRC Legal Adviser”

Shihui Partners, our legal adviser on PRC law

“[REDACTED] ESOP”

the [REDACTED] employee share incentive plan approved and adopted by our Company on March 31, 2018, the principal terms of which are set out in the section headed “Statutory and General Information—Share Incentive Plan—[REDACTED] ESOP” in Appendix IV to this document

“[REDACTED] Investment(s)”

the investments in our Company undertaken by the [REDACTED] Investors pursuant to the Series A Share Subscription Agreement, as applicable, prior to this [REDACTED], the details of which are set out in the section headed “History, Reorganization and Corporate Structure”

“[REDACTED] Investor(s)”

the Series A Preference Shareholders, further details of which are set out in the section headed “History, Reorganization and Corporate Structure”

“[REDACTED] Shareholders’ Agreement”

the shareholder agreement dated March 7, 2018 between, among others, our Company, Jingdong Technology Group Corporation, Ocean HHJ Holding Limited and [REDACTED] Investors, as amended from time to time

“Preference Shares”

Series A Preference Shares

[REDACTED]

DEFINITIONS

“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Registered Shareholders”	the registered shareholders of the Onshore Holdco, namely Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱)
“Reorganization”	the corporate restructuring of the Group in preparation for [REDACTED], as described in the section headed “History, Reorganization and Corporate Structure—Reorganization”
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which has now been merged into the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAT”	State Administration of Taxation (國家稅務總局)
“Series A Preference Shares”	the series A preference shares of our Company with par value of US\$0.000025 each, of which 1,026,867,347 Series A preference shares are currently in issue as of the Latest Practicable Date and held by the Series A Preference Shareholders, each having the rights and restrictions as set forth in the [REDACTED] Shareholders’ Agreement
“Series A Preference Shareholders”	China Life Trustees Ltd. (中國人壽信託有限公司), Jungle Parent Limited, Skycus China Fund, L.P., SCC Growth IV Holdco A, Ltd., SCC Growth IV 2018-A, L.P., China Merchants Logistics Synergy Limited Partnership, Image Frame Investment (HK) Limited (意像架構投資(香港)有限公司), TPP Follow-on I Holding E Limited, Qianshan Logistics L.P. (千山物流基金有限合夥), Eastar Capital Fund, L.P., HHJL Holdings Limited, Shanghai Hudeyuezheng Enterprise Management Partnership (Limited Partnership) (上海滬德越貞企業管理合夥企業(有限合夥)), EverestTai Capital LLC (永泰資本有限責任公司), Hidden Hill SPV II, CG Partners Opportunity Fund SP2 and Jingdong E-Commerce (Express) LLC

DEFINITIONS

“Series A Share Subscription Agreement”	the Series A Preference Shares subscription agreements by and among the Company and certain of the Series A Preference Shareholders (or their affiliates), as applicable, dated as of February 14, 2018 and August 12, 2020, as amended from time to time
“SFC”	Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital our Company with par value of US\$0.000025 each
“Shareholder(s)”	holder(s) of our Share(s)
“SKU”	stock keeping unit
	[REDACTED]
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Track Record Period”	the two years ended December 31, 2018, 2019 and the nine months ended September 30, 2020
“U.S. SEC”	the Securities and Exchange Commission of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
	[REDACTED]
“United States”, “U.S.” or “US”	United States of America, its territories, its possessions and all areas subject to its jurisdiction

DEFINITIONS

“US cents” or “US¢”	One hundredth of one US dollar
“US dollars”, “U.S. dollars”, “US\$” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax
“WFOE”	Xi’an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司), a company established in the PRC on May 18, 2017 and an indirectly wholly-owned subsidiary of our Company
“WFOEs”	WFOE and Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), both indirectly wholly-owned subsidiaries of our Company
	[REDACTED]
“%”	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the date of this document.

The English names of PRC entities (including schools), PRC laws or regulations, and PRC Governmental Authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events, or performance (often, but not always, through the use of words or phrases such as ‘will’, ‘expect’, ‘anticipate’, ‘estimate’, ‘believe’, ‘going forward’, ‘ought to’, ‘may’, ‘seek’, ‘should’, ‘intend’, ‘plan’, ‘projection’, ‘could’, ‘vision’, ‘goals’, ‘aim’, ‘aspire’, ‘objective’, ‘target’, ‘schedules’, and ‘outlook’) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- our ability to control costs and expenses;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with business partners;
- the actions and developments of our competitors;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate;
- all other risks and uncertainties described in “Risk factors”.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution **[REDACTED]** against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of, or references to, our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

RISK FACTORS

An [REDACTED] in [REDACTED] involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an [REDACTED] in [REDACTED]. 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 [REDACTED] could decline, and you may lose all or part of your [REDACTED].

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

Our business and growth are significantly affected by the development of the e-commerce industry, as well as macroeconomic and other factors that affect demand for supply chain solutions and logistics services, in China and globally.

We generate a significant portion of volume of orders by serving merchants that conduct business on the various e-commerce platforms in China, including JD Group and other platforms, who rely on our supply chain solutions and logistics services to fulfill orders placed by consumers on such platforms. As such, our business and growth are highly dependent on the viability and prospects of the e-commerce industry in China.

Any uncertainties relating to the growth, profitability and regulatory regime of the e-commerce industry in China could have a significant impact on us. The development of the e-commerce industry in China is affected by a number of factors, most of which are beyond our control. These factors include but not limited to:

- the consumption power and disposable income of consumers in China, as well as changes in demographics and consumer tastes and preferences;
- the potential impact of the COVID-19 on our business operations and the economy in China and elsewhere generally;
- the growth of broadband and mobile Internet penetration and usage in China;
- the availability, reliability and security of e-commerce platforms;
- the selection, price and popularity of products offered on e-commerce platforms;
- the emergence of alternative channels or business models that better suit the needs of consumers in China;
- the development of logistics, payment and other ancillary services associated with e-commerce; and
- changes in laws and regulations, as well as government policies that govern the e-commerce industry in China.

The e-commerce industry is highly sensitive to changes of macroeconomic conditions, and e-commerce spending tends to decline during recessionary periods. Many factors beyond our control,

RISK FACTORS

including inflation and deflation, fluctuation of currency exchange rate, volatility of stock and property markets, interest rates, tax rates and other government policies and changes in unemployment rates can adversely affect consumer confidence and spending behavior on e-commerce platforms, which could in turn materially and adversely affect our growth and profitability. In addition, unfavorable changes in domestic and international politics, including military conflicts, political turmoil and social instability, may also adversely affect consumer confidence and spending behavior, which could in turn negatively impact our growth and profitability.

In addition, the global integrated supply chain logistics services industry has historically experienced cyclical fluctuations in operational and financial performance due to economic recessions, reductions in per capita disposable income and levels of consumer spending, downturns in the business cycles of customers, interest rate fluctuations and economic factors beyond our control. During economic downturns, whether in China or globally, reduced overall demand for supply chain services will likely reduce demand for our supply chain solutions and logistics services and exert downward pressures on our rates and margins. As we provide a significant portion of our supply chain solutions and logistics services for the e-commerce industry, if the online and offline retail channel integration trend or any other trend required for the development of the e-commerce industry does not develop as we expect, our business prospect may be adversely affected. In periods of strong economic growth, demand for limited transportation resources can also result in increased network congestion and operating inefficiencies. In addition, any deterioration in the economic environment subjects our business to various risks that may have a material impact on our operating results and future prospects. For instance, some of our customers may face difficulties in paying us, and some may go out of business. These customers may not complete their payments as quickly as they had in the past, if at all, which may have adverse impact on our working capital. Furthermore, in an economic downturn, we may not be able to promptly adjust our expenses in response to changing market demands and it may be more difficult to match our staffing levels to our business needs.

We face intense competition which could adversely affect our results of operations and market share.

The industries we operate in are highly competitive. Our extensive supply chain solutions and logistics services encompass a wide range of services, and as a result we may compete with a broad range of companies, such as integrated supply chain solution and service providers and express and freight delivery service providers. Specifically, there are multiple existing market players that offer integrated supply chain solutions and logistics services, and there may be new entrants emerging in each of the markets we operate in, and these market players compete to attract, engage and retain consumers and merchants. These companies may have greater financial, technological, research and development, marketing, distribution, and other resources than we do. They may also have longer operating histories, a larger customer 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 we do 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.

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 continuously distinguish our services from those of our competitors, preserve and improve our

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relationships with various participants in the integrated supply chain logistics services industry, or increase or even maintain our existing market share. We may lose market share, and our financial condition and results of operations may deteriorate if we fail to compete effectively.

In addition, many operators in the integrated supply chain logistics services industry have consolidated in recent years to create larger enterprises with greater bargaining power, which has resulted in greater competitive pressures. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further competitive pressures. New partnerships and strategic alliances in the integrated supply chain logistics services industry also can alter market dynamics and adversely impact our businesses and competitive positioning. If we cannot equip ourselves with necessary resources and skills, we may lose market share as competition increases. In addition, our current and potential competitors may also establish cooperative or strategic relationships amongst themselves or with third parties that may further enhance their resources and offerings. If we are unable to anticipate or react to these competitive challenges, our competitive position could weaken, or fail to improve, and we could experience a decline in growth that could adversely affect our business, financial condition and results of operations. Further, certain large retailers other than JD Group may build or further develop their own logistics networks leveraging on their established warehousing and delivery capacities in selected areas in order to gain control of the consumer touchpoint and to create synergies with their businesses. They may also compete with us for qualified delivery personnel and warehouse staff with competitive remuneration. Any of the above could adversely affect our results of operations and market share.

A significant portion of our revenue was associated with JD Group during the Track Record Period and we expect a significant portion of our revenue to continue to be associated with JD Group in the foreseeable future. We may have different development prospects or 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, including the different types of support offered by JD Group to facilitate the marketing and implementation of our 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, the Controlling Shareholder, in a number of areas relating to our ongoing relationships. Potential conflicts of interest that we have identified mainly include the following:

Agreements with JD Group. We have entered into agreements with JD Group and its associates (such as Jingdong Digits Technology Holding Co., Ltd. and Dada Group) with respect to material aspects of our operations and their continued cooperation with and support to us (including supply chain solutions and logistics services, advertising and promotion services, property leasing, payment services and shared services). 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.

Employee recruiting and retention. We may compete with JD Group in the hiring of employees.

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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 in 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 [REDACTED], we expect to operate, for as long as JD Group remains one of our Controlling Shareholders, as an affiliate of JD Group. 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.

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

We will continue to be controlled by JD Group after [REDACTED] and will continue our substantial cooperation with JD Group in various aspects, including logistics services, technology and traffic, payment processing, marketing and administrative support. If JD Group discontinues its cooperation with us, reduces, suspends or terminates any type of support to us, we will need to obtain such support from other parties, or improve the capabilities on our own.

If JD Group fails to continue its cooperation with us or 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, or build the capabilities on our own, 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.

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, our reputation and brand. 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

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other proceedings (including alleged or future securities class actions) involving, or wrongdoing or corruption 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 incurred significant net losses in the past and we may not be able to achieve or maintain profitability in the future.

We have incurred net losses during the Track Record Period and we may not be able to achieve or maintain profitability in the future. We incurred net losses of RMB2.8 billion, RMB2.2 billion and RMB11.7 million in 2018, 2019 and the nine months ended September 30, 2020, respectively. While our gross margin has improved from 2.9% in 2018 to 6.9% in 2019 and further to 10.9% in the nine months ended September 30, 2020, we cannot assure you that such improvement in gross margin would not be reversed in the future.

Our costs and expenses will likely increase in the future as we expect to expand our logistics infrastructure, enhance our supply chain capabilities, develop and launch new solutions and service offerings, expand customer base in existing market and penetrate into new markets, and continue to invest and innovate in our technological platform. Any of these efforts may incur significant capital investment and operating expenses, and take time to achieve profitability. In addition, these efforts may be more costly than we expect and may not result in increased revenue or growth in our business as expected.

In addition, our ability to achieve profitability also depends on our ability to improve our market position and profile, enhance and expand our solution and service offerings, maintain competitive pricing, improve our operational efficiency and obtain required financing at reasonable terms, which may be affected by numerous factors beyond our control. If we are unable to generate adequate revenue growth and manage our costs and expenses, we may not be able to achieve profitability or positive operating cash flow on a consistent basis, which may impact our business growth and adversely affect our financial condition and results of operations.

We are in the ramp-up stage of development with a relatively limited independent operating history, and our historical results of operations and financial performance are not indicative of future performance.

We have experienced significant growth during the Track Record Period. Our total revenue increased by 31.6% from RMB37.9 billion in 2018 to RMB49.8 billion in 2019 and increased by 43.2% from RMB34.6 billion for the nine months ended September 30, 2019 to RMB49.5 billion for the nine months ended September 30, 2020.

Although our business has grown rapidly during the Track Record Period, due to our limited independent operating history, our historical results of operations and financial performance may not be indicative of our future performance. In addition, we cannot assure you that we can continue to operate under our existing business model successfully. As the market and our business evolve, we may modify our operations, data and technology, sales and marketing, solutions 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 expect our expenses to continue to increase in the future as

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we expand our business. Our expenses may grow faster than our revenue, and our expenses may be greater than we expected. We cannot assure you that we will be able to achieve similar results or grow at the same speed as we did 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 a company in its ramp-up stage of development and operating in emerging and dynamic industries, including, among other factors, our ability to attract and retain customers, our ability to create value for participants in our ecosystem and increase monetization, our ability to navigate in the evolving regulatory environment, our ability to provide high-quality and satisfactory services, our ability to 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.

We are highly reliant on our technology infrastructure and platform in our business operations, and failure to continue to improve and effectively utilize our technology infrastructure and platform or successfully develop new technologies could harm our business operations, reputation and prospects.

Technology is critical to our supply chain solutions and logistics services. While we have been continuously enhancing our technology infrastructure, we may not be able to continue to improve our technology capabilities and develop new technologies to meet the future needs of our business. If we are unable to maintain, improve and effectively utilize our technologies or to realize the expected results from our R&D investment, our business, financial condition, results of operations and prospects, as well as our reputation, could be materially and adversely affected. Any problem with the functionality and effectiveness of our software or platforms could also result in unanticipated system disruptions, slower response times, impaired user experiences, delays in reporting accurate operating and financial information among other things. In addition, enhancing our technology infrastructure requires significant investment of time and financial and managerial resources, including recruiting and training new technology personnel, adding new hardware and updating software and strengthening research and development. If our technology investments are unsuccessful, our business could suffer and we may be unable to recover the resources we commit to such initiatives.

In addition, to keep pace with changing technologies and customer demands, we must correctly interpret and address market trends and enhance the features and functionality of our technology infrastructure and platform in response to these trends, which may lead to significant ongoing research and development costs. We may be unable to accurately determine the needs of our customers and the trends in the integrated supply chain logistics services industry or to design and implement the appropriate features and functionality of our technology infrastructure and platform in a timely and cost-effective manner, which could result in decreased demand for our solutions and services and a corresponding negative impact on our financial performance. We may be unable to detect defects in existing or new versions of our proprietary technologies, or errors may arise in our technologies. Any failure to identify and address such defects or errors could result in loss of revenue or market share, liability to customers or others, diversion of resources, damage to our reputation, and increased service and maintenance costs. Correction of such errors could prove to be very costly, and responding to resulting claims or liability could similarly involve substantial cost.

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If we are unable to manage the expansion of our logistics infrastructure successfully, our business prospects and results of operations may be materially and adversely affected.

As of September 30, 2020, our warehouse network covered almost all counties and districts across China, consisting of over 800 warehouses operated by us and over 1,400 cloud warehouses operated by third-party warehouse owner-operators under our Open Warehouse Platform. The warehouses under our Open Warehouse Platform are “cloud-based” as these third-party warehouses leverage our cloud-based warehousing technologies, standards and brand name and constitute an extension of our self-operated warehouses. As of September 30, 2020, our warehouse network had an aggregate gross floor area (the “GFA”) of approximately 20 million square meters, including the GFA of the cloud warehouses under our Open Warehouse Platform. See “Business—Our warehouse network.” for more details. As of December 31, 2020, we had an operation team of over 240,000 personnel who are responsible for delivery, warehouse operations as well as other functions such as customer services.

We are working with JD Group to build larger, custom-designed warehouses to increase our storage capacity and to restructure and reorganize our logistics workflow and processes. We also plan to establish more warehouses in additional counties and districts to further enhance our ability to deliver products to customers directly ourselves. As we continue to add logistics and warehouse capability, our logistics network becomes increasingly complex and challenging to operate. We cannot assure you that we will be able to set up warehouses or lease suitable facilities on commercially acceptable terms or at all. Moreover, the order volume in those less developed areas may not be sufficient to allow us to operate our own delivery network in a cost efficient manner. We may not be able to recruit a sufficient number of qualified employees in connection with the expansion of our logistics infrastructure. In addition, the expansion of our logistics infrastructure may strain our managerial, financial, operational and other resources. If we fail to manage such expansion successfully, our growth potential, business and results of operations may be materially and adversely affected. Even if we manage the expansion of our logistics infrastructure successfully, it may not give us the competitive advantage that we expect if improved logistics services become widely available at reasonable prices to our existing and potential customers, such as large retailers, in China.

Our financial position and results of operations may be materially adversely impacted if our expenditure on warehouses and equipment do not match customer demand or if there is a lack of funding for these investments.

In order to carry out our strategies and expansion plan, we incur significant expenses on equipment and infrastructure in connection with the growth of our business, including leasing warehouses, fleet procurement, and purchase of equipment and other fixed assets.

To facilitate our future expansion, including the entry into new markets, we may need to continue to make substantial capital expenditures. Our operations require significant expenditure on warehouses and equipment, the amount and timing of which depend on various factors, including anticipated order volume and the price and availability of appropriate property that could be used as our warehouses. If our anticipated requirements for warehouses, fleet or other equipment differ materially from actual usage, our operations may have more or less capacity than is optimal.

Our expenditure on warehouses and equipment depend on our ability to generate cash flow from operations and our access to credit, debt and equity capital markets. A decline in the availability

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of these funding sources could adversely affect our financial condition and results of operations. Even if we have sufficient funding, facilities and equipment that best suit our needs may not be available at reasonable prices or at all. For example, warehouse resources may be scarce in an area that best fits our network expansion plan due to local zoning plans or other regulatory controls. In addition, we are likely to incur expenditures earlier than all of the anticipated benefits and the return on these expenditure may be lower, or may be realized more slowly, than we expected. In addition, the carrying value of the related assets may be subject to impairment, which may adversely affect our financial conditions and operating results. Furthermore, our continued expenditure on our logistics infrastructure and networks may put us at a competitive disadvantage against competitors who spend less on these assets but focus more on improving other aspects of their business that are less capital intensive.

Any disruption to the operation of the warehousing and logistics facilities operated by us or other third-party transportation companies and couriers that facilitate our logistics services, 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.

As of September 30, 2020, our warehouse network covered almost all counties and districts across China, consisting of over 800 warehouses operated by us and over 1,400 cloud warehouses operated by third-party warehouse owner-operators under our Open Warehouse Platform. The warehouses under our Open Warehouse Platform are “cloud-based” as these third-party warehouses leverage our cloud-based warehousing technologies, standards and brand name and constitute an extension of our self-operated warehouses. As of September 30, 2020, our warehouse network had an aggregate GFA of approximately 20 million square meters, including the GFA of the cloud warehouses under our Open Warehouse Platform. See “Business—Our warehouse network.” for more details. Natural disasters or other unanticipated catastrophic events, including power interruptions, water shortage, storms, fires, environmental pollutions, 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. We may not be able to identify suitable replacement warehousing and logistics facilities that meet our requirements in a timely manner, should any of the foregoing occur.

If our customers reduce their expenditure on third-party supply chain solutions and logistics services or increase utilization of their internal solutions, our business and operating results may be materially and adversely affected.

Our growth strategy is partially based on the assumption that the trend toward outsourcing of supply chain services will continue. Third-party service providers like us are generally able to provide such services more efficiently than otherwise could be provided “in-house,” primarily as a result of our expertise, technology and lower and more flexible employee cost structure. However, many factors could cause a reversal in the trend. For example, our customers may see risks in relying on third-party service providers, or they may begin to define these activities as within their own core competencies and decide to perform supply chain operations themselves. If our customers are able to improve the cost structure of their in-house supply chain activities, including in particular their labor-related costs, we may not be able to provide our customers with an attractive alternative for their supply chain needs. If our customers in-source significant aspects of their supply chain operations, or if potential new customers decide to continue to perform their own supply chain activities, our business, results of operations and financial condition may be materially adversely affected.

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If we fail to cost-effectively attract new customers to use our solutions and services, or to maintain relationships with existing customers, our business and results of operations could be adversely affected.

The success of our business depends in part on our ability to cost-effectively attract and retain new customers and increase engagement of existing customers by providing additional solutions and services. During the Track Record Period, we were successful in increasing our cooperation with existing customers. The average revenue per external integrated supply chain customer increased from RMB234,057 in 2018 to RMB279,401 in 2019 and from RMB213,538 for the nine months ended September 30, 2019 to RMB241,622 for the nine months ended September 30, 2020. We believe that our selling and marketing efficiency, consistent and reliable services and rapid responses to changing customer preferences have been critical in promoting awareness of our services, which in turn drive customer growth and engagement. However, if our promotional activities and marketing strategies do not work efficiently, we cannot maintain our selling and marketing expenses at a reasonable level.

In addition, if the customers do not perceive our solutions and services to be timely and reliable, we may not be able to attract and retain customers and increase their use of our solutions and services. If we fail to cost-effectively retain customers and increase their use of our solutions and services, our business and results of operations could be adversely and materially affected.

Further, while we currently believe we can achieve profitability and grow cash flows organically through further penetration of existing customers and by expanding our customer base, we may not be able to effectively and successfully implement such strategies and realize our stated goals. Our goals may be negatively affected by a failure to further penetrate our existing customer base, expand our service offerings, pursue new customer opportunities, manage the operations and expenses of new or growing service offerings or otherwise achieve growth of our service offerings.

Failure to successfully implement our business strategy, effectively respond to changes in market dynamics and satisfactorily meet customer demand will cause our future financial results to suffer.

We are making significant investments and other decisions in connection with our long-term business strategy including our ability to expand the breadth and depth of our solutions and services and further invest in supply chain technologies. Such initiatives and enhancements may require us to make significant capital expenditures. Additionally, in developing our business strategy, we make certain assumptions including, but not limited to, those related to customer demand and preferences, competition landscape and the economy in China and globally; and actual market, economic and other conditions may be different from our assumptions. As technology, customer behavior and market conditions continue to evolve, it is important that we maintain the relevance of our brand and service offerings to our customers. If we are not able to successfully implement our business strategy and effectively respond to changes in market dynamics, our future financial results will suffer. We have also incurred, and may continue to incur, increased operating expenses in connection with certain changes to our business strategy.

In addition, we make planning and spending decisions, including capacity expansion, procurement commitments, personnel needs and other resource requirements based on our estimate of customer demand. In particular, we may potentially experience capacity and resource shortages in fulfilling customer orders during peak season of e-commerce consumption or following special promotional campaigns on any e-commerce platforms. Failure to meet customer demand in a timely

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fashion or at all will adversely affect our competitive position, financial condition and results of operations.

Overall tightening of the labor market, increases in labor costs or any labor unrest, including strikes, may affect our business as we operate in a labor-intensive industry.

Our business requires a substantial number of personnel, and labor costs comprised 48.4%, 44.8% and 43.1% of our total operating expenses and cost of revenue in 2018, 2019 and the nine months ended September 30, 2020, respectively. Any failure to retain stable and dedicated labor by us may lead to disruptions to or delays in our services. We often hire additional or temporary workers, in particular logistics and delivery personnel, during peak periods of e-commerce activities. We have observed an overall tightening labor market. We have experienced, and expect to continue to experience, increases in labor costs due to increases in salaries, social benefits and employee headcounts and we may also face seasonal labor shortages. We may compete with other companies for labor, and we may not be able to offer competitive salaries and benefits compared to what other companies do.

We engage outsourcing firms to provide outsourced personnel for a portion of our operations. We have limited control over these personnel and may be liable for violations of applicable PRC labor laws and regulations.

We engage outsourcing firms who send a large number of their employees to work at our logistics facilities. We enter into agreements with the outsourcing firms only and therefore do not have any direct contractual relationship with these outsourced personnel. Since these outsourced personnel are not directly employed by us, our control over them is more limited as compared to our own employees. If any outsourced personnel fails to operate or perform their duties in accordance with our protocols, policies and business guidelines, our market reputation, brand image and results of operations could be materially and adversely affected.

Our agreements with the outsourcing firms provide that we are not liable to the outsourced personnel if the outsourcing firms fail to fulfill their duties to these personnel. However, if the outsourcing firms violate any relevant requirements under the applicable PRC labor laws, regulations or their employment agreements with the personnel, such personnel may claim compensation from us as they provide their services at our logistics facilities. As a result, we may incur legal or financial liability, and our market reputation, brand image as well as our business, financial condition and results of operations could be materially and adversely affected.

We use third parties in some aspects of our operations and failure to maintain positive relationships with them could have a material adverse effect on our business, financial condition and results of operations.

We engage independent third parties to supplement some aspects of our operations, such as freight transportation and last-mile delivery. We depend in part on third parties to provide transportation services, including fleet and drivers, warehousing equipment, replacement parts, packaging and certain other materials. Our equipment and transportation service supplier bases are not concentrated and their performance will impact our overall service quality. In addition, the market for third-party transportation services is fragmented with a large number of service providers, and it can be difficult to find reliable partners whose performance and reliability meet our standards at the scale our

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operations require. Decreased availability or increased costs of key logistics and supply chain services, such as warehousing equipment and materials, could impact our cost of operations, our profitability, as well as our cash flows.

In addition, we are dependent in part on third parties to report certain events to us, such as delivery information and cargo claims. This partial reliance on third parties could cause delays in reporting certain events, impacting our ability to recognize revenue and claims in a timely manner. In addition, we cannot assure you that we will be able to obtain access to preferred third-party service providers at attractive rates or that these providers will have adequate capacity available to meet the needs of our customers.

We believe that we have good relationships with our suppliers and are generally able to obtain favorable pricing and other terms from such parties. If we fail to maintain these relationships with our vendors and suppliers, or if our vendors and suppliers are unable to provide the products and services we need or undergo financial hardship, we could experience difficulty in obtaining needed equipment, materials and services because of production interruptions, limited material availability or other reasons. Subsequently, our business and operations could be materially and adversely affected. In addition, our inability to maintain positive relationships with these independent third party service providers could significantly limit our ability to serve our customers on competitive terms. If we are unable to secure sufficient equipment or other transportation or delivery services to meet our commitments to our customers or provide our services on competitive terms, our customers could shift their business to our competitors or other third-party service providers, temporarily or permanently, and our operating results could be materially and adversely affected. Our ability to secure sufficient equipment or other transportation or delivery services to meet our commitments to customers or provide our services on competitive terms is subject to inherent risks, many of which are beyond our control, including:

- equipment shortages, particularly among contracted truckload carriers and railroads;
- interruptions or stoppages in transportation services as a result of labor disputes, strikes, network congestion, weather-related issues, “Acts of God” or acts of terrorism;
- changes in regulations that have adverse impact on transportation;
- increases in operating expenses for carriers, such as fuel costs, insurance premiums and licensing expenses, that result in a reduction in available carriers; and
- changes in transportation rates.

We may face challenges associated with expanding or diversifying our solution and service offerings and exploring new business.

The ongoing success of our business depends on our ability to continue to introduce innovative supply chain solutions and logistics services to meet evolving market trends and satisfy changing customer demands. We intend to further diversify our service offerings and expand our customer base to increase our revenue sources in the future.

For example, to expand our capabilities and solutions for our customers and provide Chinese enterprises with greater global access, we have been endeavoring to establish a Global Smart Supply Chain network (GSSC) through building alliances with local logistics companies in overseas markets that supplement our own operations. These business initiatives are new and evolving, some of which are still at the inception or trial stage and may prove unsuccessful.

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New services or new types of customers may involve risks and challenges we do not currently face. Such new initiatives may require us to devote significant financial and managerial resources and may not perform as well as expected. We may not be able to successfully anticipate and address customer demand and preferences and our existing network and facilities may not be adaptable to the new services provided to customers. For example, different service offerings will likely impose different equipment specifications and service standards. We may also be inexperienced with the operating models and cost structures associated with a new type of customer. In addition, we may not be able to ensure adequate service quality, and therefore may receive complaints or incur costly liability claims, which would harm our overall reputation and financial performance. We may also selectively invest in emerging business opportunities in adjacent logistics market, or leverage our existing network and infrastructure to directly engage in these businesses. We may not be able to achieve profitability or recoup our investments with respect to any new services or new types of customers in time or at all.

Our business is subject to the risks associated with international expansion initiatives.

We plan to continue to expand our footprint internationally as part of our growth strategy. In addition to China, we have facilities in multiple overseas countries and expect to open additional overseas facilities and hire employees to work at these facilities in order to reach new customers and expand the reach of our service network. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks in addition to those we already face in China. Specifically, our overseas operations are subject to various operational and financial risks that could adversely affect our business. The services we provide outside China are subject to risks resulting from changes in tariffs, trade restrictions, trade agreements, tax policies, difficulties in managing or overseeing foreign operations and agents, different liability standards, issues related to compliance with anti-corruption laws, data protection, trade compliance, and intellectual property laws in the respective overseas jurisdictions. The occurrence or consequences of any of these factors may restrict our ability to operate in the affected region or decrease the profitability of our operations in that region. In addition, as we expand our business internationally, we will be exposed to increased risk of loss from foreign currency fluctuations and exchange controls.

Because of our limited experience with international operations as well as developing and managing operations in international markets, our international expansion efforts may not produce the results we expect. In addition, we will face risks in doing business internationally that could adversely affect our business. For instance, we face difficulties managing and staffing international operations and the increased operating, travel, infrastructure and legal compliance costs associated with international business. In addition, we must offer customer service in various languages, adapt and localize our solution and service offerings for specific countries and regions, appropriately price our solutions and services and work with overseas business partners and other third parties, such as local transportation service providers. We are also subject to general risks inherent in international operations, such as fluctuations in exchange rates, embargoes and customer clearances, as well as political or social unrest or economic instability in regions in which we operate.

Our failure to manage any of these risks successfully could harm our international operations, and adversely affect our business, results of operations and financial condition.

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We may fail to successfully enter necessary or desirable strategic alliances or make acquisitions or investments, and we may not be able to achieve the anticipated benefits from these alliances, acquisitions or investments we make.

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 potential failure to achieve the expected benefits of the integration 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 course of 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.

In addition, if we do not successfully execute or effectively operate, integrate, leverage and grow acquired businesses, our financial results and reputation may suffer. Our strategy for long-term growth, productivity and profitability depends in part on our ability to make prudent strategic investment or acquisition decisions and to realize the benefits we expect when we make those investments or acquisitions. For example, in August 2020, we acquired a controlling interest in Kuayue Express, a renowned modern integrated express transportation enterprise specializing in less-than-truckload (LTL) in China. While we expect our past and future acquisitions to enhance our value proposition to customers and improve our long-term profitability, there can be no assurance that we will realize our expectations within the time frame we envisage, if at all, or that we can continue to support the value we allocate to these acquired businesses, including their goodwill or other intangible assets.

We may require additional financing to support our further developments or adapt to changes in business conditions, but we may not be able to obtain additional financing on favorable terms or at all.

We may require additional financing 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 financing 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 PRC regulations over foreign investment and the PRC logistics 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.

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Our results of operations are subject to seasonal fluctuations.

We experience seasonality in our business, mainly correlating to the seasonality patterns associated with the e-commerce and logistics and supply chain industries in China. We typically experience a seasonal surge in volume of orders during the second and fourth quarters of each year when major online retail and e-commerce platforms launch special promotional campaigns, for example, around June 18 Anniversary Sale and China’s new online shopping festival on November 11 each year. We may experience capacity and resource shortages in fulfilling orders during the period of such seasonal surge in our business. On the contrary, activity levels across our business lines are typically lower around Chinese national holidays, including Chinese New Year in the first quarter of each year, primarily due to weaker consumer spending, lower user activity levels and decreased availability of delivery personnel and warehouse staff during these holiday seasons.

Our financial condition and results of operations for future periods may continue to fluctuate, and the trading price of our Shares, may fluctuate from time to time, due to seasonality.

Fluctuations in the price or availability of fuel, may adversely affect our results of operations.

We offer transportation services as part of our supply chain solutions and logistics services, for which we use heavy-duty trucks as the major transportation instrument. Therefore truck fuel costs and tolls account for a portion of our cost. We, or our suppliers, must purchase large quantities of fuel to meet the demand of our vehicles, and the price and availability of fuel is subject to political, economic, and market factors that are outside of our control and can be highly volatile. In the event of significant fuel prices rise, our related costs may arise and our gross profits may decrease if we are unable to adopt any effective cost control-measures or pass on the incremental costs to our customers in the form of service surcharges.

Any lack of requisite approvals, licenses or permits applicable to our business operation may have a material and adverse impact on our business, financial condition and results of operations.

Our business is subject to rigorous regulation, and we are required to hold a number of licenses, permits and filings in connection with our business operation, including, but not limited to, Value-Added Telecommunication License, Courier Service Operation Permit, Road Transportation Operation Permit, Food Operation License and Civil Unmanned Aerial Vehicle Business License, and filings for our express delivery terminal outlets and our branches providing express delivery service. Failure to satisfy these requirements may result in penalties to rectify, fines, or suspension of business for remediation. We hold all material licenses and permits described above for our current operations and are applying for certain permits and filings with the government authorities and modification of certain licenses and permits. For example, under the PRC laws, we are required to complete filings with local postal administrations for our express delivery terminal outlets within twenty days from the operation of such express delivery terminal outlets. Where an express delivery service operator fails to complete such filing, such express delivery service company may be ordered to rectify or incur administrative penalties imposed by authorities, including a fine ranging up to RMB50,000. However, we cannot assure you that we can complete such filings in a timely manner, or at all, due to complex procedural requirements and the expansion of our business. In addition, pursuant to the Administrative Regulations on Commercial Franchising Operations promulgated by the State Council in 2007 and Administrative Measures on the Record Filing of Commercial Franchises issued by Ministry of Commerce in 2011, commercial franchising refers to the business activities where an enterprise that possesses the registered trademarks, enterprise logos, patents, proprietary technology or any other

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business resources allows such business resources to be used by another business operator through contract and the franchisee follows the uniform business model to conduct business operation and pay franchising fees according to the contract. Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司) and its subsidiaries are therefore subject to regulations on commercial franchising. Under the relevant regulations, we may be required to file our commercial franchising agreement with the Ministry of Commerce or its local counterparts. Otherwise, we may be required to file our commercial franchising agreement with the Ministry of Commerce or its local counterparts within a specified time limit and subject to fines ranging from RMB10,000 to RMB50,000 and if we fail to rectify within the prescribed time limit, we may be subject to an additional fine ranging from RMB50,000 to RMB100,000 and the relevant authority may issue a public announcement. In addition, each vehicle used for road freight transportation must have a Road Transportation Certificate and the drivers of such vehicles shall have corresponding qualification certificates unless such vehicle is an ordinary freight vehicle with a total mass of 4.5 tons or less. See “Regulations—Road Transportation Operation Permit.” Although we have established an internal control system to ensure our vehicles and drivers employed by us to obtain and hold effective permits and qualification certificates as required, we cannot ensure that we can fully comply with such requirement all the time considering the periodic renewal requirements, the employee mobility, and the expansion of our business. Failure to comply with these regulations mentioned above may result in requirement to rectify, fines, suspension of business for remediation or revocation of permit.

During the Track Record Period, information contained in certain licenses, certificates and permits we obtained has not been updated in a timely manner, such as the business address, the legal representative, and the shareholding structure. We are in the process of applying for such registration amendment, and any failure to complete the registration amendment in a timely manner may cause fines and penalties.

During the Track Record Period, we have not been subject to material penalties or other material disciplinary action from the relevant governmental authorities regarding the conducting of our business without the above-mentioned approvals, licenses, permits and filing. However, we cannot assure you that the relevant governmental authorities would not require us to obtain the approvals, certificates or permits, complete filings or take any other actions retrospectively in the future. If the relevant governmental authorities require us to obtain the approvals, licenses or permits, or to complete filings, we cannot assure you that we will be able to do so in a timely manner or at all.

New laws and regulations may be enforced from time to time to require additional licenses and permits other than those we currently have or provide additional requirements on the operation of our business. If the relevant governmental authorities promulgate new laws and regulations that require additional approvals or licenses or provide additional requirements on the operation of any part of our business and we are not able to obtain such approvals, licenses, permits or filings or adjust our business model to comply with such new laws in a timely manner, we could be subject to penalties and operational disruption and our financial condition and results of operations could be adversely affected.

Our use of some leased properties could be challenged by third parties or government authorities, which may cause interruptions to our business operations. Failure to renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.

Some of the lessors of our leased properties have not provided us with their property ownership certificates or other documentation proving their right to lease those properties to us. If our lessors are

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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 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. Therefore, the relevant lease agreements may be deemed to be in breach of the law and therefore be void. In addition, regulatory and administrative measures on fire safety in China may vary among different regions, and some internal regulatory guidance may not be published timely. In addition, we cannot assure you that all our leased properties in China have filed the fire-control registration or have been satisfied with all fire-control requirements as required by relevant PRC laws and regulatory rules and standards. As a result, our use of the leased property may be affected. In the event that our use of properties is successfully challenged by the regulators or due to fire incidents, we may be forced to relocate from the affected operations.

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 future. 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 cannot assure you 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 face risks associated with the items we deliver and the contents of shipments and inventories handled through our logistics networks, including real or perceived quality or health issues with the products that are handled through our logistics networks, and risks inherent in the logistics industry, including personal injury, product damage, and transportation-related incidents.

We handle a large volume of parcels and freights across our logistics network, and face challenges with respect to the protection and examination of these parcels. Parcels in our network may be delayed, stolen, damaged or lost during delivery for various reasons, and we may be perceived or found liable for such incidents. In addition, we may fail to screen parcels and detect unsafe or prohibited/restricted items. Unsafe items, such as flammables and explosives, toxic or corrosive items and radioactive materials, may damage other parcels in our network, harm the personnel and assets of us, or even injure the recipients. Furthermore, if we fail to prevent prohibited or restricted items from entering into our network and if we participate in the transportation and delivery of such items

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unknowingly, we may be subject to administrative or even criminal penalties, and if any personal injury or property damage is concurrently caused, we may be further liable for civil compensation.

The delivery of parcels also involves inherent risks. We constantly have a large number of vehicles and personnel in transportation, and are therefore subject to risks associated with transportation safety, and the insurance maintained by us may not fully cover the liabilities caused by transportation related injuries or loss. From time to time, our vehicles and personnel may be involved in transportation and vehicle accidents, and the parcels carried by them may be lost or damaged. In addition, frictions or disputes may occasionally arise from the direct interactions between our pickup and delivery personnel with parcel senders and recipients. Personal injuries or property damages may arise if such incidents escalate.

Any of the foregoing could disrupt our services, cause us to incur substantial expenses and divert the time and attention of our management. We may face claims and incur significant liabilities if found liable or partially liable for any of injuries, damages or losses. Claims against us may exceed the amount of our insurance coverage, or may not be covered by insurance at all. Any uninsured or underinsured loss could harm our business and financial condition. Governmental authorities may also impose significant fines on us or require us to adopt costly preventive measures. Furthermore, if our services are perceived to be insecure or unsafe by our customers, e-commerce platforms and consumers, our business volume may be significantly reduced, and our business, financial condition and results of operations may be materially and adversely affected.

We face risks and challenges associated with our cold chain logistics services, including environmental, health and safety issues and increasing costs in developing the business.

Our cold chain logistics services focus on fresh produce and perishable products, relying on our comprehensive cold chain logistics service capabilities in terms of storage network, transportation network and distribution network. Our extensive cold chain logistics network enables us to provide integrated cold chain logistics services to our customers.

We store frozen and perishable food and other products. Product contamination, spoilage, other adulteration, product tampering or other quality control issues could occur at any of our temperature-controlled warehouses or during the transportation of these products, which could cause our customers to lose all or a portion of their inventory. We could be liable for the costs incurred by our customers as a result of the lost inventory, and we also may be subject to liability, which could be material, if any of the pharmaceutical products, frozen and perishable food products we stored or transported caused illness or death. The occurrence of any of the foregoing may negatively impact our brand and reputation and otherwise have a material adverse effect on us.

If we fail to comply with applicable environmental, health and safety laws and regulations in relation to our cold chain logistics services, we may face administrative, civil or criminal fines or penalties, including bans on making future shipments in particular geographic areas, and the suspension or revocation of necessary permits, licenses and authorizations, all of which may materially adversely affect our business, results of operations and financial condition. Further, current and future environmental, health and safety laws, regulations and permit requirements could require us to make changes to our operations, or incur significant costs relating to compliance.

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Any failure to maintain the satisfactory performance of our technology systems and resulting interruptions in the availability of our websites, applications, or services could adversely affect our business, results of operations and prospects.

The satisfactory performance, reliability and availability of our technology platform are critical to our success. We have developed a technology platform that enables us to deliver one-stop end-to-end supply chain solutions and logistics services with simplicity, convenience, speed and reliability. These integrated systems support the smooth performance of certain key functions of our business. However, our technology platform or infrastructure may not function properly at all times. We may be unable to monitor and ensure high-quality maintenance and upgrade of our technology platform and infrastructure, and our customers may experience service outages and delays in accessing and using our platforms as we seek to source additional capacity. In addition, we may experience surges in online traffic and orders associated with promotional activities as we scale, which can put additional demand on our platform at specific times. Any disruption to our technology platform and causing interruptions to our website, applications, platform or services could adversely affect our business and results of operations.

Our technology systems may also experience telecommunications failures, computer viruses, failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures, user errors, or other attempts to harm our technology systems, which may result in the unavailability or slowdown of our technology platform or certain functions, delays or errors in transaction processing, loss of data, inability to accept and fulfill orders, reduced gross merchandise volume and the attractiveness of our technology platform. Further, hackers, acting individually or in coordinated groups, may also launch distributed denial of service attacks or other coordinated attacks that may cause service outages or other interruptions in our business. Any of such occurrences could cause severe disruption to our daily operations. If we cannot successfully execute system maintenance and repair, our business and results of operations could be adversely affected and we could be subject to liability claims.

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 to provide high-quality supply chain solutions and logistics 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 services and solutions 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 customer 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

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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 customer 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 customers, 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.

Our business generates and processes a large quantity of personal, transactional, behavioral and demographic data. Each waybill contains the names, addresses, phone numbers and other contact information of the sender and recipient of an order placed and delivered through our logistics and supply chain services. The content of the item delivered may also constitute or reveal confidential information. We face inherent risks when handling and protecting large volumes of data, including protecting the data stored in our system, detecting and prohibiting unauthorized data share and transfer, preventing attacks on our system by outside parties or fraudulent behavior or improper use by our employees, and maintaining and updating our database. Any system failure, security breach or third parties attacks or attempts to illegally obtain the data that results in any actual or perceived release of user data could damage our reputation and brand, deter current and potential customers from using our services, damage our business, and expose us to potential legal liability.

The data could also be subject to confidentiality. Although we have data security policies and measures in place, for example, leveraging on our encryption techniques, order code, instead of actual personal information, of each transaction will be shown to our personnel as well as delivery personnel handling the orders, we cannot assure you that the information will not be misappropriated, as a large number of delivery personnel handle the orders and have access to the relevant confidential information. We also have a large number of outsourced workers who are not our employees, which makes it more difficult for us to implement adequate management, supervision and control over them.

We are subject to various PRC laws and regulations relating to the collection, use, storage, transfer, disclosure and security of personally identifiable information with respect to our customers and employees including any requests from regulatory and government authorities relating to this data. Further, PRC regulators have been increasingly focused on regulation in the areas of data security and data protection. For example, in July 2020, the Standing Committee of the NPC published for public comment a draft Data Security Law, which provides that varying levels of data protection measures will be applied at the national level based on the level of importance of the data, and the collection and use of such data should not exceed the necessary limits. We expect that these areas will receive greater public scrutiny and attention from regulators and more frequent and rigid investigation or review by regulators, which will increase our compliance costs and subject us to heightened risks and challenges. If we are unable to manage these risks, we could become subject to penalties, fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

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We or our directors or senior management may from time to time become parties to claims, lawsuits, legal or administrative disputes and other proceedings that may adversely affect our reputation, business and results of operations.

Our business operations entail substantial litigation and regulatory risks, including, among others, the risk of lawsuits and other legal actions relating to commercial disputes, fraud and misconduct, sales and user services and control procedures deficiencies, labor disputes, transportation accidents, personal injuries, property damages, as well as the protection of personal and confidential information of our customers and business partners. We may be subject to claims and lawsuits in the ordinary course of our business. For example, we, or our pickup and delivery personnel, may be occasionally confronted with property damages disputes filed by our parcel senders and recipients. As we provide long-term road logistics services for commercial entities, some disputes on detailed road logistics prices and settlement of service fees may occur. We may also be liable for personal injuries or property damages of our pickup and delivery personnel or third parties, resulting from transport accidents happened in the course of their work. In addition, as we operate in a labor-intensive industry, though we maintain a good working relationship with our employees and have not experienced any material labor disputes so far, it is still possible that certain labor-related disputes may happen from time to time 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. For example, delivery price adjustments in shopping seasons may attract the attentions of the relevant government authorities. Consumer complaints against the service provided by us may also lead to an inquiry or investigation from the consumer protection authorities. Some of our branches engaging in express delivery service are subject to routine inspection by the State Post Bureau or its local counterpart in the ordinary course of our business, and we may be subject to administrative penalty if we could not fully comply with the applicable laws and regulations regarding express delivery, such as security inspections on articles. For example, one of our branches was ordered to make correction for its failing to perform real-name receipt and delivery in strict compliance. Another branch of us was imposed a fine of RMB3,000 because of the absence of an emergency response plan for unexpected security incidents. 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. Our directors, management and employees may from time to time be subject to litigation, regulatory investigations, proceedings and/or negative publicity or otherwise face potential liability in relation to commercial, labor, employment, securities or other matters, which could affect their ability or willingness to 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.

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

We believe our brand image and corporate reputation will play an increasingly important role in enhancing our competitiveness and maintaining business growth. Many factors, some of which are beyond our control, may negatively impact our brand image and corporate reputation if not properly

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managed. These factors include our ability to provide superior solutions and services to our customers, successfully conduct marketing and promotional activities, manage relationship with and among our customers and business partners, and manage complaints and events of negative publicity, maintain positive perception of our Company, our peers and logistics industry in general. Any actual or perceived deterioration of our service quality, which is based on an array of factors including customer satisfaction, rate of complaint or rate of accident, could subject us to damages such as loss of important customers. Any negative publicity against us, our solutions and services, operations, directors, senior management, employees, business partners or our peers could adversely affect customer perception of our brand, cause damages to our corporate reputation and result in decreased demand for our solutions and services. If we are unable to promote our brand image and protect our corporate reputation, we may not be able to maintain and grow our customer base, and our business and growth prospects may be adversely affected.

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

Incidents that reflect doubt as to the safety of shipment and inventories or the safety of delivery personnel in the logistics industry, particularly the express delivery 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 logistics industry in general, even if such parties or incidents have no relation to us, our management, our employees, our suppliers or our other business partners. Such negative publicity may indirectly and adversely affect our reputation and business operations. In addition, incidents not related to the safety of shipment and inventories or the safety of delivery personnel or other negative publicity or scandals implicating us, our employees, or our other business partners, 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, unethical, 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, customers 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. Customers sometimes value readily available information concerning service providers 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

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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, customers and revenues and adversely affect the price of our Shares.

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.

Failure to comply with PRC laws and regulations by us or our strategic partners may materially and adversely impact our business, reputation, financial condition and results of operations.

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities, including but not limited to the State Post Bureau, the Ministry of Transport, MIIT and the General Administration of Customs. Together, these governmental authorities promulgate and enforce regulations that cover many aspects of our day-to-day operations, and we may fail to fully comply with certain of these regulations. See also “Regulations.” For example, the PRC Postal Law indicates that express delivery companies cannot engage in “posting and mail delivery business exclusively operated by postal enterprises.” However, PRC law does not provide a definition for “posting and mail delivery business exclusively operated by postal enterprises.” If the authorities define such term in the future and if the parcels that we deliver fall into the defined category, we may be considered in violation of such regulation. Noncompliance with applicable laws, regulations and policies by us may materially and adversely impact our business, reputation, financial condition and results of operations.

According to the Interim Regulations on Express Delivery, which were promulgated by the State Council on March 2, 2018, took effect on May 1, 2018 and were amended on March 2, 2019, we are subject to a revised set of requirements in operating our express delivery business, including but not limit to: (i) we are required to file records with the local post administrations for opening express delivery terminal outlets; (ii) in case we intend to suspend operating express delivery services, we shall make public announcement, submit a written notice to the postal administrative departments, return the Courier Service Operation Permit and make proper arrangement on undelivered express parcels;

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(iii) we shall not sell, reveal or illegally provide any information of customer and we shall take remedial measures and report to the local post administrations in case the information of customer is revealed or may be revealed; and (iv) we shall verify the identity of senders and register their identity information when receiving express parcels and shall not receive their express parcels where senders refuse to furnish identity information or furnish false identity information. The operation of our express delivery service is subject to this regulation. We cannot assure that we will be compliant with all of the regulations, and we may be required to rectify, or otherwise be subject to fines, suspension of business for remediation or revocation of Courier Service Operation Permit.

Pursuant to the Administrative Provisions concerning the Running of Cargo Vehicles with Out-of-Gate Goods promulgated by the PRC Ministry of Transport, which took effect on September 21, 2016, cargo vehicles running on public roads shall not carry cargo weighing more than the limits prescribed by this regulation and their dimensions shall not exceed those as set forth by the same regulation. The operation of our truck fleet is subject to this regulation. We cannot assure that all of our trucks will be compliant with the regulation, and we may be required to modify noncomplying trucks (if any) or purchase new ones to replace them. Otherwise, we may be subject to additional penalties under this regulation if we continue to operate trucks that exceed the limits set forth in the regulation.

Pursuant to the E-commerce Law of the People’s Republic of China, which was promulgated by Standing Committee of the National People’s Congress and took effect on January 1, 2019, we are subject to certain requirements in e-commerce business, including but not limit to, (i) in providing express logistics services for e-commerce activities, the providers thereof shall abide by laws and administrative regulations, and comply with the service standards and time limits they have promised; (ii) while handing over commodities, express logistics service providers shall remind consignees to examine the commodities immediately on the spot; where the commodities are received by others for consignees, such express logistics service providers shall obtain the consent of consignees; and (iii) express logistics service providers are required to use environmental-friendly packaging materials in accordance with the relevant provisions in an effort to reduce the consumption of and recycle packaging materials. While offering express logistics services, the providers thereof may agree to be entrusted by e-commerce operators to collect payments for goods on a commission basis. The operation of our express delivery service is subject to this law. We cannot assure that we will be compliant with all of the requirements, and we may be required to rectify. In order to adapt to the evolving e-commerce industry, which could have a significant impact on us, we may need to develop or upgrade existing business model. If our efforts to comply with laws and regulations concerning e-commerce business are unsuccessful, our business, financial condition and results of operations may be materially and adversely affected.

Existing and new laws and regulations may be enforced from time to time and substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to us. If the PRC government requires additional approvals or licenses, imposes additional restrictions on our operations, or tighten enforcements of existing or new laws or regulations, it has the authority, among other things, to levy fines, confiscate income, revoke business licenses, and require us to discontinue relevant business operations.

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The accounting treatment we used to present our financial information is different from the approach adopted in some of the previous [REDACTED].

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’ Reports in Appendix I and Appendix IA, 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 [REDACTED], we did not recognize the financial assets and financial liabilities of the [REDACTED] (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 relation to the [REDACTED] operated by JD Group; instead, JD Group had such rights and obligations. Second, we did not maintain separate bank accounts in relation to the [REDACTED] since the treasury and cash disbursement functions of the [REDACTED] were centrally administrated under JD Group and the net cash flows generated by the [REDACTED] 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 [REDACTED] as the approach that has been adopted by some of the previous [REDACTED], which may impact their [REDACTED] decision in [REDACTED].

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 arrangements with our employees and others, to protect our proprietary rights. 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 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

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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 cannot assure you 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 solutions or services, the solutions 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 solutions or services 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 solutions and services. Companies that incorporate open source software into their solutions and services have, from time to time, faced claims challenging the ownership of open source software and 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.

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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 attract, train and retain qualified personnel, particularly technical and operational personnel with expertise in the integrated supply chain logistics services industry or other areas we expand into. The effective operation of our managerial and operating systems, logistics infrastructure, customer service center and other back office functions also depends on the hard work and quality performance of our management and employees. However, we cannot assure you that we will be able to attract or retain qualified staff or other highly skilled employees that we will need in order to achieve our strategic objectives.

We also intend to expand our delivery personnel base. However, if we are unable to manage delivery capacity effectively, optimize order recommendation and dispatching process, provide incentives to or increase delivery charges for less favorable delivery tasks, or fully utilize the delivery personnel’s delivery capacity in a timely manner, we may not be able to attract and retain delivery personnel, resulting in insufficient delivery resources, increased costs, and lower delivery service quality in certain regions of our network. Rapid expansion may also impair our ability to maintain our corporate culture.

We and the third-party transportation companies we engage have been subject to labor disputes initiated by our or the third-party transportation companies’ employees from time to time, although none of them, individually or in the aggregate, had a material adverse impact on us. We expect to continue to be subject to various legal or administrative proceedings related to labor dispute in the ordinary course of our business, due to the magnitude of labor force involved in our network. Any large-scale labor unrest directed against us or the third-party transportation companies could directly or indirectly prevent or hinder our normal operating activities, and if not resolved in a timely manner, lead to delays in our logistics performance. We and the third-party transportation companies are not able to predict or control any large-scale labor unrest, especially those involving labor not directly employed by us. Further, large-scale labor unrest may affect general labor market conditions or result in changes to labor laws, which in turn could materially and adversely affect our business, financial condition and results of operations.

Our future success also 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. If we are unable to attract or retain the management required to achieve our business objectives, our business could be severely disrupted.

Failure for us, our employees, affiliates and business partners such as suppliers and third-party couriers to comply with anti-corruption laws and regulations and our anti-corruption policies and procedures 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 and business partners such as suppliers and third-party couriers that constitute violations of the anti-corruption laws and regulations. While we have adopted anti-corruption policies, these policies may not be followed at all times or effectively detect and prevent all violations by us or our employees, affiliates or business partners. While we adopt strict internal procedures and work closely with relevant government agencies to ensure compliance with relevant laws and regulations, our efforts may not be sufficient to

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ensure that we, our employees, affiliates and business partners comply with relevant laws and regulations at all times. If we, our employees, affiliates and business partners such as suppliers and third-party couriers violate these laws, rules or regulations, we could be subject to fines and/or other penalties and our reputation, corporate image and business operations may be materially and adversely affected. 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 and business partners, which may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

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 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.

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.

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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. We provide social security insurance, including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. Additionally, we provide group accident insurance for all delivery personnel we employed and liability insurance for any third party contracted service provider who provides installation and maintenance services to us. Further, we have purchased compulsory motor vehicle and non-motor vehicle liability insurance, as well as commercial insurance for self-operated vehicles. In addition, we also purchase cargo insurance, warehouse insurance, parcel insurance and some other liability insurance as needed. However, we do not maintain product liability insurance or key-man insurance. 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.

We face risks related to severe weather conditions and other 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. The COVID-19 has resulted in quarantines, travel restrictions, home office policies, and temporary closures of many corporate offices, manufacturing facilities and factories across China and around the world. We have also taken a series of measures in response to the initial outbreak, including, among others, remote working arrangements for some of our employees and temporary closure of some of our branch offices, warehouses and service outlets from late January to late February 2020. These measures have temporarily reduced the capacity and efficiency of our operations, which negatively affected our results of operations. The measures and timing for business resumption varied across different localities in the PRC, and our branch offices, warehouses and service outlets closed and opened in accordance with measures adopted by their respective local government authorities. We also experienced a temporary labor shortage in January and February 2020. We have taken measures to reduce the impact of the COVID-19 outbreak, including strictly implementing self-quarantine and disinfection measures at our headquarters, warehouses and service outlets in accordance with government-issued protocols. We have also provided our delivery personnel with masks, hand sanitizers and other protective equipment immediately after the outbreak. As of April 2020, we had resumed substantially all of our businesses. 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 and regions 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. These uncertainties pose operational challenges to our 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

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operations could be adversely affected to the extent that the outbreak harms the PRC economy in general.

We are also vulnerable to natural disasters and other calamities. Our servers and back-end systems 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 and solutions on our technology platform.

Any deficiencies in China’s fixed telecommunications networks and internet infrastructure, as well as mobile operating systems and networks, could impair the functioning of our technology system and the operation of our business.

Our business depends on the performance, reliability and security of the telecommunications and internet infrastructure in China. Substantially all of our computer hardware and cloud computing services are currently located in China. Access to internet in China is maintained through state-owned telecommunications carriers under administrative control and regulatory supervision, and we obtain access to end-user networks operated by such telecommunications carriers to give customers access to our technology platform. We may not have access to alternative networks in the event of disruptions, failures or other problems with the telecommunication and internet infrastructure in China. The failure of telecommunication and internet network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our technology platform. Any of such occurrences could delay or prevent our customers from accessing our online website and mobile applications, and frequent interruptions could frustrate customers and discourage them from using our services, which could cause us to lose customers and harm our results of operations. In addition, we have limited control over the service fees charged by telecommunication and internet operators. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected.

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 domestic mail delivery services and value-added telecommunication services is subject to restrictions under current PRC laws and regulations. Pursuant to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition), which is jointly promulgated by the NDRC and the MOFCOM and became effective on July 23, 2020, foreign investors are not allowed to invest any entity that provides domestic express delivery of letter. Additionally, 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

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experience in providing value-added telecommunications services overseas and maintain a good track record.

We are a Cayman Islands exempted company and our PRC subsidiaries wholly owned by us are considered wholly foreign owned enterprises. Accordingly, none of these subsidiaries are eligible to operate domestic express delivery of letter and value-added telecommunications business in China. It is also practically and economically not possible to separate the delivery of letter from the delivery of non-letter items in our day-to-day services. As a result, we will conduct such business activities through our consolidated affiliated entities and their subsidiaries in PRC, including Onshore Holdco and Guangdong Jingxi Logistics Technology Co., Ltd.

We have entered into a series of contractual arrangements with the consolidated affiliated entities and their shareholders, which enable us to:

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

Because of these contractual arrangements, we are the primary beneficiary of our consolidated affiliated entities, including Onshore Holdco and Guangdong Jingxi Logistics Technology Co., Ltd., and hence consolidate their financial results as our consolidated affiliated entities. 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, including Onshore Holdco and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司), and the PRC subsidiaries wholly owned by us that have entered into contractual arrangements with the consolidated affiliated entities, comply with all existing PRC laws and regulations; and (ii) the contractual arrangements between our PRC subsidiaries and our consolidated affiliated entities and their 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;

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- 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.

We rely on contractual arrangements with our consolidated affiliated entities and their 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 consolidated affiliated entities and their shareholders to operate part of our express delivery services. 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 consolidated affiliated entities and their shareholders of their obligations under the contracts to exercise control over our consolidated affiliated entities. However, the shareholders of our consolidated affiliated entities 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 consolidated affiliated entities. We may replace the shareholders of our consolidated affiliated entities at any time pursuant to our contractual arrangements with our consolidated affiliated entities and their 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 also “—Any failure by our consolidated affiliated entities or their 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 consolidated affiliated

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entities 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 consolidated affiliated entities or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.

If our consolidated affiliated entities or their 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 consolidated affiliated entities were to refuse to transfer their equity interest in the consolidated affiliated entities 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 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 Courier Service Operation Permit, Road Transportation Operation Permit, Value-Added Telecommunications Business Operating License and Civil Unmanned Aerial Vehicle Business 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 consolidated affiliated entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Mr. Richard Qiangdong Liu (劉強東), Ms. Yayun Li (李姪雲), Ms. Pang Zhang (張雱), Mr. Jian Cui (崔建) and Mr. Dingkai Yu (禹定凱) are the shareholders of our consolidated affiliated entities, and Mr. Richard Qiangdong Liu (劉強東), Ms. Yayun Li (李姪雲) and Ms. Pang Zhang (張雱) hold positions with JD Group or its associates. The shareholders of our consolidated affiliated entities may have potential conflicts of interest with us. These shareholders may breach, or cause our consolidated affiliated entities to breach, or refuse to renew, the existing contractual arrangements we

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have with them and our consolidated affiliated entities, 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 consolidated affiliated entities 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 consolidated affiliated entities, 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 Cayman Islands holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries 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 any of these PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require our wholly foreign-owned subsidiaries in China or any other relevant PRC subsidiary to adjust its taxable income under the contractual arrangements it currently has in place with our consolidated affiliated entities 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. Such reserve funds cannot be distributed to us as dividends. At its discretion, a foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to an enterprise expansion fund, or a staff welfare and bonus fund.

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.”

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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 People’s Bank of China 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 PRC entities must also be registered with the NDRC and SAFE or its local branches.

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

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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 consolidated affiliated entities 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 [REDACTED] we received from our [REDACTED], 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.

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

On March 15, 2019, the National People’s Congress promulgated the Foreign Investment Law or the FIL, which became 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

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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 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.

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In addition, the global macroeconomic environment is facing challenges. For example, the COVID-19 pandemic has caused significant downward pressure for the global economy. 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 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 PRC laws and regulations that could require us to modify our current business practices and incur increased costs.

We are subject to extensive national, provincial and local governmental regulations, policies and controls. Central governmental authorities and provincial and local authorities and agencies regulate many aspects of Chinese industries, including, among others and in addition to specific industry-related regulations, the following aspects: (i) operation of logistics and supply chain services; (ii) traffic and transport-related services; (iii) provision of supply chain solutions, transport services, financial services, retail services and operation of high technology businesses; (iv) environmental laws and regulations; (v) security laws and regulations; (vi) establishment of or changes in shareholder of foreign investment enterprises; (vii) foreign exchange; (viii) taxes, duties and fees; (ix) customs; and (x) land planning and land use rights, including establishment of urban transformation initiatives.

The liabilities, costs, obligations and requirements associated with these laws and regulations may cause interruptions to our operations or impact our financial position and results of operations.

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Failure to comply with the relevant laws and regulations in our operations may result in various penalties, including, among others the suspension of our operations and thus adversely and materially affect our business, prospects, financial condition and results of operations. Additionally, there can be no assurance that the relevant government agencies will not change such laws or regulations or impose additional or more stringent laws or regulations. Compliance with such laws or regulations may require us to incur material capital expenditures or other obligations or liabilities. 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. The relevant government authorities may examine whether an employer has made adequate payments of the requisite employee benefit payments, and employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. As of the date of this [REDACTED], we have not received any notice of material penalties from the relevant government authorities. 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.

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 important 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 People’s Bank of China. It is difficult to predict how market forces or

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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 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.

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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 antitrust governmental authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. On February 7, 2021, the Anti-Monopoly Committee of the State Council published the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《關於平臺經濟領域的反壟斷指南》), which stipulates that any concentration of undertakings involving variable interest entities (VIE) shall fall within the scope of anti-monopoly review. If a concentration of undertakings meets the criteria for declaration as stipulated by the State Council, an operator shall report such concentration of undertakings to the anti-monopoly law enforcement agency under the State Council in advance. Therefore, our acquisitions of other entities that we have made before or make in the future (whether by ourselves, our subsidiaries or through our variable interest entities) and that meets the criteria for declaration, may be required to be report to and approved by the anti-monopoly law enforcement agency, and we may be subject to penalty including but not limited to a fine of no more than RMB500,000 if we fail to comply with such requirement. 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. These laws and regulations are continually evolving as newly enacted Foreign Investment Law took effect. On December 19, 2020, the Measures for the Security Review for Foreign Investment was jointly issued by NDRC and MOFCOM and took effect from January 18, 2021. The Measures for the Security Review for Foreign Investment specified provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others. 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 of the SAFE 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 State Administration of Taxation, or 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 [REDACTED] in [REDACTED].

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 SAT 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 establishment or a

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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 [REDACTED]

There has been no [REDACTED] market for our Shares prior to the [REDACTED], and you may not be able to resell our Shares at or above the [REDACTED] you pay, or at all.

Prior to the completion of the [REDACTED], there has been no [REDACTED] 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 [REDACTED]. The [REDACTED] is the result of negotiations between our Company and [REDACTED], which may not be indicative of the [REDACTED] at which our Shares will be traded following completion of the [REDACTED]. The [REDACTED] of our Shares may drop below the [REDACTED] at any time after completion of [REDACTED].

The [REDACTED] of the Shares may be volatile which could result in substantial losses to you.

In addition, the [REDACTED] 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 [REDACTED]. 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] of our Shares. See “History, Reorganization and Corporate Structure—[REDACTED] 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 [REDACTED] of Shares is higher than the net tangible book value per share of our Shares immediately prior to [REDACTED], purchasers of our Shares in [REDACTED] will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in [REDACTED] 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 [REDACTED].

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 [REDACTED] 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 [REDACTED] 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 [REDACTED] in our Shares and you may even lose your entire [REDACTED] 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 delivery service 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, [REDACTED], the Joint Sponsors, [REDACTED] or any other party involved in [REDACTED], 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 [REDACTED].

We strongly caution you not to rely on any information contained in press articles or other media regarding us and [REDACTED]. Prior to the publication of this document, there has been press and media coverage regarding us and [REDACTED]. 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 [REDACTED], our Controlling Shareholders will collectively beneficially own approximately [REDACTED]% of the voting power of our outstanding share capital, assuming that [REDACTED] is not exercised and excluding shares to be issued under the [REDACTED] ESOP. 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 [REDACTED] and [REDACTED] of our Shares [REDACTED] in [REDACTED]. Holders of our Shares are subject to the risk that [REDACTED] of our Shares could fall during the period before trading of our Shares begins.

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not [REDACTED] until they are delivered, which is expected to be [REDACTED]. As a result, [REDACTED] 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 [REDACTED] 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.

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In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Our Group’s management headquarters, senior management, business operations and assets are primarily based outside Hong Kong, in China. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Group and therefore would not be in the best interests of our Company or the Shareholders as a whole.

Accordingly, we have applied for[, and the Stock Exchange has granted], a waiver from strict compliance with Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives who shall act at all times as the principal channel of communication with the Stock Exchange. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange. At present, our two authorized representatives are Yui Yu (余睿) and Ming King Chiu (趙明璟).
- (b) we will implement a policy to provide the contact details of each Director to the Stock Exchange, their alternate representative and to the authorized representatives. This will ensure that the Stock Exchange, their alternate representative and the authorized representatives should have means for contacting all Directors promptly at all times as and when required, including means to communicate with the Directors when they are traveling;
- (c) we will ensure that each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period;
- (d) pursuant to Rule 3A.19 of the Listing Rules, we have retained the services of Guotai Junan Capital Limited as compliance adviser (the “**Compliance Adviser**”), who will act as an additional channel of communication with the Stock Exchange. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company’s authorized representatives and Directors. In turn, they will provide the Compliance Adviser with such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance

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Adviser’s duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules; and

- (e) meetings between the Stock Exchange and the Directors can be arranged through the authorized representatives, or directly with the Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Adviser in accordance with the Listing Rules.

WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions that will constitute partially-exempt and non-exempt continuing connected transactions of our Company under the Listing Rules upon [REDACTED]. Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted,] waivers from strict compliance with Chapter 14A of the Listing Rules. See “Connected transactions” for more details.

**WAIVER AND EXEMPTION IN RELATION TO THE [REDACTED] ESOP
DISCLOSURE REQUIREMENTS**

Under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this document is required to include, among other things, details of the number, description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it, the names and addresses of the persons to whom it or the right to it was given, and their potential dilution effect on the shareholding upon [REDACTED] as well as the impact on the earnings per share arising from the exercise of such outstanding options (the “[REDACTED] ESOP Disclosure Requirements”).

As of the Latest Practicable Date, the Company had granted outstanding options under the [REDACTED] ESOP to [REDACTED] grantees, including [REDACTED] Directors, [REDACTED] senior management and [REDACTED] other connected person of the Company and [REDACTED] other employees of the Group, to subscribe for an aggregate of [REDACTED] Shares, representing [REDACTED]% of the total number of Shares in issue immediately after completion of the [REDACTED]. For further details of the [REDACTED] ESOP, see the section headed headed “Appendix IV—Statutory and General Information—Share Incentive Plan—[REDACTED] ESOP” in the [REDACTED].

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Our Company has applied to the Stock Exchange and the SFC for: (i) a waiver from strict compliance with the applicable [REDACTED] ESOP Disclosure Requirements; and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the applicable [REDACTED] ESOP Disclosure Requirements, respectively, on the ground that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) given that [REDACTED] grantees are involved, strict compliance with such disclosure requirements in setting out full details of all the grantees under the [REDACTED] ESOP in the [REDACTED] would be costly and unduly burdensome for us in light of a significant increase in cost and timing for information compilation, [REDACTED] preparation and printing;
- (b) as of the Latest Practicable Date, among all the grantees, [REDACTED] Directors, [REDACTED] senior management and [REDACTED] other connected person of the Company and the remaining [REDACTED] grantees were only employees of the Group and are not connected persons of our Company, strict adherence to the above requirements to disclose names, addresses, and entitlements on an individual basis will require substantial number of pages of additional disclosure that does not provide any material information to [REDACTED];
- (c) the disclosure of the personal details of each grantee, including the number of options granted, may require obtaining consent from all the grantees in order to comply with personal data privacy laws and principles and it would be unduly burdensome for us to obtain such consents given the number of grantees;
- (d) given the nature of our business, it is extremely important for us to recruit and retain talents and the success of our long-term development plan will very much depend on the loyalty and contribution of the grantees;
- (e) the [REDACTED] ESOP forms a critical component in the compensations of the employees of our Group, and the information relating to the share options granted to the grantees is highly sensitive and confidential to our Group;
- (f) the grant and exercise in full of the shares under the [REDACTED] ESOP will not cause any material adverse impact to our financial position;
- (g) non-compliance with the above disclosure requirements would not prevent us from providing our potential [REDACTED] with an informed assessment of our activities, assets, liabilities, financial position, management and prospects of; and
- (h) material information relating to the shares under the [REDACTED] ESOP will be disclosed in this document, including the total number of Shares subject to the [REDACTED] ESOP, the exercise price per Share, the potential dilution effect on the shareholding and impact on earnings per Share upon full exercise of the share options granted under the [REDACTED] ESOP. The Directors consider that the information that is reasonably necessary for the potential [REDACTED] to make an informed assessment of our Company in their [REDACTED] decision making process has been included in this document.

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The Stock Exchange [has granted to us a waiver from strict compliance with the applicable **[REDACTED]** ESOP Disclosure Requirements on the conditions that]:

- (i) on an individual basis, full details of the options granted under the **[REDACTED]** ESOP to each of our Directors, senior management and other connected persons will be disclosed in the section headed “Appendix IV—Statutory and General Information—Share Incentive Plan—**[REDACTED]** ESOP” as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (ii) in respect of the options granted under the **[REDACTED]** ESOP to remaining grantees (being the other grantees who are not our Directors, senior management or other connected persons of the Company), disclosure will be made, on an aggregate basis, of (1) their aggregate number of grantees and number of Shares underlying the options under the **[REDACTED]** ESOP, (2) the consideration (if any) paid for the grant of the options under the **[REDACTED]** ESOP and (3) the exercise period and the exercise price of the options granted under the **[REDACTED]** ESOP;
- (iii) aggregate number of Shares underlying the options granted under the **[REDACTED]** ESOP and the percentage to our total issued share capital represented by such number of Shares as of the Latest Practicable Date;
- (iv) the dilutive effect and impact on earnings per Share upon the full exercise of the options under the **[REDACTED]** ESOP will be disclosed in the section headed “Appendix IV—Statutory and General Information—Share Incentive Plan—**[REDACTED]** ESOP” ;
- (v) a summary of the major terms of the **[REDACTED]** ESOP will be disclosed in the section headed “Appendix IV—Statutory and General Information—Share Incentive Plan—**[REDACTED]** ESOP”;
- (vi) the grant of a certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting our Company from the applicable **[REDACTED]** Share Option Scheme Disclosure Requirements; and
- (vii) the particulars of the waiver will be disclosed in this document.

The SFC [has agreed to grant to our Company a certificate of exemption under section 342A] of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that:

- (i) on an individual basis, full details of the options granted under the **[REDACTED]** ESOP to each of our Directors, senior management and other connected persons will be disclosed in the section headed “Appendix IV—Statutory and General Information—Share Incentive Plan – **[REDACTED]** ESOP” as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (ii) in respect of the options granted under the **[REDACTED]** ESOP to remaining grantees (being the other grantees who are not our Directors, senior management or other connected persons) under the **[REDACTED]** ESOP, disclosure will be made, on an aggregate basis, of (1) their aggregate number of grantees and number of Shares underlying the options under the **[REDACTED]** ESOP, (2) the consideration (if any) paid for the grant of the options under the

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[REDACTED] ESOP and (3) the exercise period and the exercise price of the options granted under the [REDACTED] ESOP;

- (iii) a list of all the grantees (including those persons whose details have already been disclosed) containing all the particulars as required under [REDACTED] ESOP Disclosure Requirements will be made available for public inspection in “Documents delivered to the Registrar of Companies in Hong Kong and available for inspection” in Appendix V;
- (iv) further details of the Plan will be set forth in the section headed “Appendix IV—Statutory and General Information—Share Incentive Plan—[REDACTED] ESOP”; and
- (v) the particulars of the exemption will be disclosed in this document.

[REDACTED]

**WAIVER IN RESPECT OF INVESTMENTS AND ACQUISITIONS AFTER THE
TRACK RECORD PERIOD**

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountant’s report to be included in a [REDACTED] must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the [REDACTED] (the “**Target Historical Financial Information**”).

Pursuant to guidance letter HKEX-GL32-12 issued by the Stock Exchange (“**GL32-12**”), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Stock Exchange may consider granting a waiver of the requirements under

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Rules 4.04(2) and 4.04(4) of the Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances.

The Stock Exchange will ordinarily grant a waiver in relation to acquisitions of equity securities in the ordinary and usual course of business subject to the following conditions: (i) the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of each acquisition are all less than 5% by reference to the most recent financial year of the applicant’s trading record period, (ii) the applicant is neither able to exercise any control, nor has any significant influence, over the underlying company or business; and (iii) [REDACTED] should include the reasons for the acquisitions and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the applicant and its connected persons.

In addition, the Stock Exchange will ordinarily grant a waiver in relation to acquisitions of a business or subsidiary subject to the following conditions: (i) the percentage ratio (as defined under Rule 14.04(9) of the Listing Rules) of the acquired or to be acquired business or subsidiary are all less than 5% by reference to the most recent financial year of the applicant’s trading record period; (ii) the historical financial information of the acquired or to be acquired business or subsidiary is not available or would be unduly burdensome to obtain or prepare; and (iii) [REDACTED] should include at least the information that would be required for a discloseable transaction under Chapter 14 of the Listing Rules on each acquisition.

Acquisitions since December 31, 2020

Background to the acquisitions

Since December 31, 2020 and up to the Latest Practicable Date, the Group has made or proposed to make a number of acquisitions (the “**Acquisitions**”), details of which are set out in below:

No.	Name of the target company ⁽¹⁾⁽³⁾	Investment amount ⁽²⁾	Percentage of shareholding / equity interest ⁽²⁾	Principal business activities
1.	Company A	RMB2.2 million	100%	A technology and data driven air freight forwarder and customs broker
2.	Company B	RMB4.1 million	100%	A supply chain company specialized in healthcare industry qualified for Good Supply practices (“GSP”) for medical devices
3.	Company C	RMB55.2 million	51%	A cross-border logistics company

Notes:

- (1) Given that the Company has not yet entered into legally binding agreements for certain of the above Acquisitions as at the Latest Practicable Date, the terms and information set out above might be subject to further changes.
- (2) The approximate consideration disclosed in the table represents each of the Acquisitions after December 31, 2020. The percentage of shareholding/equity interest represents the Company’s total pro forma shareholding in each of the Acquisitions after the completion of disclosed transaction.
- (3) None of the core connected persons at the level of the Company is a controlling shareholder of any of the Acquisitions.

The acquisition amounts for the Acquisitions are the result of commercial arm’s length negotiations, based on factors including market dynamics, a mutually agreed valuation, and/or capital required for the target company’s operations.

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Conditions for granting the waiver and its scope in respect of the Acquisitions

The Company has applied to the Stock Exchange for, [and the Stock Exchange has granted], a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules in respect of the Acquisitions on the following grounds:

The percentage ratios of each Acquisition are all less than 5% by reference to the most recent fiscal year of the Company's Track Record Period.

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules for the Acquisitions are all less than 5% by reference to the most recent fiscal year of the Track Record Period. The Company does not believe that the Acquisitions are subject to aggregation under Rule 14.22 of the Listing Rules, because (i) each of the Acquisitions involves the acquisition of interests in a different company and (ii) the Acquisitions were entered into with different counterparties.

Accordingly, the Company believes that each of the Acquisitions have not resulted in any significant changes to the Company's financial position since December 31, 2020, and all information that is reasonably necessary for the potential [REDACTED] to make an informed assessment of the Company's activities or financial position has been included in this document. As such, the Company considers that a waiver from compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would not prejudice the interests of the [REDACTED].

The historical financial information of the targets is not available and would be unduly burdensome to obtain or prepare

The Company confirms that the targets in respect of the Acquisitions do not have available historical financial information which is readily available for disclosure in this document in accordance with the Listing Rules. In addition, it would require considerable time and resources for the Company and its reporting accountant to fully familiarize ourselves with the management accounting policies of the targets and compile the necessary financial information and supporting documents for disclosure in this document. As such, the Company believes that it would be impractical and unduly burdensome for the Company to disclose the audited financial information of the targets as required under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules.

In addition, having considered the Acquisitions to be immaterial and that the Company does not expect each of the Acquisitions to have any material effect on its business, financial condition or operations, the Company believes that it would not be meaningful and would be unduly burdensome for it to prepare and include the financial information of the targets during the Track Record Period in this document. As the Company does not expect each of the Acquisitions to result in any material changes to its financial position after the Track Record Period, the Company does not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would prejudice the interests of the [REDACTED].

Alternative disclosure of the Acquisitions in this document

The Company has provided alternative information about the Acquisitions in this document. Such information includes that which would be required for a discloseable transaction under Chapter

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14 of the Listing Rules that the Company’s directors consider to be material, including, for example, descriptions of the targets’ principal business activities, the investment amounts, and a statement that whether the core connected persons at the level of the Company is a controlling shareholder of any of the targets. The Company has however excluded disclosure on the names of certain targets in connection with the Acquisitions because (i) the Company has entered into confidentiality agreements with these companies and does not have consent from all of them for such disclosure and/or (ii) given that the Company has not yet entered into legally binding agreements with respect to all of these Acquisitions as of the Latest Practicable Date and the competitive nature of the industries in which the Company operates, disclosure of the names of the relevant companies in this document is commercially sensitive and may jeopardize the Company’s ability to consummate the proposed Acquisitions. It is commercially sensitive to disclose the identities of the companies the Company invested in or propose to invest in as such information may enable its competitors to anticipate the Company’s investment strategy. Since the relevant percentage ratio of each of the Acquisitions is less than 5% by reference to the most recent fiscal year of our Track Record Period, the current disclosure is adequate for potential [REDACTED] to form an informed assessment of the Company. The Company does not expect to use any [REDACTED] from the [REDACTED] to fund the Acquisitions.

WAIVER AND EXEMPTION IN RELATION TO DISCLOSURE OF INTERESTS INFORMATION

As disclosed in the prospectus of JD.com dated June 8, 2020 (the “**JD.com Prospectus**”), JD.com is subject to the U.S. Exchange Act, which requires any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the U.S. SEC, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act, to file beneficial ownership reports with the U.S. SEC. These persons must also promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. JD.com applied for, and was granted, (a) a partial exemption by the SFC under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) and (b) a waiver by the Stock Exchange from strict compliance with Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules (the “**JD.com Disclosure Exemption and Waiver**”) subject to the conditions that: (a) the bulk of trading in the shares of JD.com is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Listing Rules; (b) all disclosures of interests filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (c) JD.com shall advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the United States and any significant changes in the volume of JD.com’s worldwide share turnover that takes place on the Hong Kong Stock Exchange.

We have applied for, [and the SFC has granted a certificate of exemption] from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) to the directors or chief executives of the Company who is/are also a director or chief executive of JD.com from time to time (the “**Common Directors/Chief Executives**”) with respect to their disclosure of interest, and short positions, in any shares in JD.com and associated corporations of the Company which are subsidiaries of JD.com (“**Associated Corporations**”), subject to the conditions that (i) the

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THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Company continues to be a subsidiary of JD.com; (ii) JD.com maintains its secondary listing on the Stock Exchange pursuant to Chapter 19C of the Listing Rules; (iii) the Common Directors/Chief Executives must file with the Hong Kong Stock Exchange all disclosure of interests notices filed with the SEC in respect of interests in JD.com and the Associated Corporations as soon as practicable on the basis that the Hong Kong Stock Exchange will publish these disclosures in the same way as those it receives from other listed corporations pursuant to Part XV; (iv) the Company shall advise the SFC if there is any change to the Common Directors/Chief Executives set out in the Company’s Part XV exemption application to the SFC; and (v) the Company shall advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the United States or any material change to the facts set out in the Company’s Part XV exemption application to the SFC. For the avoidance of doubt, this exemption does not apply to disclosure obligations of (i) the Company’s directors or chief executives in respect of their interests, and short positions, in any shares in the Company (or any of its subsidiaries or 20%-owned corporations) and their interests in any debentures of the Company (or any of its subsidiaries or 20%-owned corporations), and (ii) the Common Directors/Chief Executives who are already subject to applicable disclosure of interest requirements under Part XV of the SFO and Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules in relation to their respective interests in Associated Corporations (for example, disclosure obligations of interests in JD Health International, Inc. and its subsidiaries which have not been waived by the SFC and/or Stock Exchange). The exemption is given based on the particular circumstances of the Company and should not be regarded as a precedent for other applications. This exemption may be reconsidered by the SFC in the event there is any material change in the information provided to the SFC.

We have also applied for, and the Stock Exchange has granted, a waiver from strict compliance with Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules such that the Common Directors/Chief Executives will not be required to disclose their interests and short positions in any shares or underlying shares in the Associated Corporations in accordance with Part XV of the SFO, subject to the conditions that (i) the SFC granting the Common Directors/Chief Executives a partial exemption from strict compliance with Part XV of the SFO; (ii) JD.com maintains its secondary listing on the Stock Exchange under Chapter 19C of the Listing Rules.

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND [REDACTED]

DIRECTORS’ RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this document misleading.

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND [REDACTED]

[REDACTED]

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this document includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all.

Unless otherwise indicated (i) the translation between Renminbi and Hong Kong dollars was based on the rate of RMB[1] to HK\$[1.1987], and (ii) the translation between U.S. dollars and Hong Kong dollars was based on the rate of US\$[1] to HK\$[7.7527].

INFORMATION ABOUT THIS DOCUMENT AND [REDACTED]

TRANSLATION

If there is any inconsistency between the English version of this document and the Chinese translation of this document, the English version of this document shall prevail unless otherwise stated. However, the English names of any Laws, Governmental Authorities, institutions, natural persons or other entities for which no official English translation exists are unofficial translations for your reference only and their names in the original language shall prevail.

ROUNDING

Certain amounts and percentage figures included in this document have been subject to rounding adjustments, or have been rounded to a set number of decimal places. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart in this document between total and sum of amounts listed therein are due to rounding.

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Name	Address	Nationality
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Yanlei Chen (陳岩磊)	Room 606, Block 3, Taiheshijingyuan Jiachuang 2 nd Road Beijing People’s Republic of China	Chinese
Jun Fan (樊軍)	Room 1703, Block 8 Wenhuyuan West Road Beijing People’s Republic of China	Chinese
Non-executive Directors		
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Sandy Ran Xu (許冉)	Unit 3, Block 6 Nanlang Jiayuan Beijing People’s Republic of China	Chinese
Pang Zhang (張雱)	No. 3, 15 Ronghuazhong Street Beijing People’s Republic of China	Chinese
Independent non-executive Directors		
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Carol Yun Yau Li (李恩祐)	Flat B, 22/F, Kennedy Heights 10-18 Kennedy Road, Mid-Levels Hong Kong	Chinese (Hong Kong)
Liming Wang (王利明)	No. 1502, Unit 1, Block 7 Wanliuxingbiaojiayuan (Bishuiyuntian xiaoqu) Wanquanzhuang Road Beijing People’s Republic of China	Chinese

See “Directors and senior management” for further details.

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PARTIES INVOLVED IN [REDACTED]

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Goldman Sachs (Asia) L.L.C.

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Haitong International Capital Limited

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Registered office in the Cayman Islands	PO Box 309 Ugland House Grand Cayman, KY1-1104 Cayman Islands
Company website	[https://www.jdl.cn/] <i>(the information contained on this website does not form part of this document)</i>
Company secretary	Ming King Chiu (趙明璟) (FCG FCS(PE))
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Remuneration committee	Liming Wang (王利明) (Chairperson) Nora Gu Yi Wu (顧宜) Pang Zhang (張雱)
Nomination committee	Richard Qiangdong Liu (劉強東)(Chairperson) Liming Wang (王利明) Carol Yun Yau Li (李恩祐)

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People’s Republic of China

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The information and statistics set out in this section and other sections of [REDACTED] were extracted from different official government publications, available sources from public market research and other sources from independent suppliers. In addition, we engaged China Insights Consultancy for preparing the CIC Report, an independent industry report in respect of [REDACTED]. We believe that the sources of the information in this section and other sections of [REDACTED] are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us, the [REDACTED], Joint Sponsors, [REDACTED], any of [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in [REDACTED], and no representation is given as to its accuracy, other than China Insights Consultancy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the CIC Report that would qualify, contradict or have a material impact on the information in this Section.

China’s economy has experienced significant growth over the past several years, with its nominal GDP increasing from RMB68.9 trillion in 2015 to RMB99.1 trillion in 2019 and is expected to continue growing to reach RMB137.1 trillion in 2025. As China remains one of the fastest growing economies in the world, demands for logistics services remain strong in the domains of both industrial production and consumption evidenced by the growth of value of social logistics goods from RMB219.2 trillion in 2015 to RMB298.0 trillion in 2019.

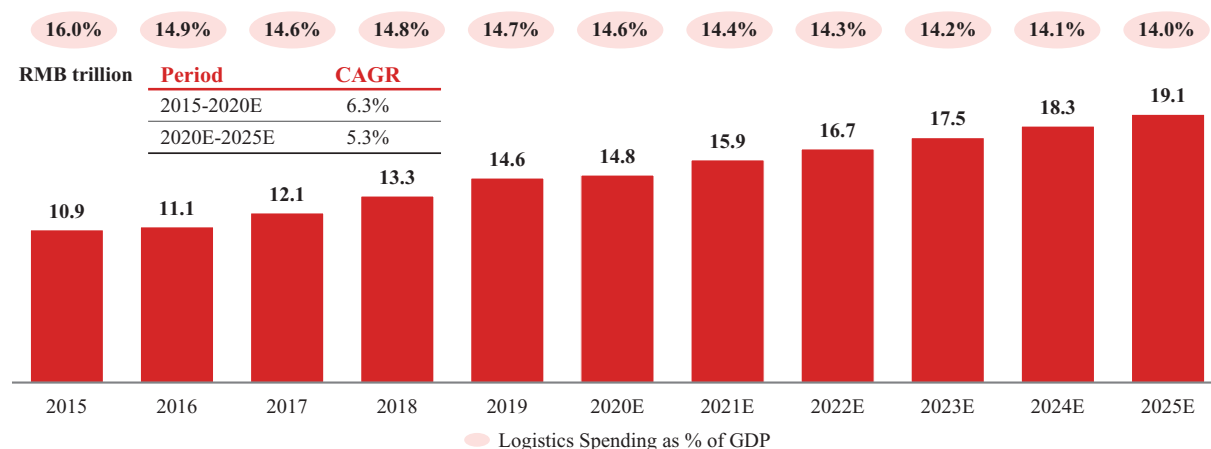
China’s e-commerce market has become the largest in the world and has greatly reshaped and promoted the development of logistics services industry in China. Furthermore, the recent COVID-19 outbreak has contributed to an accelerated shift in consumption from offline to online. As online retail sales of physical goods continue to gain shares in the total retail market in China, an increasing amount and variety of companies from all industries are switching to omni-channel retail strategy, which requires seamless integration of online and offline supply chain enabled by comprehensive supply chain solutions and logistics services. The demands for integrated supply chain logistics services that simplify and speed the process of transporting goods are growing rapidly, and the market is calling for technology-enabled supply chain logistics services providers who have the capabilities in provision of reliable, trackable, on-demand, integrated, and end-to-end movement of shipment, as well as extensive storage solutions and facilities.

CHINA’S LOGISTICS MARKET OVERVIEW

According to the CIC Report, China is the largest logistics market in the world in terms of logistics spending. China’s total logistics spending is expected to reach RMB14.8 trillion in 2020, and is expected to grow at a CAGR of 5.3% from 2020 to 2025. The expected growth in China’s logistics spending is generally in line with the growth in GDP, which is expected to grow at a rate of 6.2% from 2020 to 2025 as domestic consumption and trade activities continue to increase, leading to additional logistics demands.

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Logistics Spending in China, 2015-2025E



Despite its massive market size, China’s logistics market is still relatively inefficient compared to other developed markets, evidenced by China’s higher logistics spending as a percentage of GDP, which is 14.7% in 2019, compared to 7.6% and 8.5% in the U.S. and Japan, respectively. Logistics spending as a percentage of GDP can be further decomposed into three ratios as illustrated by the following formula, to demonstrate the reasons for China’s lower logistics efficiency compared to the U.S.

$$\frac{\text{Logistics Spending}}{\text{GDP}} = \frac{\text{Logistics Spending Per Unit of Freight Turnover}}{\text{Average Length of Haul}} \times \frac{\text{Freight Weight Per Unit of GDP}}{\text{Freight Weight Per Unit of GDP}}$$

Where,

Logistics Spending per Unit of Freight Turnover equals to total logistics spending divided by total freight turnover, with a measurement unit of US¢ per ton-kilometer;

Average Length of Haul equals to total freight turnover divided by total freight weight, measured in terms of kilometers;

Freight Weight per Unit of GDP equals to total freight weight divided by GDP, with a measurement unit of tons per thousand US dollars.

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The table below outlines such ratios in China and the US in 2019, with brief discussions of the implication for each of the ratios:

	Unit	China	U.S.	Discussion
Logistics Spending per Unit of Freight Turnover	US¢ per ton-kilometer	10.1	18.7	This refers to the logistics spending incurred for each ton-kilometer of transportation of goods. China has a significantly lower expense compared to the US, primarily due to lower labor and operating costs. This ratio has seen a growing trend since 2016 for China. We believe room for further improvement is relatively limited although there is still ample efficiency uplift opportunity from a supply chain perspective.
Average Length of Haul	kilometer	391.6	454.0	China’s average length of haul of freight is slightly lower than that of the US, primarily because China has a higher e-commerce penetration rate compared to the US. The growing e-commerce market leads to fast development of complementary logistics services, which increases regional and last mile truck shipping to accommodate consumer expectations for more frequent and faster deliveries. The growing number of fulfillment centers in China also contributes to the decreased average length of haul.
Freight Weight per Unit of GDP	ton per thousand US\$	3.7	0.9	Freight weight per unit of GDP indicates the weight of freight is transported to generate one unit of GDP – the higher the ratio, the lower the efficiency of the freight to contribute to national economy. China’s freight weight per unit of GDP is more than four times of that of the US, suggesting: the potential of China to pivot its economic structure more to the tertiary sector with higher value-add to national economy, and redundancies in freight transportation such as repeated transportation and deadheading, which leaves large room of efficiency improvement.

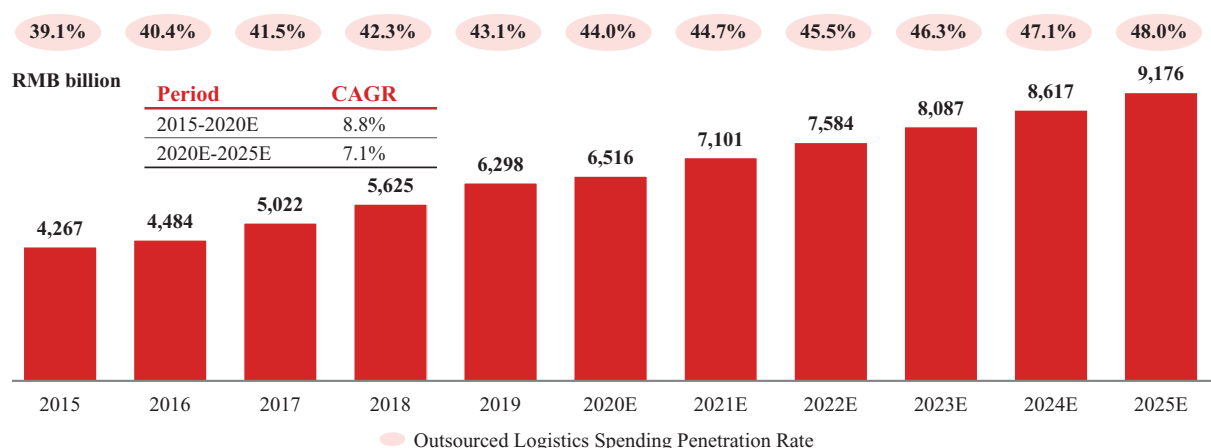
The analysis of the aforementioned ratios shows that from the perspective of logistics, China’s higher logistics spending as percentage of GDP is primarily because of the redundant logistics processes. This leaves a large opportunity for logistics service providers to improve overall logistics efficiency through offering of integrated solutions as opposed to isolated logistics services to reduce such redundancies.

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OUTSOURCED LOGISTICS SERVICES MARKET OVERVIEW

The initial form of logistics, known as First Party Logistics (1PL) refers to the logistics activities where buyers or sellers manage the packaging, storage and transportation of goods by themselves. However, as their businesses grow, these buyers or sellers face more sophisticated customer needs, making it more challenging for them to handle the increasing volume and complexity in customer demands. Also, due to constraints in logistics infrastructure and resources, 1PL often fail to achieve the same level of efficiency compared to the services offered by professional third-party logistics service providers who have best-in-class infrastructure and operational know-how. In addition, by outsourcing logistics services to third-party service providers, enterprises can focus on their core businesses without the need to deal with the complex and resource consuming logistics planning process. As a result, the outsourced logistics services market in China has grown rapidly and is expected to grow from RMB6.5 trillion in 2020 to RMB9.2 trillion in 2025, representing a CAGR of 7.1%, which is faster than the growth in total logistics spending during the same period, which is 5.3%.

Outsourced Logistics Spending in China, 2015-2025E



Outsourced logistics services penetration, as defined by outsourced logistics services spending divided by total logistics spending, is also expected to increase from 44.0% in 2020 to 48.0% in 2025, demonstrating the increasing popularity of outsourced logistics services in China. Compared to 1PL, outsourced logistics services enable enterprises to achieve higher logistics efficiency by leveraging third-party professional logistics service providers’ expertise in managing and integrating various links in their supply chains, while at the same time avoiding significant upfront costs in building their own logistics infrastructure.

In particular, enterprises in industries with higher requirements for logistics capabilities, such as fresh produce, FMCG, apparel and pharmaceutical products, would be more inclined to adopt an asset-light model and outsource their logistics activities to professional logistics service providers. In 2020, among all industry verticals, fresh produce has the highest outsourced logistics services penetration rate of 85.0%, followed by pharma, apparel and FMCG, with penetration rate of 71.0%, 67.0% and 65.6% respectively.

EMERGENCE OF INTEGRATED SUPPLY CHAIN LOGISTICS SERVICES MARKET

Integrated supply chain logistics services are defined as a sub-segment and an advanced form of logistics services, within the outsourced logistics services market. Those services are provided by a

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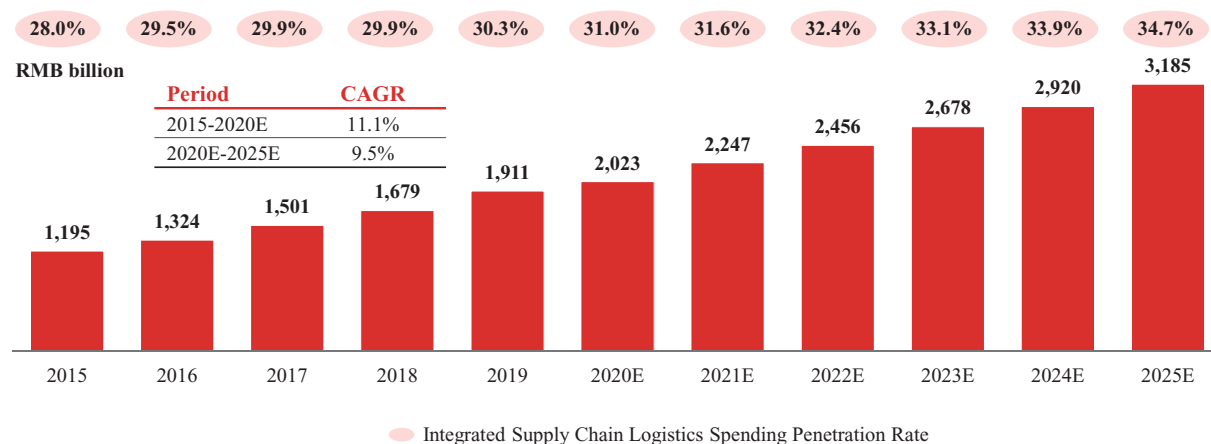
third party services provider, however, unlike isolated supply chain logistics service providers, integrated supply chain logistics service providers possess the competencies of providing a full spectrum of logistics services, ranging from express delivery, full truckload and less-than-truckload transportation, last-mile delivery, warehousing, and other value-added services (such as home installation and aftersales services), which are offered to customers in the form of integrated solutions tailored to their varied needs. Despite the fact that the majority of demand for third-party logistics services comes from single logistics services, demands from enterprises for outsourced supply chain logistics services have gradually transitioned from homogeneous to manifold, leading to the integrated supply chain logistics services market outgrowing the outsourced logistics service market in general, primarily because of the following distinctive features of integrated supply chain logistics services:

- **More integrated and end-to-end:** Isolated supply chain logistics service providers usually focus on providing only one specific logistics service, such as express delivery. Enterprises with more complex and sophisticated logistics demands will have to engage multiple isolated logistics services providers. In contrast, integrated supply chain logistics service providers are able to provide one-stop solutions to cover the end-to-end demands of customers, ranging from manufacturing all the way to distribution, such as warehousing and inventory management solutions. This allows enterprise customers avoid the cumbersome process of engaging multiple services providers.
- **More advanced technologies applied and data-enabled:** Traditional isolated supply chain logistics services remain largely labor intensive with relatively lower levels of automation, especially for tasks such as loading and sorting, which led to inefficient and error-prone processes. Utilization of data insights for isolated supply chain logistics service providers is limited, as their operations are more narrowly focused. In contrast, integrated supply chain logistics services players typically utilize better technologies and unmanned solutions to improve operational efficiencies. Also, with more advanced IT infrastructure, the collection, integration and analysis of data across different links of the supply chain and among different partners are much more sophisticated.
- **Higher requirements on industry know-how:** Integrated supply chain logistics service providers' deep understandings towards various industries (such as end customer needs, unique feature of goods, inventory and sales cycle, among others) enable them to provide tailored solutions to address different industry pain points. Isolated supply chain logistics service providers, in contrast, are typically more industry agnostic as they provide more limited scope of supply chain logistics services from a product perspective.
- **Ability to empower customers' business operations:** Integrated supply chain logistics service providers can offer additional valued-added services and empower customers' business operations in multiple aspects, including sales forecast, production planning, SKU and inventory management, end customer order management, among others, which helps them deepen their relationship with customers, thus increasing customer stickiness and cross-selling or up-selling opportunities.

The market size of the integrated supply chain logistics services industry in China will reach RMB2,023 billion in 2020, and is expected to further increase to RMB3,185 billion by 2025, growing at a CAGR of 9.5%. Integrated supply chain logistics services penetration, as defined by integrated supply chain logistics services spending divided by outsourced logistics services spending, is also expected to increase from 31.0% in 2020 to 34.7% in 2025.

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Integrated Supply Chain Logistics Spending in China, 2015-2025E



Drivers and Opportunities in China’s Integrated Supply Chain Logistics Services Market

We believe China’s integrated supply chain logistics services providers will benefit from the following themes and opportunities:

- Increasingly sophisticated customer needs in different industry verticals.** As end consumers continue to demand faster and more flexible supply chain logistics services, enterprises are incentivized to upgrade their supply chains in order to improve customer satisfaction. The varying characteristics in the supply chains of different industry verticals will necessitate integrated supply chain solutions which can be tailored to the features of each specific industry.
- Efficiency improvement potential at the manufacturing-end of the supply chain.** In the past, efficiency improvements in the logistics industry are more geared towards the distribution-end, namely, the transportation of finished products from manufacturers to end consumers. There remains significant potential on the manufacturing-end for further efficiency improvements, which could be achieved by way of better sourcing and procurement for raw materials and production planning with the help of end-to-end integrated supply chain logistics services .
- Demand for data insights and other value-added services.** The massive amount of data generated in each section of enterprises’ supply chains are very valuable as the analyses of such data enable them to gain a more comprehensive understanding of the sources of inefficiencies in their operations and allow them to make better business decisions. As integrated supply chain logistics services by nature cover the supply chain more broadly, valuable data can be more easily tracked, integrated and analyzed. Such data insights and the ancillary valued added services, such as warehouse network re-design and sales forecasts, that can be offered by integrated supply chain logistics services providers are also attractive and valuable for enterprises.
- Favorable policy support for developing integrated supply chain logistics services.** The PRC government has prioritized modern supply chain infrastructure as a key development goal, and implemented favorable policies and reforms aimed at improving supply chain efficiency, lowering logistics costs and promoting the adaptation of advanced

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technological applications, which are conduct to the development of integrated supply chain logistics services.

Year	Policy	Impact / Implications
2020	Implementation Plan for Promoting Deep Integration and Innovative Development of the Logistics and Manufacturing Industries 推動物流業製造業深度融合創新發展實施方案	Optimizes supply chain management in manufacturing by improving operational efficiency and forming a smart supply chain network featuring efficient coordination, improved security and sustainability
2020	Implementation Opinions on Further Reducing the Costs of Logistics 關於進一步降低物流成本的實施意見	Improves service quality and cost efficiency of logistics via the construction of a nationwide logistics network and the modernization of supply chain
2020	Notice of Further Effectively Conducting the Pilot Program of Innovation in and Application of Supply Chain 關於進一步做好供應鏈創新與應用試點工作的通知	Accelerates the digitalization of supply chain and the development of smart supply chain by proactively applying modern supply chain management technologies such as block chain and big data
2019	Opinions on Promoting High-quality Development of Logistics Industry to Facilitate the Formation of a Strong Domestic Market 關於推動物流高質量發展促進形成強大國內市場的意見	- Builds a high-quality nationwide logistics infrastructure system - Promotes the innovation and digitalization of supply chain in order to improve enterprises' operational efficiencies
2018	The Notice on the Construction of a Modern Supply Chain System in the Field of Distribution in 2018 關於開展2018年流通領域現代供應鏈體系建設的通知	Improves the development of smart supply chain by normalizing data / data interfaces and improving supply chain intelligence
2017	Guiding Opinions on Vigorously Advancing the Innovation on and Application of Supply Chains 關於積極推進供應鏈創新與應用的指導意見	- Promotes the application of a coordinating supply chain among manufacturing enterprises to bring down operating and transaction costs, and promotes the visualization and digitalization of such supply chain - Accelerates the construction of a global supply chain and encourages the connection of supply chain infrastructure networks with other countries under the “Belt and Road” initiative
2016	Outline of the 13 th Five-Year Plan for the National Economic and Social Development of the People's Republic of China 中華人民共和國國民經濟和社會發展第十三個五年規劃綱要	- Sets the goal of creating a modernized transportation and logistics system, especially in China's rural areas - Supports the development of third-party logistics

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Market Size and Growth of Integrated Supply Chain Logistics Services Market by Industry Verticals



The above chart illustrates market sizes of integrated supply chain services in selective industry verticals and respective growth rates. It can be observed that as of 2020, the largest selective industry verticals include automotive, FMCG, apparel and 3C electronics. From 2020 to 2025, integrated supply chain logistics spending for fresh produce, FMCG and apparel is expected to grow at a higher rate, which are 18.8%, 14.6% and 12.7% respectively. Each industry vertical also has its own unique features, leading to differentiated demands for integrated supply chain services.

- Automotive:** Demand for integrated supply chain logistics services in automotive industry is expected to grow from RMB347 billion in 2020 to RMB446 billion in 2025 at a CAGR of 5.2%. Due to high unit value of automobiles and their parts and components, as well as the large number of SKUs involved, higher supply chain management standards are required in warehousing and transportation. In addition, driven by the rapid development of the electric vehicle market in China, lack of supply chain capability of the electric vehicle startups and demands for integrated supply chain logistics services related to electric vehicle parts and components, charging pile solutions, and aftermarket services are expected to increase significantly.
- Apparel:** Demand for integrated supply chain logistics services in apparel industry is expected to grow from RMB192 billion in 2020 to RMB349 billion in 2025 at a CAGR of 12.7%. Supply chain management in the apparel industry has many complexities given challenges such as large number of SKUs, multiple distribution layers, high seasonality, requirement for prompt response to rapid changes in end customers' tastes, and frequent reverse logistics. Omni-channel sales model also requires apparel enterprises to flexibly and efficiently manage their inventory across offline stores and online sales channels to improve inventory turnover.

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- **FMCG:** Demand for integrated supply chain logistics services in FMCG industry is expected to grow from RMB221 billion in 2020 to RMB437 billion in 2025 at a CAGR of 14.6%. FMCG products are daily necessities and demand is generally more stable, but sales of FMCG products are affected by frequent promotions and other marketing activities such as the June 18 Anniversary Sale and China’s new online shopping festival on November 11 annually and other offline promotion activities, which lead to significant challenges in production and inventory management during sales peaks and troughs. In order to achieve higher operational efficiency and inventory turnover throughout the year, enterprises need specialized integrated supply chain logistics services, comprising of AI and big data analysis, to help them predict orders and manage production and storage accordingly.
- **3C Electronics:** Demand for integrated supply chain logistics services in 3C electronic industry is expected to grow from RMB180 billion in 2020 to RMB316 billion in 2025 at a CAGR of 11.9%. Given the high-value and fragile nature of 3C electronics products, customers in this sector require specialized transportation and delivery capabilities to ensure such products can be reach customers in a timely and secure manner. With increasingly shortened product lifecycle caused by rapid technological advancement, logistics demands in relation to repair, recycling, trade-in, inspection and disposal have also arisen.
- **Fresh Produce:** Demand for integrated supply chain logistics services in fresh produce industry is expected to grow from RMB62 billion in 2020 to RMB146 billion in 2025 at a CAGR of 18.8%. The transportation and delivery of fresh produce requires cold-chain logistics capabilities and infrastructure such as real-time humidity and temperature control systems, customized packaging capabilities, automated refrigeration equipment, and temperature-controlled vehicles to ensure optimum temperature control during storage and delivery processes. More effective supply-chain management is also required in order to minimize the distance and reduce the number of transits between the product origin of perishable goods and the end customers.
- **Pharma:** Demand for integrated supply chain logistics services in pharmaceutical industry is expected to grow from RMB38 billion in 2020 to RMB60 billion in 2025 at a CAGR of 9.5%. Given the high value, potentially hazardous and fragile nature, pharmaceutical products require greater attention to safety during warehousing, transportation and delivery. In addition, the industry has very strict requirements for temperature control, especially for temperature-sensitive products such as biological agents, vaccines and blood products.
- **Home furniture and home appliances:** Demand for integrated supply chain logistics services in home furniture and home appliance industry is expected to grow from RMB77 billion in 2020 to RMB117 billion in 2025 at a CAGR of 8.6%. This product category is characterized by its bulky nature, irregular size and dimension of products, and requirement for customized installation and aftersales services. As such, specialized logistics facilities or equipment for transportation and warehousing are required, alongside properly trained to-door delivery personnel, in order to deliver a one-stop experience for end customers.

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COMPETITIVE LANDSCAPE OF INTEGRATED SUPPLY CHAIN LOGISTICS SERVICES MARKET

- The integrated supply chain logistics services market in China is highly fragmented due to the vast size of the market and specific requirements across industry verticals. According to the CIC Report, the top ten players only accounted for 7.9% market share in terms of revenue in 2019. Among the top ten players, we are the largest integrated supply chain logistics service provider with a 2.2% market share in 2019. There is significant potential for consolidation as players who can operate more efficiently and provide better solutions and services at a larger scale will continue to consolidate market and capture more market growth potential.

Ranking of Integrated Supply Chain Logistics Service Providers in China, 2019

Ranking	Company Name	Listing Status	Warehouse Floor Area (million m ²)	Revenue (billions of RMB)	Market Share
1	JD Logistics	No	20.0 ¹	41.8	2.2%
2	Company A	Yes	4.0	19.5	1.0%
3	Company B	Yes	3.0	17.2	0.9%
4	Company C	No	6.5	13.0	0.7%
5	Company D	No	6.0	12.9	0.7%
6	Company E	No	1.4	10.3	0.5%
7	Company F	No	1.5	9.7	0.5%
8	Company G	No	2.0	9.4	0.5%
9	Company H	No	12.1	9.1	0.5%
10	Company I	No	4.3	8.5	0.4%

Note:

1. Approximate warehouse floor area of JD Logistics as of September 30, 2020.

- Key players within the integrated supply chain logistics services market also have varied levels of integration. Although certain players can provide warehousing and delivery services as a package, there are few players that can provide full-stack solutions that address different aspects of supply-chain logistics, such as supply chain strategic planning and consulting, and have deeply integrated logistics networks for different types of goods.
- The ability to proprietarily develop or adopt new technologies differentiates operational efficiencies among players and their abilities to deliver comprehensive solutions. More technologically sophisticated players are those who can widely apply automation and unmanned technologies throughout all supply chain processes in order to mitigate increasing labor costs, and also best utilize data to track the flow goods and optimize use of resources

We believe integrated supply chain logistics service providers in China will need to obtain the following capabilities in order to remain competitive in the market:

- Extensive logistics networks.** As integrated supply chain logistics service providers offer a comprehensive set of logistics service offerings to customers, extensive logistics networks that can support the storage and transportation needs of different types of goods are essential. Such logistics networks require significant capital to establish, and cannot be replicated over a short period of time. Strategic locations for logistics infrastructure are also scarce resources that incumbent players have already secured. Therefore, it is difficult for players without sufficient scale and infrastructure to compete in the integrated supply chain logistics services market

INDUSTRY OVERVIEW

- **Technological capabilities such as data integration and analytics, automation and unmanned facilities and solutions.** Advanced technologies are essential in offering integrated supply chain logistics services. To compete effectively, new entrants need to possess the ability to gather, integrate and analyze data across the whole supply chain and different logistics networks in order to provide value-added data insights to customers, in addition to basic logistics services. In addition, to reduce labor cost and improve operational efficiencies, a significant range of proprietary technologies such as unmanned warehouse and other robotics solutions have already been widely implemented by leading incumbent players. New entrants will face severe challenges to keep up with the same pace of adopting and implementing advanced technological solutions at the same level of efficiency and scale due to high initial capital expenditure and lack of industry know-hows.
- **Industry know-how accumulated through years of operational experience.** Integrated supply chain logistics services providers need to design, implement, operate and continuously adapt to the evolving demands of different industry verticals, and also tailor the solutions for different customers. Such industry know-how needs to be accumulated over time, and the approach in providing such integrated services is significantly different from providing standardized and isolated supply chain logistics services. In addition, as customer relationships of integrated supply chain logistics services tend to be stickier due to deeper cooperation, such industry know-how for incumbent integrated supply chain logistics service players is self-reinforcing over time, further raising the barrier of entry for new industry participants.
- **Strong brand image and high quality services.** Positive brand image of integrated supply chain logistics providers can affect the consumption choice of end consumers. Strong brand image in logistics services industry comes from consistently delivery of high quality service, which is imperative for customers adopting integrated supply chain logistics services. The potential impact on customers’ business operations can be significant in the event of service disruptions given integrated supply chain logistics services are more deeply intertwined with such customers’ supply chain functions. Successful integrated supply chain logistics services providers are those who can swiftly react to demand changes of customers and ensure timeliness of delivery, thereby attaining low customer complaint rates and high customer satisfaction.

Source of Information

We commissioned China Insights Consultancy, an independent market research and consulting firm, to conduct a detailed research and analysis of China’s integrated supply chain logistics services market. China Insights Consultancy, founded in Hong Kong, provides professional services including, among others, industry consulting, commercial due diligence and strategic consulting. We have agreed to pay a fee of US\$100,000 to China Insights Consultancy in connection with the preparation of the CIC Report. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the CIC Report. We have extracted certain information from the CIC Report in this section, as well as in the sections headed “Summary”, “Risk Factors”, “Business”, “Financial

INDUSTRY OVERVIEW

Information” and elsewhere in this document to provide our potential [REDACTED] with a more comprehensive presentation of the industry in which we operate.

During the preparation of the CIC Report, China Insights Consultancy performed both primary and secondary research, and obtained knowledge, statistics, information on and industry insights into China’s integrated supply chain logistics services market. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources. The CIC Report was compiled based on the following assumptions: (1) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (2) relevant key drivers are likely to drive the continued growth of China’s integrated supply chain logistics services market throughout the forecast period; and (3) there is no extreme force majeure or unforeseen industry regulations in which the industry may be affected in either a dramatic or fundamental way. All forecasts in relation to market size are based on the general economic conditions as of the Latest Practicable Date, which would be adjusted if the COVID-19 outbreak persists or escalates and has an unpredicted negative impact on the general economy.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

We have been operating as an internal logistics department of JD Group since 2007 and as a stand-alone business segment of JD Group since April 2017. Our Company was first incorporated as an exempted company with limited liability in the Cayman Islands on January 19, 2012, and after a series of internal reorganizations, became the holding company of our current businesses, which mainly comprise of our supply chain solutions and logistics services.

Following the completion of [REDACTED], our businesses will be separated and independent from the businesses of the JD Group.

KEY BUSINESS MILESTONES

The following table sets forth our key business development milestones:

Year	Event
2007	We were set up as an internal logistics department under JD Group.
2010	We launched the “211” program providing same-day and next-day service, which redefined the industry standards for e-commerce express delivery and fulfillment.
2014	We launched the first Asia No. 1 smart mega warehouse in Shanghai.
2017	In April, we started to operate supply chain solutions and logistics services business as a stand-alone business segment of JD Group and commenced to serve external customers.
2018	In February, we completed the Series A Preference Shares financing with a group of third-party investors. The total amount of financing raised was approximately US\$2.5 billion.
2020	We formed task forces dedicated to pandemic relief and leveraged our advanced technologies during the COVID-19 outbreaks in China and were recognized nationally for our contribution.

In August, we launched our brand upgrade campaign.

MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities and date of establishment of each of our Major Subsidiaries are shown below:

Name of company	Principal business activities	Date and jurisdiction of establishment
JD Logistics Holding Limited	Our wholly-owned subsidiary	August 8, 2011, Hong Kong
Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司)	A subsidiary of JD Logistics Holding Limited, a wholly foreign owned enterprise and a holding company of certain PRC subsidiaries that primarily engages in investment and consulting services	June 17, 2020, PRC
Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) (“WFOE”)	Our indirect subsidiary (held by JD Logistics Holding Limited), a wholly foreign owned enterprise and a holding company of certain PRC subsidiaries that primarily engages in logistics services	May 18, 2017, PRC

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of company	Principal business activities	Date and jurisdiction of establishment
Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) (“Onshore HoldCo”)	An affiliated consolidated entity of WFOE and a holding company of certain Consolidated Affiliated Entities that primarily engages in courier and warehousing services	June 23, 2017, PRC
Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司) (“Beijing Jingbangda”)	A subsidiary of Onshore Holdco and primarily engages in courier and warehousing services	August 14, 2012, PRC
Xi'an Jingdong Xuncheng Logistics Co., Ltd. (西安京東訊成物流有限公司)	A subsidiary of WFOE and primarily engages in logistics services	June 12, 2017, PRC
Shanghai Xunzan Supply Chain Technology Co., Ltd. (上海迅贊供應鏈科技有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in courier and warehousing services	December 15, 2017, PRC
Guangdong Jingbangda Supply Chain Technology Co., Ltd. (廣東京邦達供應鏈科技有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in courier and warehousing services	August 1, 2017, PRC
Beijing Jingxundi Technology Co., Ltd. (北京京訊遞科技有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in courier and warehousing services	December 18, 2017, PRC
Kuayue-Express Group Co., LTD. (跨越速運集團有限公司)	An indirect subsidiary of Onshore Holdco and primarily engages in logistics services	August 13, 2007, PRC
Shaanxi Jingdong Xincheng Supply Chain Technology Co., Ltd. (陝西京東信成供應鏈科技有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in courier and warehousing services	July 7, 2017, PRC
Beijing Yuanyi Freight Forwarder Co., Ltd. (北京元翼貨運代理有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in freight forwarding	June 9, 2014, PRC
Liaoning Jingbangda Supply Chain Technology Co., Ltd. (遼寧京邦達供應鏈科技有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in courier and warehousing services	September 22, 2017, PRC
Sichuan Jingbangda Logistics Technology Co., Ltd. (四川京邦達物流科技有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in courier and warehousing services	August 17, 2017, PRC
Hubei Jingbangda Supply Chain Technology Co., Ltd. (湖北京邦達供應鏈科技有限公司)	A subsidiary of Beijing Jingbangda and primarily engages in courier and warehousing services	August 3, 2017, PRC

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of company	Principal business activities	Date and jurisdiction of establishment
Beijing Jinghong Logistics Co., Ltd. (北京京鴻物流有限公司)	An indirect subsidiary of WFOE and primarily engages in logistics services	November 29, 2017, PRC
Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	A subsidiary of Onshore Holdco and primarily engages in technology and consulting services	September 11, 2018, PRC
Jiangsu Jingdong Air Cargo Co., Ltd. (江蘇京東貨運航空有限公司)	An indirect subsidiary of Onshore Holdco and primarily engages in air cargo business	September 26, 2019, PRC
Guangdong Jingdong Xingyou Logistics Co., Ltd. (廣東京東星佑物流有限公司)	An indirect subsidiary of WFOE and primarily engages in logistics services	January 13, 2020, PRC
Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司)	An affiliated consolidated entity of Jingdong Logistics Supply Chain Co., Ltd. and primarily engages in courier services	November 27, 2019, PRC
Suqian Jingdong Tonglian Logistics Co., Ltd. (宿遷京東通聯物流有限公司)	A subsidiary of Onshore Holdco and primarily engages in internet freight transportation	January 11, 2019, PRC

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on January 19, 2012 with an authorized share capital of US\$50,000 divided into 50,000 shares with par value of US\$1.00 each. On the same day, we issued one share of par value US\$1.00 to Offshore Incorporations (Cayman) Limited, which was subsequently transferred to Jingdong Technology Group Corporation.

On February 8, 2018, we first conducted a share subdivision pursuant to which each share in our then issued and unissued share capital was subdivided into 50,000,000 shares with par value of US\$0.001 each, and then increased our share capital by 950,000,000 shares, resulting in the authorized share capital of the Company being US\$1,000,000 divided into 1,000,000,000 shares with a par value of US\$0.001 each. We subsequently issued 45,720,000 ordinary shares with par value of US\$0.001 each to Jingdong Technology Group Corporation on the same day.

On February 9, 2018, we issued 2,380,000 ordinary shares with par value of US\$0.001 each to Jingdong Technology Group Corporation.

On March 7, 2018, we conducted another share subdivision pursuant to which each share in our then issued and unissued share capital was subdivided into 40,000,000,000 shares with par value of US\$0.000025 each.

Between March 7, 2018 to August 24, 2020, we issued in aggregate 1,026,867,347 Series A Preference Shares with par value of US\$0.000025 each as a result of the [REDACTED] financing, further details of which are set out in the section headed “—[REDACTED] Investments” in this section. Please refer to the section headed “—[REDACTED] Investments” in this section for subsequent shareholding changes in connection with completion of the relevant [REDACTED] investments.

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On August 24, 2020, we issued 8,467,879 ordinary shares with par value of US\$0.000025 each to Ocean HHJ Holding Limited.

[REDACTED]

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

[REDACTED]

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

Our acquisition of Kuayue Express

On August 12, 2020, the Company, entered into an agreement through its consolidated affiliated entity to acquire a controlling interest of approximately 55% of the shareholding through purchasing existing shares from independent third parties at the time and subscribing for newly issued shares in Kuayue Express, a renowned modern integrated express transportation enterprise specializing in less-than-truckload (LTL) in China. The total consideration for the acquisition was approximately RMB3 billion (including the 8,467,879 Shares issued to Ocean HHJ Holding Limited on August 24, 2020) in return for a combination of existing shares and subscribing for newly issued shares of Kuayue Express. The acquisition was completed in the third quarter of 2020.

The acquisition of Kuayue Express has enabled our existing freight network to expand further, and we believe the acquisition will strengthen our supply chain solutions and logistics services and increase our customer base particularly in air freight. The consideration for the acquisition was determined based on arm’s length negotiation among the parties. The Directors confirm that the acquisition of Kuayue Express was properly and legally completed.

REORGANIZATION

In preparation for [REDACTED] and in order to streamline our corporate structure, we are in the process of completing the reorganization (the “**Reorganization**”):

1. Incorporation of the Company

The following companies were incorporated in order to establish the Company and its holding company:

- (a) Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on January 19, 2012 with an authorized share capital of US\$50,000 divided into 50,000 shares with par value of US\$1.00 each. On the same day, we issued one share of par value US\$1.00 to Offshore Incorporations (Cayman) Limited, which was subsequently transferred to Jingdong Technology Group Corporation. Upon completion of the Reorganization and [REDACTED], the shareholders of the Company will be Jingdong Technology Group Corporation, Ocean HHJ Holding Limited, the [REDACTED] Investors and [REDACTED] who subscribe for [REDACTED] in [REDACTED], excluding the shares to be issued under the [REDACTED] ESOP.

2. Incorporation of the Company’s Sub-Holding Companies

The following Group companies were incorporated to act as an intermediate holding company and sub-holding companies under the Company to hold its subsidiaries and consolidated affiliated entities:

- (a) JD Logistics Holding Limited (formerly known as Jingdong E-COMMERCE (EXPRESS) HONG KONG CORPORATION LIMITED and 360buy e-Commerce (JingDong) Hong

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Kong Corporation Limited) was incorporated as a limited liability company under the laws of Hong Kong on August 8, 2011 with a share capital of HK\$1,000,000 divided into 1,000,000 shares of HK\$1.00 each. Star Wave Investments Holdings Limited was the sole founding member, and subsequently transferred its interest in JD Logistics Holding Limited to our Company on February 1, 2012.

- (b) The WFOE was established in the PRC as a wholly foreign-owned enterprise on May 18, 2017 with a registered capital of RMB980 million, which was wholly-owned by JD Logistics Holding Limited.
- (c) Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) was established in the PRC as a wholly foreign-owned enterprise on June 17, 2020 with a registered capital of RMB100 million, which was wholly-owned by JD Logistics Holding Limited.

3. Entry into the Contractual Arrangements

We entered into a series of contractual arrangements in relation to the WFOE on June 23, 2017, and also entered into a series of contractual arrangements in relation to Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) on September 30, 2020. Each series of the aforementioned contractual arrangements has been terminated and replaced with the current sets of Contractual Arrangements on January 25, 2021 respectively. Please refer to the section headed “Contractual Arrangements” in this document for further details of the Contractual Arrangements.

4. Incorporation of Major Subsidiaries

Please also refer to the sections headed “—Major Subsidiaries and Operating Entities” in this section and “—Corporate Structure” in this section for details relating the incorporation of the Major Subsidiaries and the corporate structure of the Group after the Reorganization.

5. Transfer of supply chain solutions and logistics services businesses

Prior to the Reorganization, certain of our supply chain solutions and logistics services businesses, including warehousing and distribution services, express and freight delivery services, were operated by JD.com, its subsidiaries and consolidated affiliated entities, and are being transferred to our Group by way of business, share and asset transfer through the following steps:

- (a) On July 27, 2017, the Onshore Holdco (a Consolidated Affiliated Entity of our Company) acquired all the shares of Beijing Jingbangda. Beijing Jingbangda, including its wholly-owned subsidiaries in China, has applied for and obtained the licenses necessary to conduct express delivery services, such as courier service operation permit (快遞業務經營許可證) and road transportation operation permit (道路運輸經營許可證). On June 12, 2017, Xi'an Jingdong Xuncheng Logistics Co., Ltd. (西安京東訊成物流有限公司) was established in the PRC as a wholly-owned subsidiary of the WFOE, and together with its subsidiaries, applied for and obtained licenses related to logistics services business, including road transportation operation permits (道路運輸經營許可證).
- (b) JD Group assigned contracts relating to supply chain solutions and logistics services to our Group, including contracts with express delivery personnel and warehousing, after-sales and maintenance personnel, as well as contracts with customers.

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- (c) A series of intellectual property rights were transferred, in the process of being transferred or will be transferred from JD.com (or its subsidiaries and consolidated affiliated entities) to our Group.

6. Conversion of units in Jingdong E-Commerce (Express) LLC into shares of the Company

Certain members of Jingdong E-Commerce (Express) LLC, a Cayman limited liability company (LLC) will convert their interest in Jingdong E-Commerce (Express) LLC into shares of our Company on a pro-rata basis prior to [REDACTED]. The sponsor of Jingdong E-Commerce (Express) LLC, being Honeysuckle Creek Limited, does not hold economic interests in Jingdong E-Commerce (Express) LLC.

[REDACTED] INVESTMENTS

1. Overview

Between March 7, 2018 and August 12, 2020, our Company and each of the Series A Preference Shareholders (or their respective affiliates) entered into the Series A Share Subscription Agreement (as amended and supplemented from time to time), pursuant to which:

- (a) China Life Trustees Ltd. (中國人壽信託有限公司) agreed to subscribe for a total of 40,000,000 Series A Preference Shares for a consideration of US\$100 million;
- (b) Jungle Parent Limited agreed to subscribe for a total of 40,000,000 Series A Preference Shares for a consideration of US\$100 million;
- (c) Skycus China Fund, L.P. agreed to subscribe for a total of 28,000,000 Series A Preference Shares for a consideration of US\$70 million;
- (d) SCC Growth IV Holdco A, Ltd. agreed to subscribe for a total of 8,000,000 Series A Preference Shares for a consideration of US\$20 million;
- (e) SCC Growth IV 2018-A, L.P. agreed to subscribe for a total of 64,000,000 Series A Preference Shares for a consideration of US\$160 million;
- (f) China Merchants Logistics Synergy Limited Partnership agreed to subscribe for a total of 40,000,000 Series A Preference Shares for a consideration of US\$100 million;
- (g) Image Frame Investment (HK) Limited (意像架構投資(香港)有限公司) agreed to subscribe for a total of 12,000,000 Series A Preference Shares for a consideration of US\$30 million;
- (h) TPP Follow-on I Holding E Limited agreed to subscribe for a total of 12,000,000 Series A Preference Shares for a consideration of US\$30 million;
- (i) Qianshan Logistics L.P. (千山物流基金有限合夥) agreed to subscribe for a total of 20,000,000 Series A Preference Shares for a consideration of US\$50 million;
- (j) Eastar Capital Fund, L.P. agreed to subscribe for a total of 144,000,000 Series A Preference Shares for a consideration of US\$360 million;
- (k) HHJL Holdings Limited agreed to subscribe for a total of 144,000,000 Series A Preference Shares for a consideration of US\$360 million;
- (l) Jingdong E-Commerce (Express) LLC agreed to subscribe for a total of 392,000,000 Series A Preference Shares for a consideration of US\$980 million;

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- (m) Shanghai Hudeyuezheng Enterprise Management Partnership (Limited Partnership) 上海滬德越貞企業管理合夥企業(有限合夥) agreed to subscribe for a total of 40,000,000 Series A Preference Shares for a consideration of US\$100 million;
- (n) EverestTai Capital LLC (永泰資本有限責任公司) agreed to subscribe for a total of 20,000,000 Series A Preference Shares for a consideration of US\$50 million;
- (o) Hidden Hill SPV II agreed to subscribe for a total of 3,658,776 Series A Preference Shares for a consideration of approximately US\$10.2 million;
- (p) CG Partners Opportunity Fund SP2 agreed to subscribe for a total of 19,208,571 Series A Preference Shares for a consideration of approximately US\$53.8 million;

The considerations were determined based on arm’s length negotiations between our Company and the [REDACTED] Investors after taking into consideration the timing of the investments and the status of our business and operating entities. The investments in and the allotment of all the Series A Preference Shares were completed on March 7, 2018 and August 24, 2020.

The table below is a summary of the shareholding structure of our Company as at the date of this document and immediately prior to [REDACTED] (excluding the Shares to be issued under the [REDACTED] ESOP):

Shareholders	Shares ⁽¹⁾	Shareholding in our Company as at the date of this document and immediately prior to [REDACTED] ⁽¹⁾
Jingdong Technology Group Corporation	3,924,000,000	[79.12]%
Ocean HHJ Holding Limited	8,467,879	[0.17]%
China Life Trustees Ltd. (中國人壽信託有限公司) ⁽²⁾	40,000,000	[0.81]%
Jungle Parent Limited	40,000,000	[0.81]%
Skycus China Fund, L.P.	28,000,000	[0.56]%
SCC Growth IV Holdco A. Ltd.	8,000,000	[0.16]%
SCC Growth IV 2018-A, L.P.	64,000,000	[1.29]%
China Merchants Logistics Synergy Limited Partnership	40,000,000	[0.81]%
Image Frame Investment (HK) Limited	12,000,000	[0.24]%
TPP Follow-on I Holding E Limited	12,000,000	[0.24]%
Qianshan Logistics L.P. (千山物流基金有限合夥)	20,000,000	[0.40]%
Eastar Capital Fund L.P.	144,000,000	[2.90]%
HHJL Holdings Limited	144,000,000	[2.90]%
Jingdong E-Commerce (Express) LLC ⁽³⁾	392,000,000	[7.90]%
Shanghai Hudeyuezheng Enterprise Management Partnership (Limited Partnership) (上海滬德越貞企業管理合夥企業(有限合夥))	40,000,000	[0.81]%
EverestTai Capital LLC (永泰資本有限責任公司)	20,000,000	[0.40]%
Hidden Hill SPV II	3,658,776	[0.07]%
CG Partners Opportunity Fund SP2	19,208,571	[0.39]%
TOTAL	4,959,335,226	100%

Notes:

- (1) Under the terms of the [REDACTED] Shareholders’ Agreement, all the Preference Shares will automatically be converted to Shares on a 1:1 basis immediately upon [REDACTED] subject to customary adjustments.
- (2) In its capacity as trustee for CLT-CLI HK BR (Class A) Trust Fund.
- (3) Members of Jingdong E-Commerce (Express) LLC include Vision Toll Limited, Oceanwide Sigma Limited, HESHUN INTERNATIONAL INVESTMENT LIMITED, CMBI Private Equity Series SPC on behalf of Logistics Fund I SP, City High Project Company Limited, WOODBURY CAPITAL MANAGEMENT LIMITED, XINGRUN YITENG LP, Eternity Rich Investments Ltd., Generation Gamma HK Investment Limited, Generation Zeta Investment Fund I, L.P., The Day Limited, BRIGHT EMPIRE OVERSEAS LIMITED, VJD Star Limited, Green Galaxy LLC, SINO GLOW LIMITED, Yun Sheng Capital Cayman, Florie Lane

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Limited, DE Capital Limited, Ruby Path Investments Limited, HS Capital Fund V LP, MAJOR PRIME GROUP LIMITED, Long Lighting Limited, Lonely Planet Limited, EAST GAIN LIMITED, SPEED MOTION GLOBAL LIMITED, Black River Investment Company Limited, FPCI Sino-French (Midcap) Fund, Pengling Chen (陳鵬玲), MT CCBT Capital Fund I, L.P., Eastern Bell X Investment Limited, SPRING BEAUTY LIMITED (泉美有限公司), Success Union Global Limited, CAPITAL CHAMPION HOLDINGS LIMITED, Dan Capital Emei Limited Partnership, Donghe Fund, L.P., CHERRYWOOD (HK) LIMITED, Honeysuckle Creek Limited, Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司), Shanghai Qimin Business Management Limited Partnership (上海頤民企業管理合夥企業(有限合夥)), Haorun Holding Limited, Suzhou Yuanhe Houwang Growth Equity Investment Fund I L.P.(蘇州元禾厚望成長一期股權投資基金合夥企業(有限合夥)), and China Mobile Fund (中移創新產業基金(深圳)合夥企業(有限合夥)). Certain members of Jingdong E-Commerce (Express) LLC will convert their interest in Jingdong E-Commerce (Express) LLC into shares of our Company on a pro-rata basis prior to [REDACTED].

2. Principal terms of the [REDACTED] Investments

The below table summarizes the principal terms of the [REDACTED] Investments:

	Series A Preference Shares Investment (I)	Series A Preference Shares Investment (II)
Cost per share paid by the investors	US\$2.5	US\$2.8
Date on which investment was fully settled ⁽¹⁾	March 7, 2018	August 24, 2020
Discount to [REDACTED] ⁽²⁾	[REDACTED]%	[REDACTED]%
Use of [REDACTED] from the [REDACTED] Investments	The [REDACTED] served the general working capital of our Group and was utilized for the development and operation of the businesses of the members of our Group. As of the Latest Practicable Date, approximately [REDACTED]% of the [REDACTED] from the [REDACTED] Investments by the [REDACTED] Investors were utilized.	
Lock-up	N/A	N/A
Strategic benefits of the [REDACTED] Investors brought to our Company	At the time of the [REDACTED] Investments, our Directors were of the view that our Company could benefit from the [REDACTED] Investors' commitment to our Company as their investment demonstrates its confidence in the operations of our Group and serves as an endorsement of our Company's performance, strength and prospects.	

Notes:

- (1) The investments by the Series A Preference Shareholders were settled between March 7, 2018 and August 24, 2020 and a total of 1,026,867,347 Series A Preference Shares were issued to [REDACTED] Investors on the same day upon the investment being settled.
- (2) Assuming [REDACTED] is fixed at [REDACTED], being the [REDACTED] of the indicative [REDACTED].

3. Rights of the [REDACTED] Investors

In addition to the terms described above, the [REDACTED] Shareholders' Agreement was entered into between our Company, Jingdong Technology Group Corporation and each of the [REDACTED] Investors relating to, inter alia, the operation and management of our Company. Pursuant to the [REDACTED] Shareholders' Agreement, the [REDACTED] Investors were granted certain special rights in relation to our Company. The special rights under the [REDACTED] Shareholders' Agreement will terminate upon [REDACTED] in accordance with the terms of the [REDACTED] Shareholders' Agreement. All Preference Shares will convert to Shares upon [REDACTED] on a 1:1 basis subject to customary adjustments.

[REDACTED]

5. Information on the [REDACTED] Investors

Set out below are descriptions of certain of the [REDACTED] Investors.

Skycus China Fund, L.P. is a limited partnership established in the Cayman Islands. Skycus China Fund, L.P. is managed by its general partner, Skycus Asset Management Limited. No ultimate

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

beneficial owner of any limited partner or general partner holds more than 30% equity of Skycus China Fund, L.P.. Skycus China Fund, L.P. focuses on investment opportunities being created in emerging industries driven by innovations, and traditional industries being transformed and upgraded. Skycus China Fund, L.P. intends to primarily invest in strategic emerging industries (including TMT, culture, sports and healthcare industries), covering growth-stage and mature-stage portfolios, and in leading enterprises with a vision to collectively lead or participate in depth in the integration and expansion of industry value chain.

Jungle Parent Limited is a limited liability company incorporated in the Cayman Islands. Jungle Parent Limited is a special purpose vehicle wholly-owned by Carlyle Asia Partners IV, L.P. and CAP IV Coinvestment, L.P. (collectively, the “**Funds**”). The Funds, by and through its controlled affiliates, including their respective general partners, are ultimately controlled (directly or indirectly) by The Carlyle Group, Inc., a public entity listed on NASDAQ (NASDAQ: CG).

Qianshan Logistics L.P. (千山物流基金有限合夥) is a limited partnership established in the Cayman Islands with more than US\$53 million in assets under management. Qianshan Logistics L.P. (千山物流基金有限合夥) is managed by its general partner, Qianshan Capital (Cayman) Fund Management Co., Ltd., a Cayman limited company, which is 20% owned by Qianshan Capital (Cayman) Holding Co., Ltd. and 80% owned by Mr. Wang Cheng. Qianshan Capital (Cayman) Holding Co., Ltd. is wholly-owned by Mr. Wang Cheng. Qianshan Capital (Cayman) Fund Management Co., Ltd., focuses on venture capital investments in technology, media and the logistics industry.

China Life Trustees Limited (中國人壽信託有限公司) is a trustee for CLT-CLI HK BR (Class A) Trust Fund. CLT-CLI HK BR (Class A) Trust Fund is a fund owned by China Life Insurance (Overseas) Company Limited, a limited liability company incorporated in the PRC. China Life Insurance (Overseas) Company Limited is wholly-owned by China Life Insurance (Group) Company. China Life Insurance (Group) Company’s major businesses include insurance services, holding or investing in domestic and overseas insurance companies or other financial insurance institutions, funds application business permitted by national laws and regulations or approved by the State Council of PRC and all other businesses approved by banking and insurance regulatory agencies.

EverestTai Capital LLC (永泰資本有限責任公司) is a limited company incorporated in the Cayman Islands. EverestTai Capital LLC (永泰資本有限責任公司) is a special purpose vehicle, which is wholly-owned by Hanjiang Investment Ltd. (漢江投資有限公司) and managed by Yulonghe Capital Management Ltd. (玉龍河資本管理有限公司) Both Hanjiang Investment Ltd. (漢江投資有限公司) and Yulonghe Capital Management Ltd. (玉龍河資本管理有限公司) are wholly-owned by EverestLu Holding Limited (永祿控股有限公司). EverestLu Holding Limited (永祿控股有限公司) is an investment holding company incorporated in Hong Kong and wholly-owned by China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) (“**China Structural Reform Fund**”). China Structural Reform Fund is a company incorporated in the PRC and ultimately indirectly controlled by the State-owned Assets Supervision and Administration Commission of the State Council. It is mainly engaged in businesses including private funds, equity investment, project investment, capital management, investment consulting and enterprise management consulting.

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Eastar Capital Fund L.P. is a private equity fund registered in the Cayman Islands with more than US\$500 million in assets under management. Eastar Capital Fund L.P. focuses on investment opportunities in the logistics sector. Eastar Capital Fund L.P. is controlled by its general partner, Eastar Capital Management Ltd., a Cayman Islands exempted company. Eastar Capital Management Ltd. is controlled by Eastar Holdings Ltd., which is in turn controlled by Mr. Shilin Shi.

CG Partners Opportunity Fund SP2 is a segregated portfolio of CG Partners Fund SPC, which is a segregated portfolio company incorporated with limited liability under the laws of the Cayman Islands.

Image Frame Investment (HK) Limited is a limited liability company incorporated in Hong Kong. TPP Follow-on I Holding E Limited is a limited liability company incorporated in the Cayman Islands. Both Image Frame Investment (HK) Limited and TPP Follow-on I Holding E Limited are ultimately controlled by Tencent Holdings Limited (“**Tencent Holdings**”), a company listed on the Main Board of the Stock Exchange (HKEX: 700). Tencent Holdings is a leading provider of Internet value-added services in China, including communications and social, digital content, advertising, fintech and cloud services.

China Merchants Logistics Synergy Limited Partnership is a limited partnership established in the Cayman Islands. China Merchants Logistics Synergy Limited Partnership is managed by both its general partners, CMS Capital Fund Management Co. Limited and China Merchants Venture Capital GP (International) Limited. Besides its limited partner China Merchants Venture Capital Fund L.P., which owns 30% equity interest, no ultimate beneficial owner of any limited partner or general partner holds more than 30% equity of China Merchants Logistics Synergy Limited Partnership. China Merchants Logistics Synergy Limited Partnership, focuses on venture capital investments in the logistics industry.

Hidden Hill SPV II is a limited company incorporated in the Cayman Islands. Hidden Hill SPV II is a special purpose vehicle wholly-owned by Hidden Hill Fund I, L.P. Hidden Hill Fund I, L.P. is a private equity fund registered in the Cayman Islands with more than US\$300 million in assets under its management and is controlled by its general partner, Hidden Hill Investment Consulting Limited. Hidden Hill Investment Consulting Limited is wholly-owned by GLP China Investment Holdings Limited, which is in turn wholly-owned by GLP China Holdings Limited. GLP China Holdings Limited is approximately 66.21% owned by CLH Limited with no other beneficial owner holding more than 30% equity. CLH Limited is wholly-owned by GLP Pte. Limited.

Shanghai Hudeyuezhen Enterprise Management Partnership (Limited Partnership) (上海滬德越貞企業管理合夥企業(有限合夥)) is a limited partnership incorporated in the PRC. Its general partner is Kaiyuan Guochuang Capital Management Co., Ltd. (開元國創資本管理有限公司). Kaiyuan Guochuang Capital Management Co., Ltd. (開元國創資本管理有限公司) is 45% owned by Guokai Kaiyuan Equity Investment Fund Management Co., Ltd. (國開開元股權投資基金管理有限公司) and 55% owned by Suzhou Yipu Equity Investment Fund Management Co., Ltd (蘇州翼樸股權投資基金管理有限公司).

SCC Growth IV Holdco A. Ltd. is an exempted company with limited liability incorporated in the Cayman Islands. SCC Growth IV Holdco A. Ltd. is wholly-owned by Sequoia Capital China Growth Fund IV, L.P. SCC Growth IV 2018-A, L.P. is an exempted limited partnership established in the Cayman Islands. Sequoia Capital Growth Fund IV, L.P. and SCC Growth IV 2018-A, L.P. are investment funds whose primary purpose is to make equity investments in private companies.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

HHJL Holdings Limited is a company limited by shares formed under the laws of the British Virgin Islands. Hillhouse Capital Manager, Ltd. (“Hillhouse Capital”) serves as the sole investment manager of HHJL Holdings Limited.

Founded in 2005, Hillhouse Capital is a global firm of investment professionals and operating executives who are focused on building and investing in high quality business franchises that achieve sustainable growth. Independent proprietary research and industry expertise, in conjunction with world-class operating and management capabilities, are key to Hillhouse Capital’s investment approach. Hillhouse Capital partners with exceptional entrepreneurs and management teams to create value, often with a focus on enacting innovation and technological transformation. Hillhouse Capital invests in the healthcare, consumer, TMT, advanced manufacturing, financial and business services sectors in companies across all equity stages. Hillhouse Capital and its group members manage assets on behalf of global institutional clients.

6. Compliance with Interim Guidance

On the basis that (i) the consideration for the [REDACTED] Investments was settled more than 28 clear days before the date of our first submission of [REDACTED], to [REDACTED] Division of the Stock Exchange in relation to [REDACTED] and (ii) the special rights granted to the [REDACTED] Investors and shareholders of our Company will terminate upon [REDACTED], the Joint Sponsors has confirmed that the [REDACTED] Investments are in compliance with the Guidance Letter HKEx-GL29-12 issued by the Stock Exchange in January 2012 and as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

Corporate structure after Reorganization and before [REDACTED]

JD.com, Inc. (Cayman)

100%

JD.com Investment Limited (BVI)

100%

Honeystock Creek Limited (BVI)

100%

Members of Jingdong E-Commerce (Express) LLC⁽¹⁾

100%

Shanghai Hudeyazhen Enterprise Management Partnership (Limited)

100%

Qianshan Logistics (HK) Limited (聯合)

0.24%

Image France Investment Limited

0.24%

China Merchants Logistics Partnership

0.81%

SCC Growth IV 2018-A L.P.

0.16%

SCC Growth IV Holdco A Ltd.

0.56%

Styous China Fund, L.P.

0.81%

Jungle Parent Limited

0.81%

China Life Trustees Ltd. (中國生命保險有限公司)

0.17%

Ocean HHI Holding Limited (Ocean Group Co., Ltd. (Cayman))

79.12%

Jingdong Technology Group Co., Ltd. (Cayman)

100%

Everest Capital LLC (上海匯豐資本管理合夥企業)

0.40%

Hidden Capital LLC (香港資本管理合夥企業)

0.07%

CG Partners Opportunity Fund SF2

0.39%

JD Logistics, Inc. (Cayman)

100%

JD Logistics Holding Limited

100%

Other JD Logistics Holding Subsidiaries⁽¹⁾

100%

Other JD Logistics Holding Subsidiaries⁽¹⁾

100%

Xi'an Jingdong Xuebang Information Technology Co., Ltd. ("Onshore Holder")

100%

Xi'an Jingdong Xuebang Information Technology Co., Ltd. ("WFOE")

100%

Jingdong Logistics Supply Chain Co., Ltd.

100%

Guangdong Jingxi Logistics Technology Co., Ltd.

100%

Suqian Jingdong Tuohong Enterprise Management Co., Ltd.

100%

Guangdong Jingxi Logistics Technology Co., Ltd.

100%

Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd.

100%

Other Guangdong Hongbang Tuoxian Subsidiaries⁽¹⁾

100%

Beijing Jingbanga Trade Co., Ltd. ("Beijing Jingbanga")

100%

Other Beijing Jingbanga Subsidiaries⁽²⁾

100%

Sichuan Jingbanga Logistics Technology Co., Ltd.

100%

Hubei Jingbanga Supply Chain Technology Co., Ltd.

100%

Beijing Jingamendi Technology Co., Ltd.

100%

Guangdong Jingbanga Supply Chain Technology Co., Ltd.

100%

Shanghai Xunzhan Supply Chain Technology Co., Ltd.

100%

Beijing Yuanqi Freight Forwarder Co., Ltd.

100%

Shaan Xi Jingdong Xiecheng Supply Chain Technology Co., Ltd.

100%

Liaoning Jingbanga Supply Chain Technology Co., Ltd.

100%

Jiangsu Jingdong Cargo Airlines Co., Ltd.

75%

Kuayue Group Express Co., Ltd.

55.020%

Other WFOE Subsidiaries⁽¹⁾

100%

Xi'an Jingdong Xuebang Logistics Co., Ltd.

100%

Beijing Jingbanga Logistics Co., Ltd.

100%

Guangdong Jingbanga Logistics Co., Ltd.

100%

Equity interest

Contractual arrangements

(1) Honeysuckle Creek Limited is the sponsor of Jingdong E-Commerce (Express) LLC, the members of which (holding all the economic interests) include:

- (a) Vision Toll Limited;
- (b) Oceanwide Sigma Limited;
- (c) HESHUN INTERNATIONAL INVESTMENT LIMITED;

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- (d) CMBI Private Equity Series SPC on behalf of Logistics Fund I SP;
(e) City High Project Company Limited;
(f) WOODBURY CAPITAL MANAGEMENT LIMITED;
(g) XINGRUN YITENG LP;
(h) Eternity Rich Investments Ltd.;
(i) Generation Gamma HK Investment Limited;
(j) Generation Zeta Investment Fund I, L.P.;
(k) The Day Limited;
(l) BRIGHT EMPIRE OVERSEAS LIMITED;
(m) VJD Star Limited;
(n) Green Galaxy LLC;
(o) SINO GLOW LIMITED;
(p) Yun Sheng Capital Cayman;
(q) Florie Lane Limited;
(r) DE Capital Limited;
(s) RUBY PATH INVESTMENTS LIMITED;
(t) HS Capital Fund V LP;
(u) MAJOR PRIME GROUP LIMITED;
(v) Long Lighting Limited;
(w) Lonely Planet Limited;
(x) EAST GAIN LIMITED;
(y) SPEED MOTION GLOBAL LIMITED;
(z) Black River Investment Company Limited;
(aa) FPCI Sino-French (Midcap) Fund;
(bb) Pengling Chen (陳鵬玲);
(cc) MT CCBT Capital Fund I, L.P.;
(dd) Eastern Bell X Investment Limited;
(ee) SPRING BEAUTY LIMITED (泉美有限公司);
(ff) SUCCESS UNION GLOBAL LIMITED;
(gg) CAPITAL CHAMPION HOLDINGS LIMITED;
(hh) Dan Capital Emei Limited Partnership;
(ii) Donghe Fund, L.P.;
(ji) CHERRYWOOD (HK) LIMITED;
(kk) Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司);
(ll) Shanghai Qimin Business Management Limited Partnership 上海頤民企業管理合夥企業(有限合伙);
(mm) Haorun Holding Limited;
(nn) Suzhou Yuanhe Houwang Growth Equity Investment Fund I L.P. (蘇州元禾厚望成長一期股權投資基金合夥企業(有限合伙)); and
(oo) China Mobile Fund (中移動新實業基金(深圳)合夥企業(有限合伙))
- (2) Other Beijing Jingbangda Subsidiaries include the following direct wholly-owned subsidiaries of Beijing Jingbangda, all incorporated in the PRC:
- (a) Tianjin Jingbangda Supply Chain Technology Co., Ltd.;
(b) Hebei Jingdong Xincheng Supply Chain Technology Co., Ltd.;
(c) Anhui Jingbangda Supply Chain Technology Co., Ltd.;
(d) Fujian Jingbangda Supply Chain Technology Co., Ltd.;
(e) Guizhou Jingbangda Supply Chain Technology Co., Ltd.;
(f) Hunan Jingbangda Supply Chain Technology Co., Ltd.;

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- (g) Henan Jingbangda Supply Chain Co., Ltd.;
- (h) Jiangxi Jingbangda Supply Chain Management Co., Ltd.;
- (i) Chongqing Jingbangda Logistics Co., Ltd.;
- (j) Yunnan Jingbangda Logistics Technology Co., Ltd.;
- (k) Xizang Jingbangda Logistics Technology Co., Ltd.;
- (l) Shandong Jingdong Kuaixing Supply Chain Technology Co., Ltd.;
- (m) Zhejiang Jinghong Supply Chain Management Co., Ltd.;
- (n) Shanxi Jingbangda Supply Chain Technology Co., Ltd.;
- (o) Heilongjiang Jingbangda Supply Chain Technology Co., Ltd.;
- (p) Inner Mongolia Jingxundi Supply Chain Technology Co., Ltd.;
- (q) Jilin Jingbangda Supply Chain Technology Co., Ltd.;
- (r) Jiangsu Jingxundi Supply Chain Management Co., Ltd.;
- (s) Ningbo Jinghong Supply Chain Management Co., Ltd.;
- (t) Inner Mongolia Jingbangda Supply Chain Technology Co., Ltd.;
- (u) Hainan Jingbangda Supply Chain Technology Co., Ltd.;
- (v) Shenzhen Jingbangda Supply Chain Technology Co., Ltd.;
- (w) Guangxi Jingdong Xincheng Supply Chain Technology Co., Ltd.;
- (x) Gansu Jingbangda Supply Chain Technology Co., Ltd.;
- (y) Xinjiang Jingbangda Supply Chain Technology Co., Ltd.;
- (z) Fuzhou Jingbangda Supply Chain Technology Co., Ltd.;
- (aa) Qinghai Jingbangda Logistics Technology Co., Ltd.;
- (bb) Ningxia Jingbangda Supply Chain Technology Co., Ltd.;
- (cc) Dalian Jingxundi Supply Chain Technology Co., Ltd.;
- (dd) Qingdao Jingbangda Supply Chain Technology Co., Ltd.;
- (ee) Xi'an Yuanyi Freight Forwarding Co., Ltd.;
- (ff) Chengdu Puge Freight Forwarding Co., Ltd.;
- (gg) Xiongan Jingbangda Supply Chain Technology Co., Ltd.
- (hh) Suqian Jingdong Aosheng Enterprise Management Co., Ltd., which is 49.83% owned by Beijing Jingbangda, 49.83% owned by Jiangsu Jingdong Xuke Information Technology Co., Ltd. and 0.33% owned by WFOE, and
 - (ii) Jiangsu Jingdong Jinke Information Technology Co., Ltd.
- (3) Other Offshore Subsidiaries include the following direct and indirect subsidiaries of our Company:
 - (a) Jingdong Express Investment (Singapore) Pte. Ltd., our wholly-owned subsidiary;
 - (b) Jingdong Express international limited (BVI), our wholly-owned subsidiary;
 - (c) Jingdong Express international (Hong Kong) limited, our wholly-owned subsidiary;
 - (d) JD Amaranine Investment Limited (BVI), wholly-owned by Jingdong Express international limited (BVI);
 - (e) JD Amaranine Investment Limited (Hong Kong), wholly-owned by Jingdong Express international (Hong Kong) limited;
 - (f) JD LOGISTICS VIETNAM COMPANY LIMITED, wholly-owned by Jingdong Express Investment (Singapore) Pte. Ltd.;
 - (g) Jingdong Logistics (Netherlands) Holding B.V., wholly-owned by Jingdong Express Investment (Singapore) Pte. Ltd.;
 - (h) Jingdong Logistics (Netherlands) B.V., wholly-owned by Jingdong Express Investment (Singapore) Pte. Ltd.;
 - (i) Jingdong Logistics (Singapore) Pte. Ltd., wholly-owned by Jingdong Express Investment (Singapore) Pte. Ltd.;
 - (j) JD Express Investment I (Hong Kong) Limited, wholly-owned by Jingdong Express Investment (Singapore) Pte. Ltd.;
 - (k) Jingdong Logistics Malaysia Sdn. Bhd., wholly-owned by Jingdong Express Investment (Singapore) Pte. Ltd.;
 - (l) JD Logistics United States Company, wholly-owned by Jingdong Express Investment (Singapore) Pte. Ltd.;
 - (m) Jingdong Logistics Co., Ltd., which is 99.998% owned by Jingdong Express Investment (Singapore) Pte. Ltd. and 0.001% owned by JD Amaranine Investment Limited (Hong Kong);
 - (n) JINGDONG DEVELOPMENT DEUTSCHLAND GmbH;

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- (o) JINGDONG RETAIL (NETHERLANDS) B.V.;
- (p) Jingdong Logistics Investment (Hong Kong) Limited;
- (q) Jingdong Logistics Investment Inc.;
- (r) JD Health Express Development Limited; and
- (s) JD Health Express Development (HK) Limited, which is wholly-owned by JD Health Express Development Limited. JD Health Express Development (HK) Limited also wholly-owns a number of PRC incorporated subsidiaries including:
- a. Jiangsu Jingdong Jianhe Medical Supply Chain Management Co., Ltd.
 - b. Jiangsu Jingdong Medical Supply Chain Management Co., Ltd.
 - c. Guangdong Jingdong Yunjian Medical Supply Chain Co., Ltd.
 - d. Jiangsu Jingdong Medical Supply Chain Co., Ltd.
 - e. Anhui Duijing Yunkang Medical Co., Ltd.
 - f. Shaanxi Jingdong Medical Supply Chain Management Co., Ltd.
 - g. Hubei Jingdong Medical Supply Chain Co., Ltd.
 - h. Sichuan Jingdong Medical Supply Chain Co., Ltd.
- (4) Other Onshore Holdco Subsidiaries include the following direct and indirect wholly-owned subsidiaries of the Onshore Holdco, all incorporated in the PRC:
- (a) Suqian Jingdong Zhiding Enterprise Management Co., Ltd.;
 - (b) Suqian Jingdong Jixuan Trade Co., Ltd.;
 - (c) Beijing Jingdong Tianhong Technology Co., Ltd.;
 - (d) Rongchengxian Jingdong Cloud Technology Trade Co., Ltd.;
 - (e) Tianjin Jingdong Shentuo Robot Technology Co., Ltd.;
 - (f) Xi'an Jingdong Tianhong Technology Co., Ltd.;
 - (g) Jiangsu Jingdong Feiteng Technology Co., Ltd.;
 - (h) Xiongan Jingdong Xiongying Technology Co., Ltd.;
 - (i) Changsha Jingdong Technology Co., Ltd.;
 - (j) Sichuan Jingdong Feiyu Technology Co., Ltd.;
 - (k) Suqian Jingdong Zhenyue Enterprise Management Co., Ltd., a wholly-owned subsidiary of Suqian Jingdong Zhanrui Enterprise Management Co., Ltd.;
 - (l) Tianjin Huihe Capital Management Co., Ltd.;
 - (m) Tianjin Huihe Haihe Investment Management Partnership (Limited Partnership), which is 5% owned by Tianjin Huihe Capital Management Co., Ltd. and 63.75% owned by Suqian Jingdong Zhanrui Enterprise Management Co., Ltd.;
 - (n) Tianjin Huihe Haihe Intelligent Logistics Enterprise Fund Partnership (Limited Partnership), which is 1% owned by Tianjin Huihe Haihe Investment Management Partnership (Limited Partnership) and 50.25% owned by Suqian Jingdong Zhenyue Enterprise Management Co., Ltd.;
 - (o) Xiongan Jingdong Zhenzhi Cloud Technology Services Co., Ltd.;
 - (p) Suqian Jingdong Dewei Enterprise Management Co., Ltd.;
 - (q) Suqian Jingdong Yueguan Enterprise Management Co., Ltd.
 - (r) Jingdong Kunpeng (Jiangsu) Technology Co., Ltd.
 - (s) Jingdong Xingchen Leasing (Tianjin) Co., Ltd.
 - (t) Jingdong Xingchen No.1 Leasing (Tianjin) Co., Ltd.
 - (u) Jingdong Xingchen No.2 Leasing (Tianjin) Co., Ltd.
- (5) Other WFOE Subsidiaries include the following direct and indirect wholly-owned subsidiaries of the WFOE, all incorporated in the PRC:
- (a) Beijing Jingdong Zhenzhi Information Technology Co., Ltd.;
 - (b) Guangxi Jingdong Shangyou Media Co., Ltd.;
 - (c) Qingdao Qianqing Information Technology Co., Ltd.;
 - (d) Jingxiaofu Technology Services Co., Ltd.;
 - (e) Gansu Xunzan Trade Co., Ltd.;
 - (f) Suqian Jingdong Keyue Enterprise Management Co., Ltd.;

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- (g) Shanghai Yixiang Logistics Facilities Technology Co., Ltd.;
- (h) Suqian Jingdong Hengrui Enterprise Management Co., Ltd.;
- (i) Suqian Shengxiang Enterprise Management Co., Ltd.;
- (j) Suqian Jingdong Xinsheng Enterprise Management Co., Ltd.;
- (k) Zhongjing Supply Chain Technology Co., Ltd.;
- (l) Beijing Wuzhou Jitong Supply Chain Management Co., Ltd.;

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- (m) Guangzhou Qianrui Supply Chain Management Co., Ltd.;
- (n) Guangzhou Jingdong Qiantu Supply Chain Management Co., Ltd.;
- (o) Shanghai Haolian Supply Chain Management Co., Ltd.;
- (p) Zhengzhou Haorui Supply Chain Management Co., Ltd.;
- (q) Shanghai Jianhe Trade Co., Ltd.; and
- (r) Jiujiang Energy (Dalian) Co., Ltd.
- (6) Other JD Logistics Holding Limited Subsidiaries includes the following direct wholly-owned subsidiary of the Offshore Holdco, which is incorporated in the PRC:
- (a) Sanya Jingdong Huanhai Supply Chain Technology Co., Ltd.
- (7) Other Guangdong Hongbang Tuoxian subsidiaries include the following subsidiaries of our Company:
- (a) Anhui Hongbang Tuoxian Logistics Co., Ltd.;
- (b) Sichuan Hongbang Tuoxian Logistics Technology Co., Ltd.;
- (c) Hunan Jingxi Logistics Technology Co., Ltd.;
- (d) Shanghai Zhongyou Logistics Technology Co., Ltd.;
- (e) Zhejiang Zhongyou Logistics Technology Co., Ltd.;
- (f) Jiangsu Zhongyou Logistics Technology Co., Ltd.;
- (g) Fujian Zhongyou Logistics Technology Co., Ltd.;
- (h) Beijing Zhongyou Logistics Technology Co., Ltd.;
- (i) Hunan Zhongyou Logistics Technology Co., Ltd.;
- (j) Chongqing Zhongyou Logistics Technology Co., Ltd.;
- (k) Shanxi Zhongyou Supply Chain Management Services Co., Ltd.;
- (l) Inner Mongolia Zhongyou Logistics Technology Co., Ltd.;
- (m) Shandong Tuoxian Logistics Co., Ltd.;
- (n) Hebei Tuoxian Logistics Co., Ltd.;
- (o) Tianjin Zhongyou Logistics Technology Co., Ltd.
- (p) Hubei Zhongyou Logistics Technology Co., Ltd.;
- (q) Henan Hongbang Tuoxian Logistics Co., Ltd.;
- (r) Jiangxi Hongbang Tuoxian Logistics Technology Co., Ltd.;
- (s) Guizhou Zhongyou Logistics Co., Ltd.;
- (t) Yunnan Zhongyou Logistics Technology Co., Ltd.;
- (u) Hainan Zhongyou Logistics Technology Co., Ltd.;
- (v) Guangxi Zhongyou Logistics Co., Ltd.;
- (w) Fujian Jingxitong Logistics Co., Ltd.;
- (x) Zhejiang Jingxi Supply Chain Technology Co., Ltd.;
- (y) Tianjing Jingxi Logistics Technology Co., Ltd.;
- (z) Shandong Jingxi Logistics Technology Co., ;
- (aa) Jiangxi Jingxi Logistics Technology Co., Ltd.;
- (bb) Guangxi Jingxi Supply Chain Co., Ltd.;
- (cc) Hainan Jingxi Logistics Co., Ltd.;
- (dd) Tibet Jingxi Supply Chain Management Co., Ltd.;
- (ee) Henan Jingxi Supply Chain Management Co., Ltd.;
- (ff) Qinghai Jingxi Supply Chain Co., Ltd.;
- (gg) Hubei Jingxi Supply Chain Technology Co., Ltd.;
- (hh) Sichuan Jingxi Logistics Co., Ltd.;
- (ii) Lanzhou Jingxi Supply Chain Technology Co., Ltd.;
- (jj) Heilongjiang Jingxi Logistics Technology Co., Ltd.;
- (kk) Yunnan Jingxi Logistics Technology Co., Ltd.;

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- (ll) Inner Mongolia Jingxi Supply Chain Management Co., Ltd.;
- (mm) Beijing Jingxi Express Delivery Co., Ltd.;
- (nn) Chongqing Jingxi Logistics Technology Co., Ltd.;
- (oo) Ningxia Jingxi Express Delivery Co., Ltd.;
- (pp) Shanxi Jingxi Express Delivery Technology Co., Ltd.;
- (qq) Jilin Jingxi Logistics Technology Co., Ltd.;
- (rr) Shaanxi Jingxi Express Co., Ltd.; and
- (ss) Liaoning Zhongyou Logistics Technology Co., Ltd.

The following chart depicts the shareholding and beneficial ownership structure of our Group immediately following the completion of the [REDACTED], assuming that [REDACTED] is not exercised and excluding the shares to be issued under the [REDACTED] ESOP:



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SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular 37**”), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular 13**”), promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Advisors, Mr. Richard Qiangdong Liu (劉強東) completed the required registration with the SAFE on July 2, 2014.

BUSINESS

Our Vision

To become the world’s most trusted supply chain solutions and logistics services provider.

Our Mission

To drive superior efficiency and sustainability for global supply chain through technology.

Overview of Our Business

We are the leading technology-driven supply chain solutions and logistics services provider in China. We offer a full spectrum of supply chain solutions and high-quality logistics services enabled by technology, ranging from warehousing to distribution, spanning across manufacturing to end-customers, covering regular and specialized items. According to the CIC Report, we are the largest player in China’s integrated supply chain logistics services market in terms of total revenue in 2019.

Our value proposition is to empower our customers’ supply chains and substantially improve their operational efficiencies, which in turn enhance their own customer experience and stickiness. We help our customers reduce redundant distribution layers, improve the agility of their supply chains, and optimize inventory management. Our solutions are powered by our proprietary technology, industry know-how and insights of product merchandizing. In 2020, we served more than 190,000 corporate customers across a wide array of industries, such as fast moving consumer goods (FMCG), apparel, home appliances, home furniture, 3C, automotive and fresh produce, among others.

Our journey began with the establishment of JD Group’s in-house logistics department in 2007, and we have been continually building our logistics infrastructure, technologies, as well as operational and industry know-hows for over a decade. With the fundamental approaches of minimizing the number of transits and shortening the distance between merchandises and consumers, we believe we have revolutionized and led the upgrade of the supply chains of the e-commerce industry in China. Through this process, we have built up our nationwide and strategically-located logistics infrastructure and technology platform from ground up, redefined the industry standards for service quality, and accumulated deep know-hows in key industry verticals. We have then opened up our solutions and services to external customers since 2017 with the goal of empowering their supply chains.

We believe China’s rapid digitalization of the economy has created increasingly multi-faceted customer demands. Such demands are currently serviced by a fragmented group of incumbent logistics players and are severely underserved, which present significant opportunities for supply chain solutions and logistics services providers like us. According to the CIC Report, the market size of the integrated supply chain logistics services industry is expected to grow from RMB2,023 billion in 2020 to RMB3,185 billion by 2025, representing a CAGR of 9.5%, which is approximately 1.8 times the growth of China’s logistics spending over the same period. Currently, the integrated supply chain logistics services industry in China is highly fragmented, with the top ten players only accounting for 7.9% of the market in terms of revenue in 2019.

Supply chain technology is the bedrock of our operations and differentiates us from our competitors. We leverage fundamental technologies such as 5G, AI, big data, cloud computing and IoT to continuously improve our capabilities in automation, digitalization, and intelligentization. We use advanced unmanned technologies and robotics, such as automated guided vehicles (AGVs),

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autonomous mobile robots (AMRs) and sorting robots, self-driving vehicles, among others, to deliver critical improvements in speed, accuracy and productivity in all key logistical operations including warehousing, transportation, sorting and delivery. As of September 30, 2020, we operated 28 Asia No. 1 smart mega warehouses covering 18 cities in China, including a fully unmanned warehouse located in Shanghai, which can process more than 1.3 million orders per day during peak seasons. Our proprietary warehouse management system (WMS), transportation management system (TMS) and order management system (OMS) support the digitalization of our customers’ supply chains, and are coordinated and synchronized by our intelligent algorithms to enable centralized decision making in areas such as sales forecasting, merchandise distribution planning and supply chain network optimization.

We have established six highly synergized logistics networks which are extensive, flexible and digitally integrated, providing us with strong competitive advantages in delivering compelling customer experience and serving as an effective entry barrier against our competitors. These six logistics networks are our warehouse network, line-haul transportation network, last-mile delivery network, bulky item logistics network, cold-chain logistics network and cross-border logistics network. Our logistics networks cover almost all districts and counties in China as well as China’s total population. As of September 30, 2020, we operated over 800 warehouses, which covered an aggregate gross floor area of approximately 20 million square meters, including warehouse space managed under our Open Warehouse Platform. As of December 31, 2020, we had a team of over 190,000 delivery personnel and also connect with an extensive crowd-sourced on-demand delivery network.

While we control and operate our mission-critical logistics infrastructure to deliver high-quality services and best-in-class customer experiences, we embrace synergistic collaborations in building our supply chain network in order to bring together the complementary capabilities of various industry participants and strategic partners in China and globally. As an example, utilizing our Open Warehouse Platform, we can improve the operating efficiencies of our customers’ warehouses through implementation of our advanced warehouse management systems. Furthermore, we also utilize capacity from these warehouses to further expand the reach of our warehouse network. As part of our global strategy, we are also continually building our international supply chain network, which covered more than 220 countries and regions as of December 31, 2020.

We have achieved rapid growth during the Track Record Period. Our revenue grew by 31.6% from RMB37.9 billion in 2018 to RMB49.8 billion in 2019, and grew by 43.2% from RMB34.6 billion in the nine months ending September 30, 2019 to RMB49.5 billion in the same period in 2020. We incurred net losses of RMB2.8 billion, RMB2.2 billion and RMB11.7 million in 2018, 2019 and for the nine months ended September 30, 2020, respectively.

Our Strengths

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

Largest integrated supply chain logistics services provider

According to the CIC Report, we are the largest integrated supply chain logistics services provider in China in terms of revenue in 2019. We believe our supply chain solutions and logistics services, with full digitalization and end-to-end coverage, are more deeply

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integrated than those offered by traditional logistics service providers. We are also able to adapt our solutions and services to different industry verticals by leveraging our industry expertise and know-hows.

Our technology-driven integrated solutions and services allow us to attract new customers as well as further penetrate existing customers. Our revenue grew by 31.6% from RMB37.9 billion in 2018 to RMB49.8 billion in 2019, and by 43.2% from RMB34.6 billion in the nine months ended September 30, 2019 to RMB49.5 billion in the nine months ended September 30, 2020. We have successfully expanded our external integrated supply chain customer base during the Track Record Period, which increased from 32,465 as of December 31, 2018 to 46,083 as of September 30, 2020. In addition, as a result of our deepening relationship with and increasing scope of services to existing customers, the average revenue per external integrated supply chain customer increased by 13.2% from RMB213,538 in the nine months ended September 30, 2019 to RMB241,622 in the nine months ended September 30, 2020.

Strong operational efficiency driving high service quality

We have been constantly improving our operational efficiency through optimization of our logistics networks and adoption of advanced technologies. We bring tangible improvements to our customers’ supply chain operations in terms of, for example, improved warehouse efficiency, faster inventory turnover, reduced delivery time and higher fulfillment accuracy, while simultaneously facilitating their business growth through our sales forecasting and other intelligent decision-making capabilities.

Starting from 2012, we helped JD Group maintain its trailing twelve months inventory turnover days consistently below 40 days despite the significant increase in the number of SKUs. We have also reduced JD Group’s fulfillment expenses ratio from 7.2% in 2016 to 6.5% in the nine months ending September 30, 2020. We were the industry pioneer in rolling out same- and next-day delivery standards by supporting JD Group’s “211” program, allowing customers of JD Group to receive their parcels on the same day if order was placed before 11 a.m. on that day, or by 3 p.m. on the next day if the order was placed before 11 p.m. the prior day. In 2020, approximately 90% of the total online retail orders processed for JD Group through our network were delivered on the same day or the day after the order was placed, with over 60% of the total online retail orders covered by the 211 program.

As a testament to our capability of empowering external customers, we helped Skechers, a performance and lifestyle brand, to optimize its warehousing network planning and inter-regional merchandise distribution for its e-commerce business. We achieved this by (i) redesigning Skechers’ warehousing arrangements based on analysis of consumer demands and sales data, in order to form an integrated combination of a central warehouse and omni-channel regional warehouses, as compared to its original arrangement of independent warehouses for each merchandise category; (ii) utilizing our inventory forecast tools to optimize its allocation of merchandise among warehouses based on product and demand characteristics; and (iii) launching and operating Skechers’ regional warehouses and quick response warehouses, which efficiently supported the logistics services demands of its omni-channel business. As a result of our holistic planning and execution solutions, Skechers’ weighted average fulfillment costs were reduced by 11%, and its weighted average delivery time in China was reduced by approximately 5 hours during the contract term of our service.

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Superior brand image and customer experience

“Customer-first” is our core value. Through years of consistent high quality services, not only have we established JD Logistics as a premium brand name, we have also provided consumers with superior experience and engagement, which in turn helped improve our customers’ brand images. Our superior brand image also allowed us to scale up rapidly after opening up our solutions and services to external customers. Revenue contribution from external customers as a percentage of total revenue increased from 29.9% in 2018 to 38.4% in 2019, and further increased to 43.4% in the nine months ended September 30, 2020.

Widely referenced industry benchmarks also support our leading position in customer service. According to the State Postal Bureau, our express delivery user satisfaction rate has been ranked among top 3 for three consecutive years from 2018 to 2020. Our effective complaint rate was 0.002 per million parcels during December 2020, which was the lowest among all peers, and significantly lower than the industry average of 0.22. We have also continuously rolled out new delivery options for our customers, such as Jing Xian Da (京鮮達), Jing Zhun Da (京准達) and Ji Su Da (極速達), with faster and more accurate delivery times.

Advanced proprietary technology empowering the entire supply chain

We are a technology innovator in the integrated supply chain logistics service industry. We harness the power of technology to revolutionize the industry and differentiate our service offerings from our competitors. For example, in 2017, we launched the first fully unmanned warehouse in the world. In 2019, we have established the first 5G smart logistics park in China, which combines 5G and industrial IoT technologies to achieve more efficient and synchronized management of personnel, equipment and other resources.

Our technologies enable us to automate and digitalize key steps of the supply chain for our customers. We have extensively utilized automated guided vehicles (AGVs) and robotics to improve the efficiency, productivity and accuracy of our operations. In terms of digitalization, our proprietary warehouse management system (WMS) enables us to manage the entire flow of inventory, labor force and information in and out of our warehouse network, leading to improved inventory visibility and operational accuracy. Our proprietary transportation management system (TMS) provides us with a comprehensive view of each stage of the transportation process through real-time vehicle and goods tracking, as well as automated third-party carrier selection and invoice settlement. Built on our data analytic capabilities, our intelligent warehousing management solutions help customers recommend the optimal number of regional warehouses and determine the best allocation of inventory across different regional warehouses. Our algorithms calculate the optimal absolute level of inventory for each region, achieving a fine balance between minimizing inventory level which leads to more efficient working capital and enhanced in-stock rate which leads to better consumer experience.

We are committed to investing in technological innovations. We invested approximately RMB1.5 billion, RMB1.7 billion and RMB1.4 billion in 2018, 2019 and the nine months ended September 30, 2020 respectively in research and development, to continuously improve our technological capabilities. As of December 31, 2020, we were entitled to over 4,400 patents and computer software copyrights (including applications thereof), of which over 2,500 relate to our automation and unmanned technologies. We have received numerous awards recognizing our achievements in logistics technologies innovation, including the National Advanced Logistics Enterprise Award (“全國先進物流企業”) by the China Transportation Association in 2020, the

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International Gold Award for Innovative IoT Products, Technologies and Applications (“世界物聯網新產品新技術新應用成果金獎”) at the World IoT Expo in 2020, and being selected by INFORMS as one of the seven finalists for the 50th annual Franz Edelman Award for Achievement in Advanced Analytics, Operations Research and Management Science, the world’s most prestigious award for achievements in the practice of analytics and operations research.

Open supply chain solutions platform with synergistic partnerships

We form synergistic partnerships with industry participants both in China and globally. Through a digitalized supply chain platform approach, we have opened up our platform and capabilities to our partners, whose capacities are in turn integrated into our platform. We maintain direct control over the core of the supply chain, such as warehousing and last-mile delivery. Meanwhile, we leverage our partners’ resources and capacities for other competencies, such as road and air transportation. We have formed strategic partnerships with industry partners who are specialized in various supply chain functions, such as multi-mode transportation, last-mile, warehousing, cross-border and cold chain, which allowed us to broaden the reach and increase the flexibility of our logistics networks, and further penetrate into lower tier cities and rural areas.

For example, we entered into business cooperation agreements with Dada Group in April 2016, and have since leveraged its on-demand delivery platform to supplement our self-operated last-mile delivery capabilities for last-mile demands. With Dada Group as a local delivery partner, we are able to fulfill growing customer needs, especially in peak seasons such as June 18 Anniversary Sales each year and the China’s new online shopping festival on November 11 each year. In the meantime, Dada Group also benefits from the large order volume we bring to its platform. In addition, we also extended our warehouse network by connecting with our partners’ warehouses through our Open Warehouse Platform. By leveraging our big data analytics and advanced algorithms, we can help these cloud warehouses set the optimal inventory levels based on expected demands, lowering overall supply chain costs and improving service quality.

Experienced and visionary management team and strong corporate culture

Our management team comprises of executives with decades of experience in the supply chain and logistics industry as well as other corporate functions. Equipped with deep expertise in the supply chain logistics industry and an innovation mindset, our visionary management team is able to create differentiated strategies that go beyond the conventions of traditional logistics players, with a strong focus on seamless supply chain integration and innovative technologies to transform the integrated supply chain logistics services industry. Our strong and talented mid-level management team also supports the execution of our corporate strategies. We have also nurtured a corporate culture of customer-first, integrity, collaboration, gratitude, tenacity and ownership, which have contributed greatly to motivating and retaining our employees. In 2020, we were awarded the HRoot Best Social Enterprise in Greater China award, in recognition of our leading human resources management philosophy and outstanding social responsibility awareness.

Our Strategies

Our growth strategies are centered on customer experience, technological capabilities and operational efficiency. We believe superior customer experience is the foundation of our continued success, as we can only solidify our market leadership by achieving customer satisfaction. Our

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technological capabilities are the tools we utilize to drive the continuous improvements in our solutions and services, which ultimately leads to higher operational efficiency for ourselves and our customers.

Enhance our customers’ supply chain efficiency by expanding the breadth and depth of our solutions and services

In order to continue to enhance our customers’ supply chain efficiency, we plan to further broaden our solutions and service offerings by expanding into new industry verticals with high growth potential. We will also continue to develop more comprehensive and sophisticated solutions and services within existing industry verticals, and across the entire supply chain from upstream (including production and manufacturing) to downstream (including distribution and delivery), and also value-added data analytics such as sales forecasts and inventory planning, in order to create additional value for our customers. We also plan to develop solutions and services that can be modularized and more efficiently adopted by customers, which can further enhance customer experience and allow us to expand more rapidly and cost-efficiently.

Further invest in supply chain technologies to drive sustainable growth

We plan to further invest in our technological platform and supply chain technologies, in order to sustain our competitive advantage in technology innovation. We will continue to strengthen our capabilities in key fundamental technologies such as AI, big data, cloud computing, and 5G, which form the building blocks of our fully-digitalized solutions and services. We plan to improve our capabilities in smart systems and hardware, including 5G logistics centers, fully-automated warehouses and distribution centers, and unmanned delivery vehicles. We also intend to strengthen our ability to provide smart supply chain solutions which can provide additional value and data insights to our customers in different industry verticals. We also plan to further open up our technological platform and capabilities to our customers and partners to accelerate the digitalization and streamlining of their supply chains.

Continue to improve our operational efficiency through strengthening our logistics network

We will aspire to achieve higher efficiency in our operations throughout the whole supply chain, in order to differentiate the quality of our solutions and services from those of our competitors. We plan to achieve this by strengthening our logistics network, improving overall utilization through economies of scale, increasing the level of integration across our logistics networks, and improving efficiencies through more intelligent decision-making. We will continue to strengthen our logistics network and infrastructure by strategically accessing advantageous geographical locations. We plan to broaden and deepen our logistics networks’ reach to penetrate further into rural areas and lower-tier cities in China, and also extend our cross-border coverage. We will expand our air cargo network by increasing the number of destinations and flight frequencies. We will also continue to adopt an open mindset in collaborating with industry participants and partners, and fully utilize their resources and operational expertise to realize synergies.

Expand internationally to achieve global footprint

We plan to further develop our international supply chain network by increasing country coverage, and international road, air and railway routes. We also plan to increase our local presence and infrastructure in selective international markets with high growth potential. With our continuously growing international supply chain network under our global strategies, we plan to strengthen our cross

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border supply chain solutions and logistics services capabilities, and implement our integrated, end-to-end supply chain strategy on a global scale and serve customers with international and cross-border supply chain demands.

Our Business Model

We are the leading technology-driven supply chain solutions and logistics services provider in China in terms of revenue in 2018 and 2019, according to the CIC Report. We began our journey as the internal logistics department of JD Group in 2007. Since our inception, we have led the supply chain upgrade of China’s e-commerce industry. By providing high-quality fulfillment solutions to JD Group and delivering a superior consumer experience to its customers, we have empowered JD Group to become China’s largest retailer in terms of total revenues in 2019, according to Fortune Global 500. We have designed and developed extensive and integrated logistics networks that enable us to reduce the steps involved and shorten fulfillment time. Leveraging our proprietary technologies, industry know-how and in-depth understanding of product merchandising, we place inventory intelligently at warehouses closest to likely end consumers. When an order is placed, we are able to dispatch the goods stored in nearby warehouses, leading to quick fulfillment and high consumer satisfaction. Through this process, we have gained an in-depth understanding of the unique features of the integrated supply chain logistics services industry in China and have established strong relationships with numerous suppliers, manufacturers, merchants, brands, individuals and other business partners.

We believe our solutions and services, built on our proprietary technologies and nationwide logistics networks, are proven answers to the long-standing problem of inefficient and laggard supply chain system faced by all buyers or sellers in China. We take a holistic and technology-driven approach which covers the entire supply chain from upstream manufacturing, midstream logistics and distribution, to downstream delivery to end consumers. The focus on technology enables us to optimize decision-making, create smart solutions and improve efficiency for our customers. To achieve this vision, we have built an extensive logistics infrastructure network, and a multitude of proprietary technologies which are the foundation of our solutions and services. Since 2017, we have made the strategic decision to open up our capabilities and resources to external customers and run our operations independently from JD Group. We have tailored our system to different use cases in various industries, in order to develop and optimize industry-specific solutions.

Our years of experience in fulfilling a large quantity of orders across different industries in China has helped us accumulate valuable insights and knowledge on consumer demand, which in turn empowers our smart inventory management and efficient supply chain solutions. See “—Our Supply Chain Technologies” for a detailed description of our proprietary technologies that support our services and business.

Our service offerings primarily include warehousing and distribution services, express and freight delivery services, bulky item logistics services, cold chain logistics services, and cross-border logistics services. Our integrated business model allows us to act as a one-stop service provider for all our customers’ supply chain needs. We help our customers optimize inventory management, reduce operating costs, efficiently reallocate internal resources and ultimately enable them to focus on their core businesses. In doing so, we are able to strengthen our customer relationships and hence our competitive positioning. In addition, we are able to offer various supply chain solutions tailored to the specific needs of different industry verticals, such as FMCG, apparel, home appliances, home

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furniture, 3C, automotive and fresh produce. See “—Our Industry Solutions” for a detailed description of our solutions and services for certain industries.

The increasing scale, breadth and complexity of our customers’ operations will drive demand for adaptable end-to-end supply chain solutions and logistics services across multiple complex scenarios. Once we start working with a customer, we can often identify additional inefficiencies and unmet needs in their supply chain operations and, as a result, can expand the scope of our services and deepen the cooperation with the customer. As an example, in 2017, we began providing Amway with logistics services for its business in certain regions of China to help enhance its order fulfillment capabilities. Amway subsequently started in-depth cooperation with us to complete the digital transformation of its inventory and logistics management systems across different business scenarios. We began providing Amway with tailored smart logistics solutions in 2019 and after-sales maintenance solutions in 2020, and have become its exclusive end-to-end logistics partner in China.

In 2020, we served more than 190,000 corporate customers across a wide array of industries, such as FMCG, apparel, home appliances, home furniture, 3C, automotive and fresh produce. As we continue to expand our solution and service offerings, we expect more enterprises in their respective industry verticals to become our customers. See “—Our Customers” for a detailed description of our customers.

Our Supply Chain Technologies

Our supply chain technologies are the foundation of our business and differentiate us from our competitors. Over the years, we have been strengthening our technological innovation and applications in various aspects of supply chain solutions and logistics services, including automation, digitalization and intelligentization. Our proprietary technologies include both hardware and software technologies that are seamlessly integrated. As of December 31, 2020, we were entitled to over 4,400 patents and computer software copyrights (including applications thereof), of which over 2,500 are related to our automation and unmanned technologies. We have also built a large team of over 3,700 research and development professionals. In 2018, 2019 and for the nine months ended September 30, 2020, our research and development expenses were approximately RMB1.5 billion, RMB1.7 billion and RMB1.4 billion, respectively.

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We apply technology to each key part of the supply chain, combining pre-planning, implementation, intelligent decision-making and post-operation management to deliver customer experience and overall efficiency. Equipped with these proprietary technologies, we have built a comprehensive smart logistics system capable of service automation, operation digitalization and intelligent decision-making.

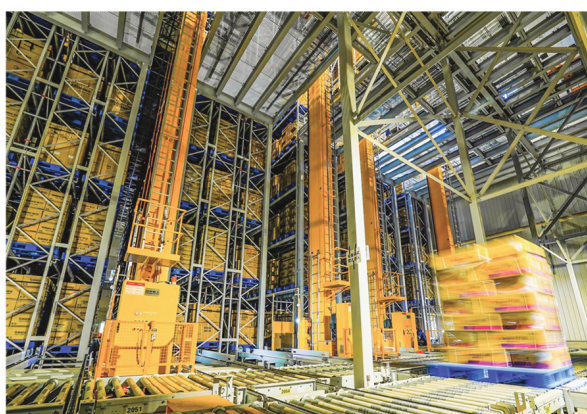
Sorting



Goods-to-Person



High-Density Storage System



Unmanned Delivery



Automation

Service automation is a priority for us in building our unmanned logistics capabilities. Our service automation primarily includes automated guided vehicles (AGVs), autonomous mobile robots (AMRs), sorting robots, smart forklifts, automated sorting systems, goods-to-person systems, last-mile AGVs and virtual reality assistance. We integrate these technologies in-house into every step of our operations, including storage, transportation, sorting and delivery. Advanced automation and robotics deliver critical improvements in speed, control, accuracy and productivity and, more importantly, enhance workplace safety.

Notably, we launched the first fully unmanned Asia No. 1 smart mega warehouse in Shanghai in 2017, which integrates multiple types of robots, smart equipment and self-developed warehousing control system to achieve efficient multi-equipment collaborative operation and full-process unmanned operation. This warehouse is capable of processing over 1.3 million orders per day during peak seasons. We apply the following core systems in our key operation steps.

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Automated inventory handling system

Our automated inventory handling system consists of fleets of handling AGVs, sorting AGVs and cross-belt sorters backed by our comprehensive software systems. This system is capable of handling and sorting different types of packages by batches under different warehousing and logistics operating environments, improving sorting efficiency and accuracy and achieving automated goods-to-person sorting. Goods-to-person is a modern method of logistics order fulfillment that combines automated storage with accurate and ergonomic picking processes. By using an automated storage system to deliver goods to a stationary pickup station where the operator fills discrete orders, goods-to person sorting significantly reduced the labor required in a warehouse.

Storage system

Our high-density storage system consists of hardware equipment and software systems such as multi-layer shuttles, hoists, workstations and conveying systems, which improve storage utilization, efficiency and safety. In addition, we have put in place customized racking systems that allow for product storage on pallets in horizontal rows across vertically stacked levels in an efficient and secure manner. Our racking systems can accommodate a wide array of different customer storage needs. In addition, some of the warehouses we operate include advanced conveyors and automated pallet retrieval systems, high volume refrigeration systems, refrigerated docks, specialized fire suppression systems, insulated walls and panels, insulated and heated floors, and reliable temperature-control systems that can implement distinct temperature zones within the same warehouse.

Robotic picking and packaging system

Our robotic picking system consists of a six-axis robotic system and an AI vision system, which reduces goods damage rate, error rate and improves picking efficiency. Our six-axis robots pick up goods from the storage area, after which the goods will be identified by their barcodes through the robotic vision system. The goods are then automatically arranged, aggregated and delivered based on their barcodes and order information. The sorted goods are placed on a belt conveyor and sent for packaging. Packaging is fully automated with foam bags or cardboard boxes cut precisely according to the actual size of the goods.

Unmanned delivery

In 2019, we upgraded our proprietary unmanned delivery vehicles, including launching our in-house level 4 (L4) autonomous delivery robots. Level 4 refers to “high driving automation,” which means that no human intervention is needed as long as the system is operating within a certain pre-defined area.

Digitalization

We believe digitalization of our logistics operations and management is critical to enhancing its accuracy and efficiency and service capabilities. Our proprietary software systems primarily include warehouse management system (WMS), transportation management system (TMS), order management system (OMS) and supply chain control tower. Set forth below are the key features of our digitalized operation management system.

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Warehouse management system (WMS)

Our WMS monitors the movement of the entire flow of inventory and personnel in and out of our warehouse networks, enabling us to improve our operational efficiency by having real-time inventory visibility. We also use data loggers and IoT sensors to ensure process robustness of our WMS.

In addition, we also deploy our WMS in third-party warehouses, known as cloud warehouse, and connecting them to our warehousing network. By joining our Open Warehouse Platform, warehouse owner-operators can leverage our technologies, standards and brand name to enhance their service capabilities while we gain additional capacities to further strengthen our warehousing networks.

Transportation management system (TMS)

For each order, our TMS factors in the order information and currently available transportation resources and determines an optimized routing plan to achieve the shortest transportation time. For each batch of goods, our TMS automatically implements the routing plan by allocating internal and external transportation resources and monitors the process. Our TMS minimizes human intervention, improves efficiency and achieves cost optimization. In addition, our TMS offers us real-time track-and-trace capabilities for goods and vehicles as they move through our logistics networks, which enhances transportation process control and resource matching of goods, personnel and vehicles.

Order management system (OMS)

Our OMS is able to seamlessly connect various order interfaces from our customers, such as apps, websites and in-app mini programs. This system enables customers and end consumers to monitor each order throughout the entire delivery process. Through the order management module, our OMS further interfaces with WMS and TMS operations by managing and tracking the entire life cycle of orders from origination to settlement. Our OMS is also equipped with multiple automatic support functions, such as order splitting and merging, order modification, matching of courier and delivery warehouse, and exception detection and warning. By integrating with WMS and TMS across the supply chain, our OMS maximizes efficient cooperation of upstream and downstream operations and enables us to efficiently manage orders.

Supply chain control tower

Our supply chain control tower provides end-to-end visibility of the entire supply chain for us and our customers. Through aggregating and analyzing data from our WMS, TMS and OMS, our control tower enables us to receive timely updates of supply chain events, identify potential supply chain disruptions through predictive decision-making, and achieve dynamic synchronization across different divisions of our Company. By visualizing our different functional perspectives on one dashboard, we are able to maximize collaboration across divisions internally and perform coordinated assessment in order to optimize our supply chain, ultimately fulfilling the needs of our customers and their end consumers.

Intelligent decision-making

Empowered by our AI and big data analytics capabilities, our proprietary algorithms make informed decisions at every level of our business, providing real-time data analytics to optimize

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network density and equipment utilization across our entire network, which improves customer service, operational efficiency and load optimization.

Intelligent routing

Our algorithms can support routing optimization within our logistics networks, including trunk lines, branch lines, intra-city, distribution and inter-warehouse allocations. Our algorithms calculate optimal routes based on factors such as traffic conditions, distance, weather and delivery points. In addition, our predictive analytics technologies determine the optimal sequence of loading and unloading, shipping frequency and quantity to meet demand, maximizing operational efficiency while minimizing costs.

Inventory optimization

Inventory optimization is critical for merchants and brand owners. Inefficient inventory management can have significant negative impacts on business operations. For example, suboptimal cross-regional inventory allocation leads to frequent out-of-regional fulfillment, which increases both fulfillment time and cost. Unexpected local inventory shortage leads to loss of sales and poor consumer experience. Segregated inventory pools for different sales channels increases overall inventory requirement, leading to higher working capital.

Built on our data analytic capabilities, our algorithm helps customers determine the best allocation of inventory across different regional warehouses either based on the customers own historical sales data or, when not available, our own insights on sales patterns of similar product categories. For a given amount of initial inventory, our algorithm predicts the best relative allocation across different regions to minimize the occurrences of out-of-region fulfillment. As actual sales start and data is collected and analyzed, our algorithm is continually refined, which results in more accurate predictions of regional demand. In addition, our algorithm also recommends the optimal number of regional warehouses required and calculates the optimal absolute level of inventory for each region, achieving a fine balance between minimizing inventory level, which leads to more efficient working capital, and maximizing in-stock rate, which leads to better consumer experience. In order to maintain inventory at such optimal levels, our system generates real-time inventory replenishment alerts so that our customers can make necessary manufacturing and delivery arrangements of additional inventory to our warehouses. Furthermore, with our nationwide warehouse network and inventory management technologies, we are able to achieve omni-channel fulfillment from the same pool of inventory, further reducing inventory levels for our customers.

Our Logistics Infrastructure and Networks

Our logistics infrastructure is the foundation of our superior supply chain solutions and logistics services and consists of networks includes warehouses, line-haul transportation, last-mile, bulky items, cold chain, and cross-border.

Our warehouse network

Our nationwide warehouse network is one of the largest in China, according to the CIC Report, and is a critical component of our nationwide logistics infrastructure. As of September 30, 2020, our warehouse network covered almost all counties and districts across China, consisting of over 800 warehouses operated by us and over 1,400 cloud warehouses owner-operators under our Open

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Warehouse Platform. The warehouses under our Open Warehouse Platform are “cloud-based” as these third-party warehouses leverage our cloud-based warehousing technologies, standards and brand name and constitute an extension of our self-operated warehouses. As of September 30, 2020, our warehouse network had an aggregate GFA of approximately 20 million square meters, including the GFA of the cloud warehouses under our Open Warehouse Platform.

The warehouse facilities we operate primarily include regional distribution centers (RDCs), front distribution centers (FDCs) and other warehouses. Our RDCs are capable of storing more SKUs and serve customers across a large region. As of December 31, 2020, we operated more than 300 RDCs covering seven regions in China, including North China, East China, Central China, Southeast China, Northeast China, Northwest China and Southwest China. Our FDCs are smaller warehouses that maintain fewer SKUs but stock products in high demand for their nearby areas and are therefore strategically located closer to end consumers to reach them at a faster speed. Both our RDCs and FDCs serve as drop-off locations at which our customers can deliver their initial inventory to be managed by us. Once the inventory is received, our algorithm can help determine how inventory is further allocated among our RDCs and FDCs across the country based on predicted consumer demand. In addition, we treat the cloud warehouses empowered by our warehousing technologies as an extension of our own warehouse network. See “—Our Service Offerings—Warehousing and distribution services” for a detailed description of our cloud warehousing technology services to the third-party warehouse owner-operators. The extensive nature of our warehouse network, coupled with our insights on consumer demand, enables us to store the right inventories close to the right consumers, resulting in speedy and cost-efficient delivery to our end consumers.

Despite the extensive nature of our warehouse network, we are able to manage it efficiently due to our high level of warehouse automation and strong technology capabilities. Our renowned Asia No. 1 smart mega warehouses are equipped with advanced automated storage and retrieval systems for parcels and freights. The extensive application of AGVs and robotics, which can be easily scaled up and perform tasks 24/7 with less error-prone operation, ensures our speedy delivery during the peak seasons. As of September 30, 2020, we operated 28 Asia No. 1 smart mega warehouses covering 18 cities in China. Our abilities to predict sales trend in different locations, strategic placement of inventories in warehouses nearest to potential consumers, and high level of automation in our warehouses allowed us to deliver approximately 90% of the total online retail orders from JD Group’s online retail platform on the same day or the day after the order was placed in 2020.

Our line-haul transportation network

Our line-haul transportation network consists of directly operated sorting centers and line-haul routes that connect our warehouses, sorting centers and delivery stations. We directly operate all of our sorting centers which serve as the nodes of different line-haul routes. As of December 31, 2020, we operated approximately 200 sorting centers in China. Our automation and unmanned technologies including automated sorting lines also contribute to the increasing operating efficiencies of our sorting centers.

As of December 31, 2020, our in-house transportation fleet consisted of approximately 7,500 trucks and other vehicles. We generally control the route planning and fleet dispatching of our entire line-haul transportation network, utilizing the capacity of both our in-house transportation fleet and our third-party transportation service providers’ fleet. We engage independent third-party transportation

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service providers to fulfill additional capacity needs. We have established procedures in selecting the independent third-party transportation service providers we engage with, including detailed review of their operating history, fleet condition, reliability, among other criteria.

To further enhance our freight capabilities, in August 2020, we acquired a controlling interest in Kuayue Express, a renowned modern integrated express freight enterprise specializing in less-than-truckload (LTL) in China. The acquisition of Kuayue Express has enhanced our existing freight network and will strengthen our supply chain solutions and logistics services, and expand our customer base particularly in air freight. As of December 31, 2020, we had approximately 620 air cargo routes.

Furthermore, we are cooperating with China Railway Corporation to leverage its high-speed railway network to provide secure, long-distance transportation of certain premium goods and products. As of December 31, 2020, our cooperation with China Railway Corporation enabled us to utilize 250 railway routes, 137 of which are high-speed railway routes.

Our last-mile delivery network

Last-mile delivery network is the last node for all of our logistics networks to reach end consumers and can be utilized when providing a variety of services. Our vast last-mile delivery network primarily consists of delivery stations, service stations and self-service lockers, supported by our well-trained in-house delivery team. Our last-mile delivery network enables us to provide both to-door delivery and self-pickup services to meet the needs of different consumers.

Our well-trained in-house delivery team enables us to provide best-in-class services to our customers, which helps improve our customer satisfaction rate and strengthen our brand image. As of December 31, 2020, we had a team of over 190,000 in-house delivery personnel. We also collaborate with Dada Group, one of China’s largest local on-demand delivery service providers, to supplement our own last-mile delivery force during peak time.

Our delivery stations, which delivery personnel station at and start their delivery from, are the last node of our logistics network and the beginning of our to-door delivery network. To ensure quality service, the vast majority of our delivery stations are self-operated. As of December 31, 2020, we operated approximately 7,280 delivery stations, covering 32 provinces and 444 cities in China.

We operate service stations and self-service lockers near high traffic areas such as residential communities, office buildings, and on university campuses where packages can be picked up and dropped off. A service station is typically multi-functional and serves different purposes, including receiving outbound packages and serving as pickup stations for us and other courier companies, thereby achieving greater overall labor and facility cost efficiencies. We also operate self-service lockers, which are typically located even closer to the end consumers and available 24/7 for self-pickup. As of December 31, 2020, we operated more than 8,000 service stations and locker stations covering up to 30 provinces and 70 cities in China. Furthermore, as of December 31, 2020, we had more than 250,000 partnered self-service lockers and service points covering over 270 cities in China.

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Our bulky item logistics network

The size and weight of certain items, such as furniture or large home appliances, require special logistics facilities for warehousing, fulfillment, and shipping. In addition, assembly and installation services are often expected by consumers as part of the delivery service. As a result, it can be difficult for traditional logistics service providers to provide integrated one-stop solutions, making bulky items logistics an underserved market historically. Our bulky item logistics network, comprising of multi-level warehouses, to-door delivery and value-added installation and aftersales service capabilities, has well positioned us to meet the growing market demands for heavy load parcels over 30kg and oversized items. The bulky and heavy items we specialize in processing primarily include home appliances and home furniture. As of December 31, 2020, we had 86 warehouses and 102 sorting centers suitable for bulky and heavy product warehousing with an aggregate GFA of approximately 2.8 million square meters in 74 cities.

Our bulky item warehouses, equipped with automated sorting system and smart forklifts, pallets and trays suitable for processing bulky items, demonstrate our capability in automated storage, retrieval and route planning of bulky and heavy items. Through improving the automation level of our warehouses and equipping them with forklifts and storage racking system designed specifically for bulky and heavy products, we also improve the working environment and productivity of workers.

We also provide one-stop home delivery, and installation services to end consumers. Our network partners in lower tier cities, under the brand of Jing Dong Bang (京東幫), enable us to better cover customers’ demands in that service area in a cost effective way. As of December 31, 2020, we were able to utilize approximately 1,800 bulky item delivery and installation stations under Jing Dong Bang (京東幫). See “—Our Service Offerings—Bulky item logistics services” for more detail on our capability to provide value-added bulky item logistics services by leveraging Jing Dong Bang (京東幫).

Our cold chain logistics network

As of December 31, 2020, our cold chain logistics infrastructure for fresh produce, perishable products consisted of the following:

- *Cold chain warehouses.* 87 temperature-controlled cold storage warehouses designated for fresh, frozen and refrigerated products with an operation area of more than 490 thousand square meters.
- *Cold chain transportation.* Our cold chain transportation network covered 31 provinces with approximately 2,000 specialized delivery vehicles available for our use as of December 31, 2020.
- *Cold chain end delivery.* Leveraging our last mile delivery network and intra-city cold chain distribution network, we serve both individual and corporate customers.

In addition, we have been enhancing our pharmaceutical warehousing capabilities to capture the opportunities brought by the wider use of biological materials in the pharmaceutical industry, which requires better temperature control during storage and delivery process of these products. As of

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December 31, 2020, we operated 20 warehouses designated for pharmaceuticals and medical instruments with an operation area of more than 120 thousand square meters across China. These warehouses and vehicles are equipped with state-of-the-art control and monitoring systems to comply with specific environmental parameters.

Our cross-border logistics network

According to the General Administration of Customs of China (“GAC”), invoices verified through the GAC’s cross-border e-commerce management platform reached 2.45 billion in 2020, representing a 63.3% increase compared with 2019. The significant growth of cross-border e-commerce offers a great growth opportunity for cross-border logistics. Leveraging our business know-hows and industry insights, we have been working with enterprises to help them shorten cross-border delivery time and build up their global distribution capabilities under our global strategies. As of December 31, 2020, we had 32 bonded warehouses and overseas warehouses, covering an aggregate GFA of approximately 440,000 square meters. Through collaboration with our international and local partners, we had established international routes that reached more than 220 countries and regions as of December 31, 2020.

Our Service Offerings

Through providing supply chain solutions and logistics services, we aim to not only address our customers’ supply chain needs and reduce their logistics cost, but also to optimize their inventory turnover, shorten their lead time to market, and improve their consumer satisfaction, whichs allow our customers to focus on their core competencies.

The table below summarizes the major categories of our service offerings:

Service	Description
Warehousing and Distribution Services	Comprehensive, integrated, customizable warehousing and distribution services to corporate customers
Express and Freight Delivery Services	Express and freight delivery services to corporate customers and individual customers
Bulky Item Logistics Services	One-stop bulky item warehousing, transportation, delivery and installation services to corporate and individual customers
Cold chain Logistics Services	Integrated cold chain warehousing, transportation and delivery services to corporate customers and individual customers
Cross-border Logistics Services	Cross-border supply chain services to both Chinese and international corporate customers

Warehousing and distribution services

Our warehousing and distribution services primarily include the following categories.

First mile services (from factory to warehouse)

We offer cost-efficient first mile services to our corporate customers, aiming to shorten time-to-market and facilitate swift responses to fluctuating market conditions. Such services include

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(i) pick-up/drop-off, where customers make an appointment for us to pick up the inbound goods from their factories or in-factory warehouses, or choose to drop off their goods at one of our service stations; (ii) storage, consolidation and palletization of goods at transfer center, and delivery to the appropriate warehouse through full truckload (FTL) or less than truck load (LTL) transportation; and (iii) inspection of goods upon arrival at the warehouse and completion of the subsequent scheduled storage operations. A key feature of our first mile services is that we are able to use our inventory forecast tools to adjust factory pick-up priority to ensure accurate and just-in-time delivery from factory to warehouse.

Multi-level warehousing and distribution services (in warehouse and from warehouse to end consumers)

Our multi-level warehousing and distribution services primarily include (i) product storage in multi-location warehouses (more than one RDCs and FDCs) based on end-consumer’s demands; (ii) retrieval of products from storage upon customer request; (iii) product packing and labeling; (iv) kitting and repackaging, which involves assembling custom product packages for delivery to retailers and consumers; (v) order assembly and load consolidation; (vi) omni-channel inventory management system that includes customer interface management tools; and (vii) products distribution and delivery. In addition, the cloud warehouses provide an important extension of the warehouses we operate.

Notably, our multi-level warehousing and distribution services enhance our customers’ fulfillment efficiency and ensure speedy delivery, as highlighted below.

- *Intelligent warehousing management.* Leveraging our years of operational experience and algorithm optimization, we provide customers with premium warehousing services, which place goods in the most ideally located FDCs and RDCs to improve customers’ inventory management level and fulfillment time. For example, after using our intelligent warehousing services for four months since 2019, a corporate customer in the automotive industry achieved a faster inventory turnover with its overall inventory level decreased by up to 15%. By strategically placing the spare parts in the most suitably located warehouses, we also improved inventory turnover and increased its in-stock rate by 10%.
- *Reliable speedy delivery.* We are able to directly transport and store our customers’ inventory in the warehouses nearest to the end consumers, systematically shortening the fulfillment time to ensure speedy delivery. For example, we are able to effectively support JD Group’s 211 program, which offers same-day or next-day delivery for the end consumers of JD Group. For goods that we have in stock at the corresponding regional logistics center or front distribution center, we are able to deliver any orders received by the morning deadline (11:00 a.m. in most of the locations) on the same day, and any orders received by the evening deadline (11:00 p.m.) by 3:00 p.m. on the following day. End consumers of JD Group can also request same day delivery for orders placed by 3:00 p.m. in selected cities, and expedited delivery within two hours by paying an extra charge in selected cities. In 2020, approximately 90% of the total online retail orders processed for JD Group through our network delivered on the same day or the day after the order was placed, with over 60% of the total online retail orders covered by the 211 program.

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Logistics technology services

An important component of our integrated supply chain solutions and logistics services is the various logistics technology services we offer by leveraging our cutting-edge logistics technology capabilities and our know-how of customers’ supply chain needs. Our technologies not only support our own operations, but also can be exported to support the supply chain management of our customers. Through years of development and optimization of our in-house technologies, we have accumulated valuable experience in supply chain operations and warehouse management. We have capitalized on these industry experience, technological prowess and know-how into various SaaS-based logistics technology services to empower customers to manage and control their supply chain with a higher efficiency. Our representative logistics technology services include the following:

A. Cloud warehousing technology services

Introduced in 2017, cloud warehousing is an innovative warehousing service model in which we export our warehouse management system, planning capabilities, operation standards, industry experience and brand recognition to third-party warehouse owner-operators. By optimizing local warehouse resources, our cloud warehousing technology services effectively increase the utilization rate of idle warehouses, by integrating local transportation and distribution resources, thereby improving operating efficiency of those third-party warehouse owner-operators. We call these third-party warehouses cloud warehouses and manage them under our Open Warehouse Platform.

Furthermore, provision of cloud warehousing technology services to third-party warehouse owner-operators also enable us to offer them our various supply chain solutions and logistics services, thereby expanding our customer base. By joining our Open Warehouse Platform, warehouse owner-operators can also leverage our technologies, standards and brand name to enhance their own service capabilities. As of December 31, 2020, there were over 1,400 cloud warehouses.

B. Intelligent supply chain management services

We export our supply chain technology to serve our external customers to provide them with intelligence supply chain management services. See “—Our Supply Chain Technologies—Intelligent decision-making” for more details.

C. Smart supply chain hardware and solutions

We also provide smart supply chain hardware and solutions to our customers, primarily the integration and output of logistics automation equipment. For example, in an intelligent warehousing project for a customer in the book industry, we provided the customer with a complete set of software and hardware solutions and full life-cycle management services, including increasing the storage capacity through high-bay shelves, re-planning area to make more efficient use of space, adding automated transportation and sorting equipment. Our smart supply chain hardware and solutions helped the customer realize integrated operation of the logistics center warehousing and distribution and improved its operational efficiency.

Value-added services

We also offer value-added logistics services, primarily including after-sales reverse logistics

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services, cash on delivery (COD) services and specialized packaging services. Our comprehensive value-added services allow us to win new customers and strengthen our existing client relationships.

A. After-sales reverse logistics services

We provide exchange and return warehousing and forward stock locations to support returns management and other after-sales activities, such as product inspection and refurbishment.

B. Cash on delivery (COD) services

Through our directly-operated last-mile delivery force, we offer COD services for certain customers, where our customers can request us to deliver their products and collect the payment from the recipients on behalf of our customers at the time of delivery. Our COD services give our customers flexibility to sell to their end-consumers without giving them credit or ask for prepayment.

C. Specialized packaging services

We provide our customers with specialized packaging services, including premium folding cartons, inserts, labels and rigid packaging. We utilize a wide variety of materials, including paper and paperboard, pressure sensitive labels, plastic and foil.

Express and freight delivery services

We provide express and freight delivery services to corporate and individual customers. Our express and freight delivery services have the following key features:

- *Superior service quality.* We maintain control over the key steps of our express and freight delivery services to ensure high-quality, timely delivery and a compelling customer experience. First, we have built an in-house delivery team with more than 190,000 personnel. Our in-house delivery team handles and delivers the majority of the orders to ensure superior experience. In addition, according to the State Post Office of China, in December 2020, we only had an effective complaint rate of 0.002 per one million orders delivered, compared with the industry average of 0.22.
- *Direct end-customer engagement.* As we deliver the majority of the orders directly to customers with our own delivery personnel, we are able to gain a first-hand understanding of our customers’ needs. Provided as a standardized and easily accessible service, our express and freight delivery service initially targets and attracts a wide range of customers. Through our interaction and engagement of these customers during the service and the excellent customer experience we provide, we are able to gain their trust in us and broaden the range of the integrated supply chain solutions and logistics services we offer to them.
- *Enhancement in operating efficiency.* We are able to increase utilization of our line-haul network and last-mile delivery network when providing our express and freight delivery

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services. In addition, our express and freight delivery services benefit from our data analytics capabilities and predictive analytics technologies. These capabilities and technologies allow us to optimize delivery route planning, and minimize delivery times, which further enhance our entire operating efficiency.

Despite the difference in the size and weight of the parcel delivered, the major steps in the transportation processes of the two types of services are essentially the same:

- Senders either drop off parcels at our service stations or request a pick-up service from their locations or warehouses. Sender could schedule a pick-up time.
- The delivery personnel or service station collects and sends the parcels to our sorting centers covering its region between one to four times depending on parcel volume. Typically, parcels that are picked up before 6 p.m. will be shipped to the sorting center on the same day.
- Upon receipt of parcels shipped from various delivery personnel and service stations within its coverage area, the sorting center packs and dispatches the parcels to the destination sorting center.
- Our destination sorting center unloads and sorts the parcels. The parcels are transported to delivery stations and then delivered to the recipients or picked up from self-service lockers, utilizing our efficient last-mile delivery network.
- Service is completed upon the recipient’s signing on the waybill.

During the delivery process, we assign a unique tracking number and corresponding barcode to each parcel through waybills. The waybills, coupled with our automated systems, allow us and our customers to track the status of each individual parcel throughout the whole process. In addition, a variety of value-added services are also available at customers’ request, including professional packaging, temporary storage, and parcel insurance, among others.

Bulky item logistics services

Through our bulky item logistics network, we are capable of offering our customers comprehensive services for heavy and bulky products, including warehousing, distribution, delivery, assembly and installation. We specialize in handling and processing bulky items such as furniture and household appliances. The key features of these services include:

- *Seamless delivery and installation services.* Our bulky item logistics services ensure compelling customer experience by offering the end consumers an efficient service package that integrates reliable and punctual delivery and installation. For certain items, we offer professional assembly and installation services upon request at the time the items are delivered, sparing the hassle for a separate installment after delivery.
- *Extensive end consumer coverage.* Leveraging our in house capabilities and resources from our network partners, as of December 31, 2020, we were able to cover consumers spanning 29 provinces and 362 cities to satisfy customer demands across different city tiers in China.
- *Comprehensive value-added services.* With an initial focus on furniture and home appliances, we leverage JD Service Plus (京東服務+), a one-stop service platform, to

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provide our end consumers with a wide spectrum of value added services, such as installation, repairing, returning, refunding, storage and cleaning. Our end consumers can enjoy our value-added services at the convenience of their homes, sending items to JD Service Plus (京東服務+) or visiting our offline service stations in person, with rapid response, transparent pricing, trained professionals and guaranteed quality.

Cold chain logistics services

There are special requirements in the logistics for certain products including fresh produce and pharmaceutical products, which creates significant demand for cold chain logistics in China. Our cold chain warehouses are equipped with real-time humidity and temperature monitoring and control systems, specialized insulation packaging and automated refrigeration equipment. We also deploy temperature-controlled vehicles with real-time monitoring capabilities for the transportation of such goods.

The key features of our cold chain logistics services for fresh produce include:

- *End-to-end temperature control.* We have established a smart temperature control platform that allows us and our customers to have visibility towards the entire cold chain logistics process, including real-time order tracking with constant video surveillance, remote temperature control, and smart alarm (which is triggered whenever a sensor records a temperature or event exception outside programmed norms).
- *Environment-friendly insulation packaging.* We offer a broad and diverse portfolio of single use and reusable insulation materials and packaging solutions, such as insulated pallet covers, to satisfy various demands from our customers. In addition, we endeavor to develop environment-friendly packaging materials and solutions. For example, we have launched the Green Packaging Alliance, a sustainable packaging platform to promote and enhance environment-friendly projects. We promote a wide range of environment-friendly practices including the use of recyclable, reusable materials, helping to reduce disposable packaging materials.
- *Automated cold chain sorting.* We are the first company in China to launch an automated cold chain sorting center utilizing the “goods-to-person” picking system for cold chain warehouses, according to the CIC Report. The “goods-to-person” picking system, coupled with high-density storage and automatic shelving system, helps our automated cold chain sorting center achieve a sorting efficiency three times as much as that of traditional cold chain sorting centers, according to the CIC Report.

In addition, we design and implement strict protocols to provide pharmaceutical cold chain logistics services that cover the full life cycle of pharmaceutical products and take into account the unique temperature conditions and shipping configurations of pharmaceutical products.

Cross-border logistics services

We provide cross-border supply chain services through our own network and collaboration with our global partners.

For inbound cross-border logistics service, overseas merchants selling goods into China use our bonded warehouses, customs clearance and other logistics services. The products are imported in

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bulk into our bonded warehouses in China. We facilitate customs clearance and delivery for such products once Chinese consumers place an order.

We also provide full supply chain services, including first mile transportation, offshore storage, freight forwarding and contract logistics, to Chinese sellers tapping into overseas markets. Leveraging the overseas warehouses available for our use, we help the Chinese seller transport goods from China to the designated overseas warehouse, thereby completing the time-consuming processes including long-haul transportation and customs clearance before any order is even placed. Once an order is received, we work with local third-party logistics service providers to complete the delivery to the end consumers. In addition, we also serve Chinese merchants under a direct mail model. Under this model, overseas consumers will first place an order, after which we will be responsible for the direct mailing process within China, including customs clearance in China and the destination country, and then work with local third-party logistics service providers in the destination country to complete the delivery from the customs to the end consumer.

Leveraging our cross border logistics network, we strive to provide a “48-48 service” to address our customers’ cross-border logistics needs, meaning that any package can be delivered from China to the destination country within 48 hours after pick-up and can be delivered to the end consumers within 48 hours thereafter.

Our Industry Solutions

Building on our strong supply chain service capabilities, we have developed industry-tailored supply chain solutions that integrate our service offerings and address the specific logistics needs of industry verticals. We list below selected industry solutions that we offer.

FMCG

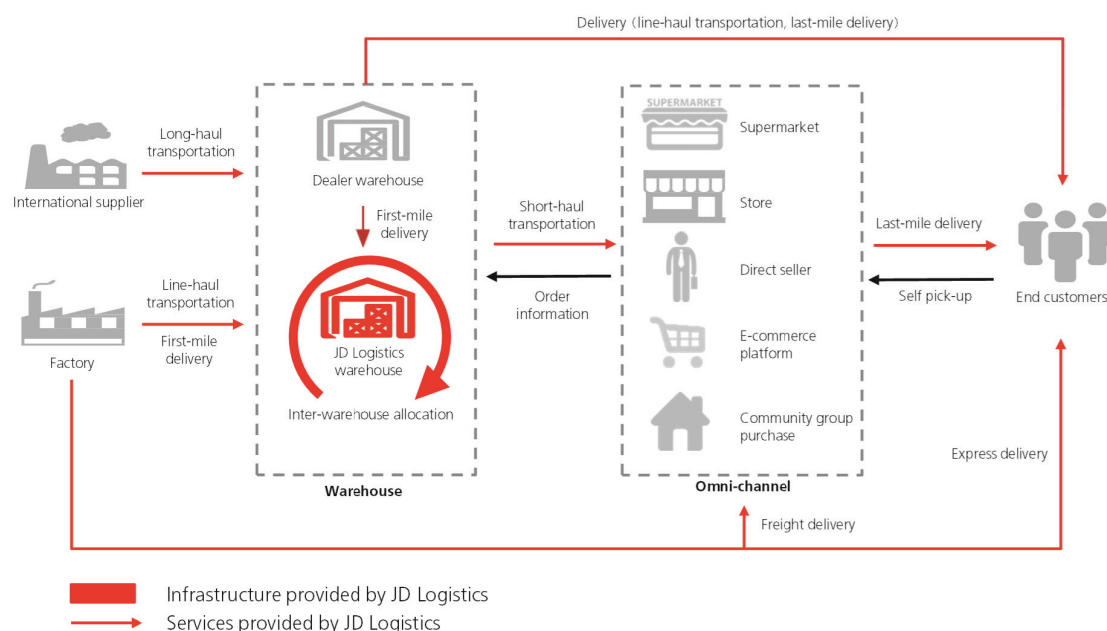
The FMCG industry comprises of a number of different product categories, such as food & beverage, beauty care, personal care and packaged groceries. Each of the product categories has its unique features and posts distinctive challenges for logistics services providers. For example, some of the FMCG product categories have shorter shelf life, hence a supply chain logistics service provider is required to optimize the inventory of its customers by dynamically allocating inventories at different facilities based on forecasted sales, and monitoring expiration date in real time.

Common features of FMCG products include (i) high volume and low cost; (ii) high turnover; and (iii) omni-channel distribution. We provide our FMCG customers with omni-channel inventory management and supply chain optimization solutions by helping them visualize all the order and inventory data across different sales channels to better manage their inventory allocation among warehouses and multi-layered distribution network. We provide services in many areas such as determining the most suitable routes specific to our customers, taking into account the characteristics of the merchandise. We also systematically shorten the fulfillment time and save shipping costs by shipping the inventory to the nearest facilities directly. For example, in our cooperation with Nestlé, with our capabilities to predict the market demands at different regions, we can allocate and ship products between Nestlé factories and various distribution centers with direct deliveries to consumers, whenever and wherever, for both online and offline channels, without making additional stops at other Nestlé warehouses and its sales channels. Our strong technology capabilities enable us to streamline the inventory management of a large number of SKUs, including monitoring the expiration periods of each product in order to minimize

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potential losses associated with expiration. Our solutions also provide our customer with full visibility into their supply chain, such as quantities of goods available for sale, geographical locations of their merchandise, remaining shelf-life and traceable transportation routes. Our customers can make informed decisions based on the information we provide, which significantly reduce time and other cost of supply chain management.

The diagram below illustrates our solutions for the FMCG industry.



In summary, our key competencies for this industry solution include:

- Omni-channel inventory management;
- Inter-warehousing inventory allocation optimization according to business needs;
- Shelf-life monitoring;
- Multiple modes of transportation;
- On-time delivery;
- Forecast-based dynamic inventory management; and
- Bonded warehousing.

Apparel

Companies in the apparel industry face the challenges of managing an inventory base with a large number of SKUs and a relatively small amount of inventory for each SKU and meeting the frequent seasonal fluctuations across multiple sales channels both online and offline, especially during sales promotion periods. Frequent product returns and exchanges further add to the challenges.

Customers can leverage the comprehensive inventory management system we offer in launching, distribution and replenishment of products. For example, we help our customers monitor the inventory levels of offline stores in different regions and predict demands from multiple online sales channels, including the geographical distribution, and the seasonality of various products. Our system

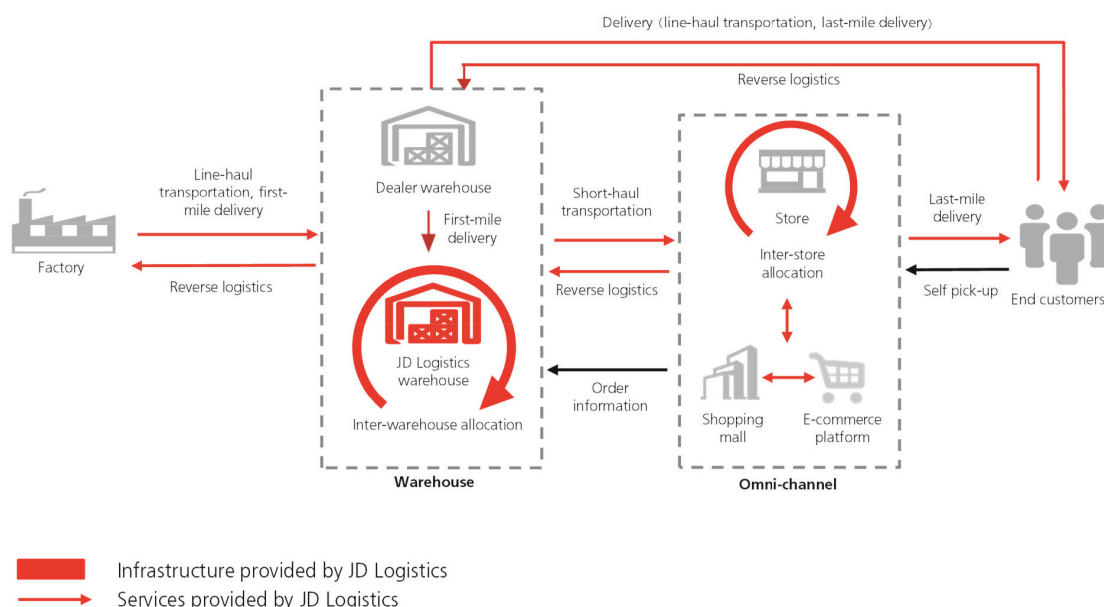
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can be integrated into our customers’ information systems to help them handle orders from various channels through online-offline integrated inventory management.

The modern fashion industry calls for flexible supply chain solutions in order to cope with fast-changing demands of the end consumers. Our strong technology capabilities, especially in automation and smart supply chain management, coupled with the large scale of our operations, accommodate such demands, which enable our customers to manage a large number of SKUs in smaller batches with shortened time-to-market, less upfront cost, lower inventory level, and higher scalabilities during peak seasons.

Our strong reverse logistics capabilities also equip us with the ability to meet the aftermarket demands of end consumers, including product returns and exchanges, and we are able to label, recondition and repackage returned products without shipping them back to our customers, minimizing the turnaround time and costs.

The diagram below illustrates our solutions for the apparel industry.



In summary, our key competencies for this industry solution include:

- Guaranteed capacities during promotion period;
- Intra-day multiple delivery;
- Omni-channel inventory management;
- Management of a large number of SKUs;
- Labeling, reconditioning and repackaging for returned goods; and
- Fabric and garment storage.

Home appliances and home furniture

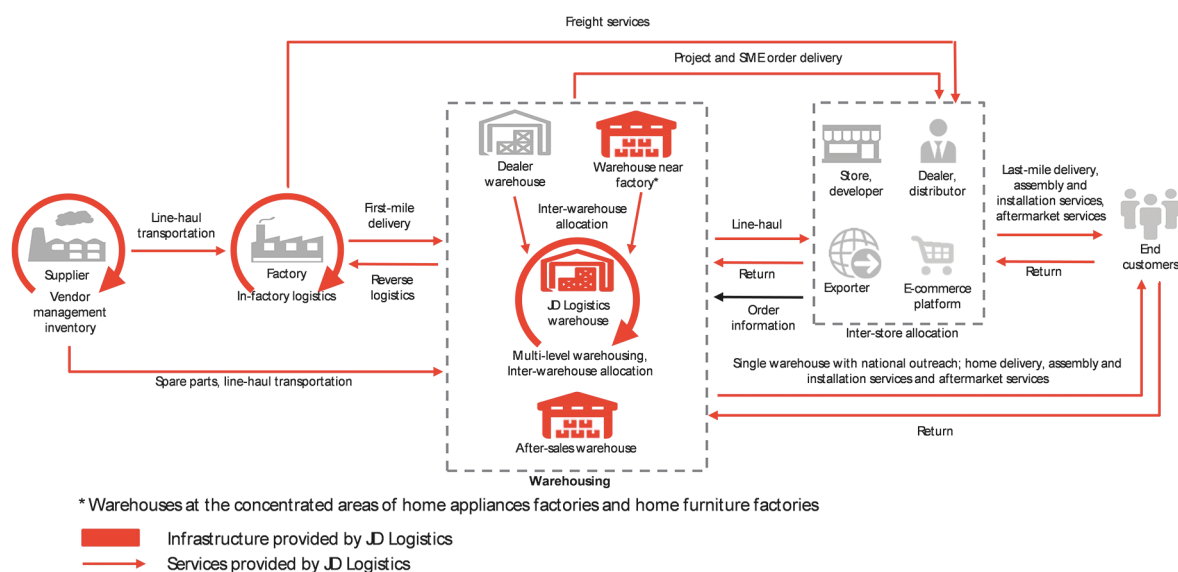
Companies in the home appliances and home furniture sectors face unique challenges with their order fulfillment process. Due to the size and weight of these products,

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warehousing inventory and shipping can be costly and complicated to optimize. SMEs, which formed the vast majority of the home furniture industry, typically engage isolated service providers for warehousing, transportation of different levels as well as assembly and installation services, which can be challenging to coordinate and manage costs. Further, the manufacturing factories in the home appliances and home furniture industries are mostly located in a few concentrated areas in China.

We place some of our warehouses near the concentrated areas of home appliances factories and home furniture factories so that our customers can minimize their warehousing and shipping costs by delivering products to the nearest warehouse directly. Our smart inventory and warehouse management system, robust and extensive bulky item delivery network and high-quality last-mile delivery services position us well to offer comprehensive services to customers in the home appliance and home furniture industries, including integrated warehouse management across sales channels, speedy and cost-efficient fulfillment and distribution and high-quality home delivery and installation services. We also offer aftermarket services that help our customers meet the after-sales demands of their end consumers timely and cost-efficiently, including reverse logistics, repairing and returning. Our end-to-end supply chain solutions and logistics services, starting from factory pick-up and extending all the way to home delivery, assembly and installation as well as aftermarket services, significantly lowers the management and fulfillment costs of our customers.

The diagram below illustrates our solutions for home appliances and home furniture.



In summary, our key competencies for this industry solution include:

- Integrated value-added services (installation, maintenance and after-sale);
- Cross channels inventory management system;
- Irregular item packaging and transportation; and
- Repairing, refurbishing and repackaging.

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Our Pricing Model

We generate substantially all of our revenue from providing supply chain solutions and logistics services. While we primarily focus on corporate customers across a wide range of industry verticals, we serve both corporate and individual customers.

Through our leading infrastructure and technologies, we seek to empower our corporate customers’ supply chains and substantially improve their operational efficiencies. Given the multitude of the services offered and the numerous individual service actions involved, we maintain a catalog of standardized pricing for each of our service actions. For example, for our warehousing services, the catalog contains pricings for, among other things, storage, stocking, inspection, labeling, and packaging, each of which depends on a number of factors including the size and weight of the merchandise, storage period and type of packaging materials, among others. The standardized pricing of our services is determined and updated regularly based on the estimated costs involved and market rates for similar services, without taking into consideration of unique circumstance of each customer.

We typically sign master service agreements which cover various terms including contracting parties, tenor, scope of services, fee rate (typically with reference to discounts to standardized pricing, but is also frequently customized based on circumstances and preferences of each customer), and payment terms, among other things. Given the integrated nature of the services we provide and the strategic relationships we develop with our corporate customers, we do not focus on the individual profitability of each of our service action. Instead, we determine the pricing on a holistic basis, taking into consideration of the factors such as the profile of the customers, their current and future logistics expenditure, their industry positions, and our ability to penetrate and optimize their supply chain operations. In certain cases, our contracts with customers encompass performance targets such as higher inventory turnover and savings on the overall logistics expenditure, among others, which demonstrates our commitment to tangibly enhancing the supply chain of our corporate customers. Our service agreements with corporate customers typically have a term of one year, which could be renewed for one more year, and we typically negotiate pricing with our corporate customers on an annual basis.

For our individual customers, we typically provide our express and freight delivery services, which are charged on a per transaction basis based on the distance of the delivery, the weight and dimensions of the item being delivered, the type of the item being delivered and the time sensitivity of the delivery.

Branding and Marketing

Branding

The JD Logistics brand name symbolizes outstanding service, reliability and speed. Emphasis is continually placed on promoting and protecting our brand, one of our most important assets. In August 2020, we launched a campaign to upgrade our brand image, increase brand awareness and improve our brand equity.

We strive to enhance our brand awareness through maintaining high service quality and other marketing initiatives. We believe that the most effective form of marketing is to continually enhance our customer experience. Specifically, our sales and marketing strategy is designed to build brand recognition, increase demand for our solutions and services, build strong customer loyalty, drive cross-selling, and develop incremental business opportunities.

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Leveraging the brand value of JD Group and our own marketing efforts, we have been able to build a large base of loyal customers. We employ a variety of programs and marketing activities to promote our brand and our solutions and services.

Sales and Marketing

We have organized our internal sales and development teams to take an active role in working with our existing and prospective customers to address their needs for superior supply chain solutions and logistics services. With respect to customer relationships, our sales and marketing efforts are integrated across all levels of management. Customers in each region are serviced by regional representatives who plan and execute our regional business development strategies. We incorporate sector specific expertise to support our sales and marketing efforts across designated sectors. See also “—Customer Experience” for a detailed description of our efforts, including marketing efforts, to bring a compelling customer experience to our customers.

Our Customers

Given the central role of inventory management in our integrated supply chain solutions and logistics services, we categorize our customers based on whether they have utilized our warehouse or inventory management related services, namely our warehousing and distribution services. We review our customers on a regular basis, and customers who have utilized our warehousing and distribution services in the recent past are classified as our integrated supply chain customers. During the Track Record Period, revenue from integrated supply chain customers accounted for a substantial majority of our total revenue in each of 2018 and 2019 and the nine months ended September 30, 2019 and 2020.

While we serve both corporate and individual customers, we primarily serve corporate customers, including JD Group. We provide supply chain solutions and logistics services to customers across a wide range of industries, such as FMCG, apparel, home appliances, home furniture, 3C, automotive and fresh produce.

Based on the assumption that the Reorganization had been completed on or before January 1, 2018, for each of the years ended December 31, 2018 and 2019 and for the nine months ended September 30, 2020, our top five customers accounted for 72.2%, 63.3% and 58.3% of our total revenue, respectively and our largest customer, JD Group, contributed 70.1%, 61.6% and 56.6% of our total revenue, respectively. See “Risk Factors—A significant portion of our revenue was associated with JD Group during the Track Record Period and we expect a significant portion of our revenue to continue to be associated with JD Group in the foreseeable future. We may have different development prospects or 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” for risks relating to our reliance on JD Group during the Track Record Period.

As of the Latest Practicable Date, JD Group indirectly owned approximately 79.12% of our total issued share capital. To the best of our knowledge, other than JD Group, all of the other top five largest customers during the Track Record Period were independent third parties as of the Latest Practicable Date. As of the Latest Practicable Date, (i) Mr. Richard Qiangdong Liu (劉強東), a non-executive Director and chairman of the Board of our Company, held approximately 76.9% of the voting rights in JD Group; and (ii) all the other Directors in aggregate held less than 1% of the beneficial ownership in JD Group.

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Except as disclosed above, none of our other Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our top five customers during the Track Record Period.

Our Suppliers

During the Track Record Period, our top suppliers are primarily outsourced transportation service providers. Based on the assumption that the Reorganization had been completed on or before January 1, 2018, for each of the years ended December 31, 2018 and 2019 and for the nine months ended September 30, 2020, purchases from our top five suppliers accounted for no more than 8.1% of our total purchases, and purchases from our largest supplier accounted for no more than 3.1% of our total purchases during each of these periods.

As of the Latest Practicable Date, JD Group indirectly owned approximately 79.12% of our total issued share capital and Dada Group is an associate of JD Group. To the best of our knowledge, other than Dada Group and JD Group, all of the other top five largest suppliers during the Track Record Period were independent third parties as of the Latest Practicable Date. As of the Latest Practicable Date, (i) Mr. Richard Qiangdong Liu (劉強東), a non-executive Director and chairman of the Board of our Company, held approximately 76.9% of the voting rights in JD Group; and (ii) all the other Directors in aggregate held less than 1% of the beneficial ownership in JD Group.

Except as disclosed above, none of our other Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our top five suppliers during the Track Record Period.

We believe we have sufficient alternative suppliers for our business that can provide us with substitutes of comparable quality and prices. During the Track Record Period, we did not experience any disruption to our business as a result of any significant shortage or delay in supply of the related outsourced transportation services.

Customer Experience

We believe our superior customer services enhance our customer loyalty and brand image. We have accumulated a massive customer base, and formed a multi-level and full-cycle management system for both corporate customers and individual customers. By offering a broad range or full suite of services to customers, and being deeply involved in multiple sections of their supply chains, we have obtained extensive user insights to enhance the quality of our solutions and services. Meanwhile, with a focus on strengthening professional services, we are committed to enhancing customers’ trust in us and our brand influence through trustworthy and reliable services and unparalleled customer experience.

For our corporate customers, our dedicated marketing team has significant sales expertise and are focused on building new customer relationships. As we become more knowledgeable about a customer’s business and processes, our ability to identify opportunities to create value for the customer typically increases, and we focus on trying to expand the solutions and services we provide to our existing corporate customers.

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For our individual customers, we provide timely and reliable delivery services to them by leveraging our superior logistics infrastructure and advanced technological capabilities. We believe that our professionally trained delivery personnel are important in helping us to shape customer experience and distinguish ourselves from our competitors.

Data Privacy and Protection

We are dedicated to securing information about our customers’ shipments and protecting our customers’ and employees’ privacy, and we strive to provide a safe, secure environment for our customers. We are committed to compliance with applicable information security laws, regulations and industry standards. We have developed a company-wide policy on data security to preserve individual personal information and privacy. We strictly comply with laws and regulations and do not distribute or sell our customers’ personal data for any purpose. We normally encrypt customer data in network transmissions and in backend storage to ensure confidentiality.

Our network configuration is secured at multiple layers to protect our databases from unauthorized access. We use sophisticated security protocols for communications among our mobile app, website and plug-ins. To prevent unauthorized access to our system, we utilize a system of firewalls and maintain a demilitarized zone to separate our external-facing services from our internal systems. The quality of our information security management has garnered us the ISO 27001 accreditation. Achieving ISO 27001 means that our Company’s information security management system has been certified in compliance with an internationally recognized standard, solidifying our reputation as the quality leader in the logistics industry.

To minimize the risk of data loss, we conduct regular data backup and data recovery tests. Our database can only be accessed by certain designated and authorized personnel after assessment and approval procedures, whose actions are recorded and monitored. We have data disaster recovery procedures in place and are in the process of establishing our active data centers.

Competition

Our supply chain solutions and logistics services encompass a wide range of operational areas, and as a result we may compete with a broad range of companies, including other supply chain solution and service providers, express and freight delivery service providers, SaaS software service providers and contract logistics providers.

We believe that our ability to compete effectively depends on many factors, including the breadth and depth of our solution and service offerings, customer experience of our solutions and services, our technological capabilities, quality control of our solution and service offerings, our marketing efforts and the strength and reputation of our brand.

Furthermore, as our business continues to grow rapidly, we face significant competition for highly skilled personnel. The success of our growth strategy depends in part on our ability to retain existing personnel and attract additional highly skilled employees.

Health, Safety and Environmental Matters

We strive to operate our workplace and facilities in a manner that protects the environment and the health and safety of our employees and communities. We have implemented company-wide

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environmental, health and safety (EHS) standard operating procedures and conducted related training for our employees. Our EHS function is responsible for issuance of EHS guidelines, monitoring and enforcing the compliance of our operations with environment, health and safety laws and regulations. This responsibility is executed through formulation and implementation of strategies, policies, standards and metrics; communication of EHS policies and procedures; conducting EHS audits and incident response planning and implementation with a team of members of EHS committee.

Specifically, we have implemented protocols for safety of operations of our logistics infrastructure and logistics networks (including ground transportation for our fleet) to minimize accidents. We provide periodic training to our employees to recognize hazards, mitigate risk and avoid injury of themselves and others at work. We use periodic follow-up training to maintain skills and safety awareness. In addition, we have established parcel security screening protocols to inspect parcels before we accept them for sorting and delivery. We screen all items processed through our network for dangerous and prohibited materials, enforce handling procedures across warehouses, sorting centers, delivery stations, service stations and at each level of our network and raise transportation safety awareness among our workers and others. We have listed the prohibited items for on-land transportation and by air transportation into several categories, such as flammables and explosives, gunpowder, gasoline, opium and poultry. All senders are required to identify parcel contents. We also have other measures such as X-ray screening of parcels for safety hazards or prohibited items. We have penalty measures in place for warehouses that handle pickup or delivery of prohibited items.

In light of the comprehensive health and safety measures we put in place and our strict enforcement of these measures, we believe we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other material penalties due to non-compliance with health, safety or environmental laws or regulations.

Corporate Social Responsibility

Since our founding, we have been highly committed to sustainable corporate responsibility projects, both through charitable endeavors and by extending the benefits of our ecosystem to the society at large. We understand that a sustainable business model is tied to our commitment to connecting the community and society responsibly and resourcefully.

COVID-19 Relief Effort

In the fight against COVID-19 in China, we have done our utmost to help people in Wuhan and throughout China during the most difficult times. Immediately after the announcement of quarantine in Wuhan, we put together a task force to lead our epidemic relief efforts. In addition, we provided transportation and logistics support to related local governments as they responded to the COVID-19 pandemic. For example, we opened a dedicated channel to provide expedited shipping of protective

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equipment and other supplies critical to COVID-19 relief efforts across China. We have also provided shipping support in a collaborative effort among retailers including JD Group and healthcare companies to ensure the timely deliveries of the daily necessities to the Chinese people during lock down. The cargo fleet of our logistics center in Wuhan was granted this year’s prestigious China Youth Award, due to its significant contribution during the Wuhan lockdown.

Meanwhile, we took the health and safety of our employees as our top priority. We provided our frontline employees with masks and other protective equipment immediately after the outbreak. We also introduced a series of new policies, such as subsidies, fee reductions and waivers, to help customers that use our solutions and services. This reflects our long-held belief that the best approach to corporate social responsibility is through embedding elements of social responsibility in our business model.

Environmental Sustainability

We have always been committed to using green logistics and reducing resource consumption, environmental degradation and pollution in the process of storage, transportation and packaging. Together with brand designers, manufacturers, logistics companies, packaging companies, industry associations, among others, we further enhanced our “Green Stream Initiative,” a joint green supply chain campaign with the goal of improving the utilization rate of supply chain resources and reducing carbon emissions. Green Stream Initiative guides environmental efforts to drive the responsible and efficient use of resources, optimize our business, lower costs and deliver value in vehicle efficiency, sustainable facilities and sustainable recycling. Additionally, as part of our commitment to sustainable energy, we have been gradually upgrading our nationwide fleet of delivery trucks, as well as those of our third party partners, to new energy vehicles. We have also been collaborating with several brands to promote reusable packaging across the entire supply chain.

We proactively participate in the promotion of sustainable production and consumption. For example, in 2019, we launched China E-Commerce & Logistics Packaging Standard Alliance together with several internationally recognized brands. This alliance aims to optimize the usage of packaging materials in China by establishing nationwide e-commerce packaging standards. We have also expanded our box recycling initiative across China. In addition, we committed to the standardization of green logistics, promoting the tape to be narrowed from 53mm to 45mm, banning layer by layer winding as a standardized packaging process, setting the industry standard and benchmark. In 2020, we launched the JD Green Packaging Alliance, a sustainable packaging platform to promote and enhance environmentally friendly projects within the JD ecosystem.

Intellectual Property

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on copyright, trademark and patent law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of December 31, 2020, we had (i) 2,598 issued patents and patent applications; (ii) 830 granted trademarks and trademark applications; (iii) 119 granted computer software copyrights and (iv) 802 granted domain names. Further, as part of the [REDACTED] reorganization, as of December 31, 2020, JD Group was in the process of transferring and plans to transfer several intellectual property rights relating to our operations to us, including (i) 1,686 issued patents and patent applications; (ii) 147 granted trademarks and trademark applications; (iii) 3 granted domain names and (iv) 14 granted computer software copyrights.

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We have been granted exclusive and non-exclusive rights by JD Group to use in our operations certain copyrighted materials, trademarks and patents that are registered or for which registration applications have been filed with applicable authorities.

Intellectual property rights are important to the success of our business. We share with JD Group its comprehensive intellectual property protection policies and related internal control system to ensure our ability to obtain and maintain patents and other intellectual property and proprietary protections for commercially important technologies, inventions and know-how related to our business, defend and enforce our patents, preserve the confidentiality of our trade secrets, and operate without infringing, misappropriating or otherwise violating the valid, enforceable intellectual property rights of third parties. Highlights of our intellectual property protection policies and related internal control system include the following:

- We perform searches on related intellectual property rights to make sure our intellectual property rights will not be challenged.
- We file trademarks and patents with the relevant authorities to protect our brand image and technological innovations. We regularly monitor third-party actions to protect our IP and take appropriate measures against any infringement.
- We seek to protect our proprietary technology and processes, in part, by entering into confidentiality agreements with our business partners. We have entered into confidentiality agreements and non-competition agreements with our senior management and other employees who have access to trade secrets or confidential information about our business. Our standard employment contract contains an assignment clause, under which we own all the rights to all inventions, technology, know-how and trade secrets derived during the course of such employee’s work.
- We also seek to preserve the integrity and confidentiality of our data and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems.

During the Track Record Period, we had not been subject to any material intellectual property infringement claims.

Employees

As of December 31, 2020, we had an operation team of over 240,000 personnel who are responsible for delivery, warehouse operations as well as other customer services. The following table sets forth the numbers of our employees categorized by function as of the date indicated:

<u>Function</u>	<u>December 31, 2020</u>	
	<u>Number of Employees</u>	<u>% of Total</u>
Operations	246,818	95.4
Sales and marketing	4,728	1.8
Research and development	3,703	1.4
General administration	3,453	1.4
Total	<u>258,702</u>	<u>100.0</u>

We have always striven to provide employees with comprehensive social benefits, a diverse work environment and a wide range of career development opportunities. Furthermore, we are

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committed to providing a safe and healthy workplace, which is backed by strict policies, robust team member education and safety recognition awards, along with continued investments in technology. We are committed to the education, recruitment, development and advancement of diverse team members worldwide. Additionally, we place special emphasis on the building of a talent pipeline and cohesive organizational culture. We have established a comprehensive system for employee training and development, covering leadership, general competencies, professional competencies, and others. Our comprehensive training program includes corporate culture, employee rights and responsibilities, team building, professional behavior, job performance, management skills, leadership, and administrative decision-making.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including, among other things, pension, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance and housing fund plans through a PRC government-mandated benefit contribution plan. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our staff, up to a maximum amount specified by the local government from time to time. We participate in and make contributions to those social security plans and employee benefit plans, either by ourselves or through some qualified human resource service providers. We entered into legal agreements with those human resource service providers. Pursuant to the legal agreements, the human resource service provider shall make the contributions as stipulated by applicable laws and regulations for certain employees of us, the relevant cost of the social insurance and housing fund is ultimately born by us, and the human resource service provider shall hold us harmless from any claims, lawsuits by our employees or any administrative investigations, penalties resulting from its violation of the terms and conditions in the agreement.

We are committed to establishing a competitive and fair remuneration. In order to effectively motivate our staff, we continually refine our remuneration and incentive policies through market research. We conduct performance evaluation for our employees quarterly to provide feedback on their performance. Compensation for our staff typically consists of base salary and a performance-based bonus.

We typically enter into standard employment agreements and confidentiality agreements or clauses with our senior management and core personnel. These contracts include a standard non-compete covenant that prohibits the employee from competing with us, directly or indirectly, during his or her employment and for two years after termination of his or her employment. We maintain a good working relationship with our employees, and we have not experienced any material labor disputes.

Properties

Our corporate headquarters is located in Yizhuang Economic and Technological Development Zone in Beijing. As of December 31, 2020, the buildings we owned had an aggregate GFA of over 11,000 square meters, which were primarily used for office and warehousing functions. As of December 31, 2020, We leased properties in the PRC with an aggregate gross floor area of approximately 17 million square meters. Our leased properties in the PRC are primarily used for warehousing, fulfillment, distribution and delivery purposes. The relevant lease agreements expire between 2021 and 2030. We believe that our existing facilities are generally adequate to meet our current needs, but we expect to expand our logistics network by leasing, building, or purchasing additional facilities across China over the next several years.

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We lease the warehouses and other facilities used in our operations from logistics-focused property developers and make significant investments warehouse equipment in order to maximize the level of automation, and therefore efficiency, of our warehouses. See “—Our Logistics Infrastructure and Networks” for more detail on our logistics properties.

As of December 31, 2020, none of the properties leased by us had a carrying amount of 15% or more of our consolidated total assets. According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, [REDACTED] is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

Insurance

We consider our insurance coverage to be adequate and in accordance with the commercial practices in the industries in which we operate. We provide social security insurance, including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. Additionally, we provide group accident insurance for all delivery personnel we employed and liability insurance for third party service providers that provide installation, maintenance, and washing services for us.

We have purchased compulsory motor vehicle and non-motor vehicle liability insurance and commercial insurance for self-operated vehicles. In addition, we also purchase cargo insurance, parcel-related insurance, warehouse insurance for the warehouses operated and managed by us, certain liability insurance for some aspects of our business and general public liability insurance. We do not maintain business interruption insurance or key-man insurance. Our management will evaluate the adequacy of our insurance coverage from time to time and purchase additional insurance policies as needed.

Legal Proceedings and Compliance

Legal Proceedings

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material noncompliance incidents that have led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

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Risk Management and Internal Control

We have adopted and implemented various policies and procedures to ensure rigorous risk management and internal control, and we are dedicated to continually improving these policies and procedures.

Our risk management and internal control policies and procedures cover various aspects of our business operations, such as logistics safety management, transportation and delivery risk management, and operational and regulatory risk management.

Logistics safety

“Safety first and always” is a core value of our business. We believe we have a responsibility to customers and the community to operate our national logistics infrastructure safely. We have not received any written notice or penalty for material non-compliance or violation of warehousing, transportation or courier safety laws or regulations as of the Latest Practicable Date. Our logistics safety management is built on the following key components:

- *Logistics personnel hiring.* We have adopted stringent hiring procedures for our logistics personnel (in particular, our drivers), which involve in-person interviews and assessments of technical knowledge. We complement our logistics personnel hiring with physical testing.
- *Training.* Our logistics personnel receive regular training on relevant safety policies, standards, protocols and procedures and is required to strictly comply with them in all aspects of our operations. Initial training is complemented by regularly scheduled follow-up training to sustain and enhance basic skills of our logistics personnel, including our drivers. We conduct frequent evaluations of our logistics personnel.
- *Equipment and technology.* We invest in warehousing equipment and transportation fleet that are configured with roll stability capability, collision mitigation or forward facing cameras. Operating or driving behavior of our equipment or trucks is electronically monitored, alerts are provided to the operator or driver situationally and performance is documented for subsequent coaching.
- *Active management.* We continually monitor the risk in relation to our fulfillment services to ensure that the risk management policies and procedures have been strictly followed, so as to achieve effective and efficient governance, risk and control processes. Driver leaders and safety coordinators have real-time access to activity in the truck, facilitating situational and scheduled coaching. We have invested in predictive analytics that assist in proactively identifying drivers with potential safety issues and recommending a remediation path.

In addition, we have put in a place a comprehensive set of internal policies and measures to ensure compliance with applicable environmental and health and safety requirements, including those relating to the discharge of hazardous substances into soils and waters, emissions of toxic air pollutants, and the generation, handling, disposal, storage and release of solid and hazardous substances and wastes, and human health and safety.

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Transportation and delivery risk management

If a shipment by a third-party carrier is damaged during the delivery process, our customer files a claim for the damaged shipment with us and we bear the risk of recovering the claim amount from a third-party carrier. If we are unable to recover all or any portion of the claim amount from our third-party carrier, we may bear the financial loss. We mitigate this risk by using our quality program to carefully select third-party carriers with adequate insurance, quality control procedures and safety ratings. We also take steps to ensure that the coverage we provide to our customers for damaged shipments is substantially similar to the coverage that our third-party carriers provide to us. In addition, we carry our own insurance to protect against customer claims for damaged shipments.

Operational risk management

Operational risk refers to the risk of direct or indirect financial loss resulting from incomplete or problematic internal processes, personnel mistakes, IT system failures, or external events. We have established a series of internal procedures to manage such risk.

In particular, we pay close attention to risk management relating to our IT, as sufficient maintenance, storage and protection of user data and other related information is critical to our success. Sensitive user information in our business operations is stored in the internet data center established and owned by us. Such information includes, but is not limited to, personal information (such as user name, cell phone number, delivery address, age and gender), consultation record, order record and activity log. We have kept all sensitive user information in our database, such as order record and consultation record since inception and maintain such information for an indefinite period of time, unless deletion of such data is required by relevant laws and regulations, requested by the relevant users or pursuant to conditions as specified under our terms of service with our users.

In general, according to our terms of service and except as required by relevant laws and regulations, by signing up, users acknowledge that they permit and authorize our use of the information we were provided with and the information generated in the course of our services. The users also acknowledge under the terms of service that they authorize our business partners to use their information that is necessary for our business partners to provide services to them or to improve their service quality. We give the relevant business partners the necessary user information only pursuant to the authorized scope. For instance, for the third-party couriers we engage, we only provide them with limited user information (names and contacts) necessary for their rendering services to our customer. To ensure the security of user information, we and our business partners owe a duty of confidentiality to the users with respect to such information. We have adopted robust encryption algorithms and implemented stringent rules for data extraction and transmission to ensure the confidentiality of our customers. We have implemented relevant internal procedures and controls to ensure that user data is protected and that leakage and loss of such data is avoided. We have formulated policies for data administration which set out the overall responsibilities and procedures for our staff to adhere to. We have promulgated internal instructions setting out specific procedures regarding the handling of information containing user data, and intend to institute ethical standards in relation to user data protection. Violation of the relevant requirements will result in disciplinary action. The degree of access to and control of the information is determined by reference to the relevance to our staff member's role, and seniority. For activities requiring higher levels of confidentiality, multiple staff are required to be present. We have also implemented mechanisms, such as responsibility rotation and segregation of duties, among our data administration staff in daily operations. In the event of an information security breach, we perform investigations and perform damage control.

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We also hold trainings on data protection for our employees on a regular basis.

Our system keeps a daily log of data extraction and transmission activities and status in authorization in data extraction and transmission for review. We also have a dedicated data security team that is responsible for (i) monitoring suspicious data extraction and transmission activities or violations of our internal rules relating to data protection, (ii) advising on data protection issues identified in the course of monitoring and reporting to company management for attention, and (iii) enhancing our data protection system in accordance with changes in regulatory requirements and technological developments. As and when required by relevant laws and regulations, we intend to consult an external ethics advisor in relation to the protection of user data.

We also have a data back-up system through which data is encrypted and stored on servers in different locations regularly to reduce the risk of data loss. In addition, we perform back-up recovery tests regularly to examine the status of the back-up system. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

Human resources risk management

We provide regular and specialized training tailored to (i) the needs of our employees in different departments, and (ii) our anti-bribery and anti-corruption policy. We have a training center which regularly organizes internal training sessions conducted by senior employees or outside consultants on topics of interest that employees can vote on. The training center schedules regular online and classroom trainings, reviews the content of the trainings, follows up with employees to evaluate the impact of such training and rewards lecturers for positive feedback. Through these training sessions, we ensure that our staff’s skill sets and knowledge level of our anti-bribery and anti-corruption policy remain up-to-date, enabling them to better comply with applicable laws and regulations in the course of exploring business.

We have in place an employee handbook and a code of conduct which is distributed to all our employees. The handbook contains internal rules and guidelines regarding work ethics, fraud prevention mechanisms, negligence and corruption. We provide employees with regular training, as well as resources to explain the guidelines contained in the employee handbook.

Regulatory compliance and legal risk management

Compliance risk refers to the risk of being subject to legal and regulatory sanctions, and the risk of major financial and reputational losses as a result of our failure to comply with relevant laws, regulations, rules and guidelines. Meanwhile, legal risk refers to the risk of legal liability arising from violations of laws and regulations, breaches of contracts, infringements on the legal rights of others or otherwise in connection with any contract or business activity in which we are involved.

In order to manage our compliance and legal risk exposures effectively, we have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. In particular, as we and our employees deal with a variety of third parties in our operations, we have implemented internal procedures with respect to anti-bribery, anti-corruption and conflict of interest matters. First, as part of our risk management and internal control measures, we have adopted a series of internal regulations against corrupt and fraudulent activities, which include

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measures against receiving bribes and kickbacks, and misappropriation of company assets. We have anti-corruption and anti-bribery clauses in a majority of our business contracts, and we require our suppliers and other third parties who cooperate with us to comply with relevant laws and regulations. Second, we require every department to perform self-check on any violations in key processes and roles on a regular basis, and report to the internal control department any violation or trace of possible risk events. Third, employees and parties outside our Company are encouraged to provide information via phone, email, letters and other means, and we would offer rewards in return for valuable information. Fourth, our internal control department carefully evaluates risk events and conducts investigations when necessary. Fifth, we have implemented clear and strict policies and guidelines that prohibit the acceptance of gifts, hospitality and other offers by interested third parties. Lastly, our internal control department conducts internal control inspections regularly. Employees are required to acknowledge and accept JD Group’s Code of Business Conduct and Ethics, which applies to us, that lists in detail relevant policies and regulations, including but not limited to clear definitions of bribery, corruption and interested parties. We impose on directors, senior management and employees penalties, and require compensation, for any losses incurred as a result of any activities concerning bribery and corruption.

We continually improve our internal policies according to changes in laws, regulations and industry standards, and update internal templates for legal documents. We also undertake compliance management over various aspects of our operations and employee activities, and have established an accountability system in respect of employees’ violations of laws, regulations and internal policies. In addition, we continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

Board oversight

To monitor the ongoing implementation of our risk management policies and corporate governance measures after [REDACTED], we have established an audit committee to monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee comprises three members, namely Nora Gu Yi Wu (顧宜), Carol Yun Yau Li (李恩祐) and Sandy Ran Xu (許冉), with Nora Gu Yi Wu (顧宜) (being our independent non-executive Director with the appropriate professional qualifications) as chair of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see the section headed “Directors and Senior Management” in this document.

Licenses, Approvals and Permits

In the opinion of Shihui Partners, our PRC Legal Adviser, we had obtained material licenses, approvals and permits during the Track Record Period, including, without limitation, Value-added Telecommunication License (增值電信業務經營許可證), Courier Service Operation Permit (快遞業務經營許可證), Road Transportation Operation Permit (道路運輸經營許可證), and Civil Unmanned Aerial Vehicle Business License (民用無人駕駛航空器經營許可證). In the opinion of Shihui Partners, our PRC Legal Adviser, all of our major subsidiaries complied in all material aspects with relevant laws and regulations during the Track Record Period.

We renew all such material permits and licenses from time to time to comply in all material aspects with the relevant laws and regulations. Our PRC Legal Adviser has advised us that there is no material legal impediment to renewing such permits or licenses.

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The following table sets forth a list of our material licenses, approvals and permits:

No.	Holder	Name of License, Approval and Permit	Expiration Date
1	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司)	Courier Service Operation Permit	December 4, 2023
2	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司)	Road Transportation Operation Permit	March 29, 2022
3	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司)	Filing of Consignees or Consignors of Customs Imported or Exported Goods (海關進出口貨物收發貨人備案)	Long-term
4	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司)	International Freight Forwarding Agencies (國際貨運代理備案)	Long-term
5	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司)	Registration of Foreign Trade Business Operators (對外貿易經營者登記)	Long-term
6	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司)	Transportation Enterprises Undertaking the Road Transportation of Goods under Customs Supervision within the Territory of China (境內公路承運海關監管貨物的運輸企業)	Long-term
7	Xi'an Jingdong Xuncheng Logistics Co., Ltd. (西安京東訊成物流有限公司)	Road Transportation Operation Permit	February 12, 2022
8	Guangdong Jingbangda Supply Chain Technology Co., Ltd. (廣東京邦達供應鏈科技有限公司)	Courier Service Operation Permit	March 21, 2023
9	Guangdong Jingbangda Supply Chain Technology Co., Ltd. (廣東京邦達供應鏈科技有限公司)	Courier Service Operation Permit	September 16, 2023
10	Guangdong Jingbangda Supply Chain Technology Co., Ltd. (廣東京邦達供應鏈科技有限公司)	Registration of Foreign Trade Business Operators	Long-term
11	Guangdong Jingbangda Supply Chain Technology Co., Ltd. (廣東京邦達供應鏈科技有限公司)	Registration of Customs Declaration Entities (海關報關單位註冊登記)	Long-term
12	Guangdong Jingbangda Supply Chain Technology Co., Ltd. (廣東京邦達供應鏈科技有限公司)	International Freight Forwarding Agencies	Long-term
13	Guangdong Jingbangda Supply Chain Technology Co., Ltd. (廣東京邦達供應鏈科技有限公司)	Road Transportation Operation Permit	June 30, 2023

BUSINESS

No.	Holder	Name of License, Approval and Permit	Expiration Date
14	Shanghai Xunzan Supply Chain Technology Co., Ltd. (上海迅贊供應鏈科技有限公司)	Courier Service Operation Permit	January 8, 2023
15	Shanghai Xunzan Supply Chain Technology Co., Ltd. (上海迅贊供應鏈科技有限公司)	Road Transportation Operation Permit	April 27, 2022
16	Shanghai Xunzan Supply Chain Technology Co., Ltd. (上海迅贊供應鏈科技有限公司)	Registration of Foreign Trade Business Operators	Long-term
17	Beijing Jingxundi Technology Co., Ltd. (北京京訊遞科技有限公司)	Courier Service Operation Permit	January 23, 2023
18	Beijing Jingxundi Technology Co., Ltd. (北京京訊遞科技有限公司)	Road Transportation Operation Permit	September 15, 2024
19	Kuayue-Express Group Co., LTD. (跨越速運集團有限公司)	Courier Service Operation Permit	June 13, 2023
20	Kuayue-Express Group Co., LTD. (跨越速運集團有限公司)	Road Transportation Operation Permit	December 26, 2022
21	Kuayue-Express Group Co., LTD. (跨越速運集團有限公司)	Value-Added Telecommunications Business Operating License	May 11, 2023
22	Beijing Yuanyi Express Agency Co., Ltd. (北京元翼貨運代理有限公司)	Road Transportation Operation Permit	November 14, 2022
23	Beijing Yuanyi Express Agency Co., Ltd. (北京元翼貨運代理有限公司)	Registration of Non-Vessel Operating Common Carriers (無船承運業務經營資格登記)	June 14, 2023
24	Shaanxi Jingdong Xincheng Supply Chain Technology Co., Ltd. (陝西京東信成供應鏈科技有限公司)	Courier Service Operation Permit	January 23, 2023
25	Shaanxi Jingdong Xincheng Supply Chain Technology Co., Ltd. (陝西京東信成供應鏈科技有限公司)	Road Transportation Operation Permit	April 27, 2022
26	Liaoning Jingbangda Supply Chain Technology Co., Ltd. (遼寧京邦達供應鏈科技有限公司)	Courier Service Operation Permit	February 21, 2023
27	Liaoning Jingbangda Supply Chain Technology Co., Ltd. (遼寧京邦達供應鏈科技有限公司)	Road Transportation Operation Permit	October 23, 2022
28	Sichuan Jingbangda Logistics Technology Co., Ltd. (四川京邦達物流科技有限公司)	Courier Service Operation Permit	April 19, 2023
29	Sichuan Jingbangda Logistics Technology Co., Ltd. (四川京邦達物流科技有限公司)	Road Transportation Operation Permit	April 29, 2024

BUSINESS

No.	Holder	Name of License, Approval and Permit	Expiration Date
30	Hubei Jingbangda Supply Chain Technology Co., Ltd. (湖北京邦達供應鏈科技有限公司)	Courier Service Operation Permit	October 08, 2022
31	Hubei Jingbangda Supply Chain Technology Co., Ltd. (湖北京邦達供應鏈科技有限公司)	Road Transportation Operation Permit	February 04, 2022
32	Beijing Jinghong Logistics Co., Ltd. (北京京鴻物流有限公司)	Road Transportation Operation Permit	May 21, 2021
33	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	Registration of Foreign Trade Business Operators	Long-term
34	Guangdong Jingdong Xingyou Logistics Co., Ltd. (廣東京東星佑物流有限公司)	Road Transportation Operation Permit	March 31, 2024
35	Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司)	Courier Service Operation Permit	February 09, 2025
36	Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司)	Road Transportation Operation Permit	June 30, 2024
37	Suqian Jingdong Tonglian Logistics Co., Ltd. (宿遷京東通聯物流有限公司)	Value-Added Telecommunications Business Operating License	April 27, 2025
38	Suqian Jingdong Tonglian Logistics Co., Ltd. (宿遷京東通聯物流有限公司)	Road Transportation Operation Permit	December 31, 2021
39	Jiangsu Jingdong Feiteng Technology Co., Ltd. (江蘇京東飛騰科技有限公司)	Civil Unmanned Aerial Vehicle Business License	Long-term

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PRC REGULATORY BACKGROUND

Overview

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (the “**Negative List**”) and the Catalog of Industries for Encouraging Foreign Investment (the “**Encouraging Catalog**”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divides industries into three categories in terms of foreign investment, namely, “encouraged”, “restricted”, and “prohibited”. Industries not listed in the Encouraging Catalog and the Negative List are generally deemed as falling into a fourth category “permitted.” The currently effective Negative List is the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (the “**2020 Negative List**”), which became effective on July 23, 2020. As advised by our PRC Legal Adviser, a summary of our business/operation that is subject to foreign investment restriction or prohibition in accordance with the Negative List, the Encouraging Catalog and other applicable PRC laws and on certain interview with governmental authority is set out below (the “**Relevant Businesses**”):

Categories	Our business/operation
“Prohibited”	
Domestic Express Delivery of Letters Business	As advised by our PRC Legal Adviser, Article 51 of the Postal Law of the PRC (中華人民共和國郵政法) prohibits foreign investment in a business that operates and provides domestic express delivery of letters. Similarly, according to the 2020 Negative List, promulgated by the NDRC and the MOFCOM, domestic express delivery of letters is an industry where foreign investment is not permitted. Pursuant to the Administrative Measures on the Courier Service Market (快遞市場管理辦法) and the Administrative Measures on Courier Service Operation Permits (快遞業務經營許可管理辦法), any entity operating courier services across multiple provinces, including but not limited to delivery of letters, parcels and other items, must obtain a cross-provincial Courier Service Operation Permit (快遞業務經營許可證) from the State Post Bureau (國家郵政局). Given the Company provides an integrated service with respect to its supply chain solutions and logistics services, it is neither legally nor commercially practicable to separate the domestic express delivery of letters from the Company’s other supply chain solutions and logistics services and other businesses which rely on the Courier Service Operation Permit and/or are subject to foreign ownership restrictions pursuant to the 2020 Negative List (the “Prohibited Businesses”). Furthermore, as advised by our PRC Legal Adviser, the State Post Bureau will not consider in the foreseeable future to issue separate cross-provincial Cross-provincial Permits to two separate entities which use the same delivery stations, facilities, delivery personnel and service network. In other words, as advised by our PRC Legal Adviser, the State Post Bureau can only issue cross-provincial Courier Service Operation Permits to two separate entities under the Group only if their delivery stations, facilities, delivery personnel and service network do not overlap. The Group currently holds two cross-provincial Courier Service Operation Permits, given that in addition to its original cross-provincial Courier Service Operation Permit held by Beijing Jingbangda, a consolidated affiliated entity of the Company, it had also acquired approximately 55% of the shareholding in Kuayue Express, and is in the process of applying for another cross-provincial

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Categories

Our business/operation

Courier Service Operation Permit for a consolidated affiliated entity of the Company, Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司) which operates Zhongyou Express (眾郵快遞) (“**Zhongyou Express**”) and is in the process of being rebranded as Jingxida Express (京喜達快遞). Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司) is a wholly owned subsidiary of Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司). The applications for the cross-provincial Courier Service Operation Permits for Jingbangda, Kuayue Express and Zhongyou Express were made or will be made on the basis that they each possessed standalone delivery stations, facilities, delivery personnel and service network.

Our Company, the Joint Sponsors, our PRC Legal Adviser and Han Kun Law Offices (the legal adviser to the Joint Sponsors as to PRC laws) conducted a verbal consultation on December 31, 2020 with a senior officer of the Market Regulation Research Branch of Development and Research Center of the State Post Bureau of the PRC (中國國家郵政局發展研究中心市場監管研究處) (the “**Regulatory Consultation**”), which, as advised by our PRC Legal Adviser, participates in the daily duties of such department including, among others: (i) the review of application for cross-provincial Courier Service Operation Permit; and (ii) the formulation of regulatory policies in, and the regulation of, postal services (including the regulatory policies on applications for Courier Service Operation Permit) in the PRC. In light of the foregoing, our PRC Legal Adviser is of the view that such consulted official is a competent person to give the below confirmation. The senior officer of the Market Regulation Research Branch of Development and Research Center of the State Post Bureau confirmed that (i) applicants must fulfill a number of conditions to obtain a Courier Service Operation Permit, including whether the applicant has its own standalone delivery stations, facilities, delivery capability, service network and brand; and (ii) separate Courier Service Operation Permit will not be issued to two separate entities which use the same delivery stations, facilities, delivery personnel and service network.

Consequently, according to the Regulatory Consultation, the State Post Bureau will not consider issuing separate Courier Service Operation Permit to two separate entities which use the same delivery stations, facilities, delivery personnel and service network. In other words, the State Post Bureau can only issue Courier Service Operation Permit to two separate entities if there is no overlap of their delivery stations, facilities, delivery personnel and service network.

Save for the Prohibited Businesses, the Contractual Arrangements also include certain non-restricted businesses (i.e. business that are not relying on the Courier Service Operation Permit and/or not subject to foreign ownership restrictions pursuant to the 2020 Negative List), including but not limited to advertising and after-purchase services, unmanned and artificial intelligence technologies that are integrated with the Group’s logistics services, customer service, and international freight forwarding (collectively, the “**Non-restricted Businesses**”). The Company confirms that it will (and will have measures in place to) ensure the Non-restricted Businesses under the Contractual Arrangements will remain immaterial after the [REDACTED] and its annual revenue contribution relative to the Group will be below 5%.

For further details of the limitations on foreign ownership in PRC companies conducting the aforementioned business under PRC laws and regulations, please see the section headed “Regulations”.

CONTRACTUAL ARRANGEMENTS

OUR CONTRACTUAL ARRANGEMENTS

Overview

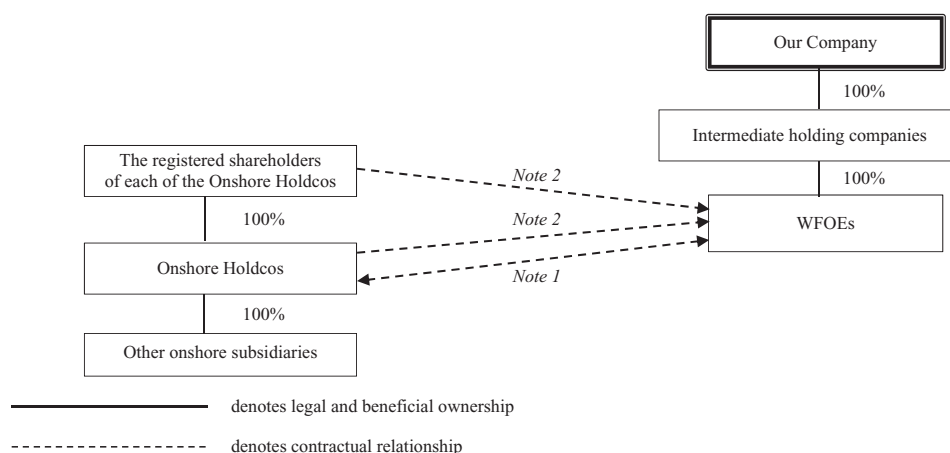
Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations as outlined above, we do not directly own any equity interests in our Consolidated Affiliated Entities. The Onshore Holdco is held by Richard Qiangdong Liu (劉強東) as to 45%, Yayun Li (李姪雲) as to 30% and Pang Zhang (張霄) as to 25%. Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) is held by Jian Cui (崔建) as to 50% and Dingkai Yu (禹定凱) as to 50%. Jian Cui (崔建) and Dingkai Yu (禹定凱) are employees of the Group.

In view of the aforementioned PRC regulatory background, after consultation with our PRC Legal Adviser, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements (i) between the WFOE, on the one hand, and the Onshore Holdco and its shareholders, on the other, and (ii) between Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) on the one hand, and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) and its shareholders on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of the Consolidated Affiliated Entities to be consolidated into our results of operations and assets and liabilities under IFRSs as if they were subsidiaries of our Group.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. Pursuant to the Reorganization, in replacement of certain of the previous contractual arrangements, the Contractual Arrangements currently in effect were entered into on January 25, 2021, whereby the WFOEs have acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. The revenue contribution of all the Consolidated Affiliated Entities to our Group, taking into account all of their respective businesses with or without foreign investment restrictions under PRC laws, amounted to approximately 96.9%, 83.9% and 81.5% for the two years ended December 31, 2019 and nine months ended September 30, 2020, respectively. Based on the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

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Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities; (ii) by entering into the exclusive business cooperation agreement with our WFOEs, which are our Group’s subsidiaries incorporated in PRC, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after [REDACTED], and (iii) a number of other companies use similar arrangements to accomplish the same purpose.



Notes:

1. The WFOE and Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) provide business support, technical and consulting services in exchange for service fees from the Onshore Holdco and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司), respectively. Please refer to “—Our Contractual Arrangements—Exclusive Business Cooperation Agreement”.
2. The Registered Shareholders, executed the exclusive option agreement in favor of the WFOE for the acquisition of all or part of the equity interests in and all or part of the assets in the Onshore Holdco. Jian Cui (崔建) and Dingkai Yu (禹定凱) executed the exclusive option agreement in favor of Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) for the acquisition of all or part of the equity interests in and all or part of the assets in Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司). See section headed “—Our Contractual Arrangements—Exclusive Option Agreement”.
 The Registered Shareholders executed shareholders’ rights entrustment agreement and the powers of attorney in favor of the WFOE, for the exercise of all shareholders’ rights in the Onshore Holdco. Jian Cui (崔建) and Dingkai Yu (禹定凱) executed shareholders’ rights entrustment agreement and the powers of attorney in favor of the Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), for the exercise of all shareholders’ rights in the Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司). See section headed “—Our Contractual Arrangements—Shareholders’ Rights Entrustment Agreement and Powers of Attorney”.
 The Registered Shareholders granted security interests in favor of the WFOE, over the entire equity interests in the Onshore Holdco. Jian Cui (崔建) and Dingkai Yu (禹定凱) granted security interests in favor of Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), over the entire equity interests in Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司). See section headed “—Our Contractual Arrangements—Share Pledge Agreement”.

Circumstances under which we will unwind the Contractual Arrangements

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of our supply chain solutions and logistics services business in the event that PRC regulatory restrictions on foreign ownership of the relevant business cease to exist.

Summary of the agreements under the Contractual Arrangements and other key terms thereunder

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

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Exclusive Business Cooperation Agreement

The Onshore Holdco entered into an exclusive business cooperation agreement with the WFOE on January 25, 2021 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which the Onshore Holdco agrees to engage WFOE as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment leasing, market consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to the WFOE’s adjustment, are equal to all of the net profit of the Onshore Holdco and its subsidiaries. The WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of the Onshore Holdco and its subsidiaries from previous financial periods, which will be wired to the designated account of the WFOE upon issuance of payment notification by the WFOE. The WFOE enjoys all the economic benefits derived from the businesses of the Onshore Holdco and bears the relevant portion of the business risks of the Onshore Holdco. If the Onshore Holdco runs into financial deficit or suffers severe operation difficulties, the WFOE will provide financial support to the Onshore Holdco.

Intellectual property rights are developed during the normal course of business of the Onshore Holdco and its subsidiaries. Pursuant to the Exclusive Business Cooperation Agreement, the WFOE will have the exclusive and proprietary rights to all intellectual properties developed by the Onshore Holdco and its subsidiaries, in connection with performance of this Exclusive Business Cooperation Agreement. Part of the economic benefits generated by the Onshore Holdco and its subsidiaries will be intellectual properties developed or created during the normal business operation of the Onshore Holdco and its subsidiaries. Though we do not intend to transfer any existing intellectual property rights held by the Onshore Holdco to the WFOE, the Onshore Holdco is required under the Contractual Arrangements to obtain the WFOE’s prior written consent before they transfer, assign or dispose of any of the intellectual properties to any third party.

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

Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) also entered into an exclusive business cooperation agreement with Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) on January 25, 2021 which substantially mirrors the terms of Exclusive Business Cooperation Agreement set out above.

Exclusive Option Agreement

The Onshore Holdco and the Registered Shareholders entered into an exclusive option agreement with the WFOE dated January 25, 2021 (the “**Exclusive Option Agreement**”), pursuant to which the WFOE (or our Company or any subsidiary of our Company, the “designee”) is granted an irrevocable and exclusive right to purchase all of the equity interest in and/or assets of the Onshore Holdco for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest

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

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

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

Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) and Jian Cui (崔建) and Dingkai Yu (禹定凱) also entered into an exclusive option agreement with Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) dated January 25, 2021 which substantially mirrors the terms of Exclusive Option Agreement set out above.

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Loan Agreement

Pursuant to the loan agreement dated January 25, 2021 between the WFOE and the Registered Shareholders (the “**Loan Agreement**”), the WFOE made loans in an aggregate amount of RMB1 million to the Registered Shareholders solely for the capitalization of the Onshore Holdco. Pursuant to the Loan Agreement, the Registered Shareholders can only repay the loans by the sale of all their equity interest in the Onshore Holdco to the WFOE or its designated person. The Registered Shareholders must sell all of their equity interests in the Onshore Holdco to the WFOE or its designated person and pay all of the proceeds from sale of such equity interests or the maximum amount permitted under PRC law to the WFOE. In the event that Registered Shareholders sell their equity interests to the WFOE or its designated person with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to the WFOE as the loan interest. The maturity date of the loans is on the tenth anniversary of the date when the Registered Shareholders received the loans and paid the amount as capital contribution to the Onshore Holdco. The term of the loans will be extended automatically for an additional 10 years, unless the WFOE objects, for an unlimited number of times. The loan must be repaid immediately under certain circumstances, including, among others, (i) if any other third-party claims against any Registered Shareholder for an amount more than RMB100,000 and the WFOE has reasonable ground to believe that the shareholder is unable to repay the claimed amount, (ii) if a foreign investor is permitted to hold majority or 100% equity interest in the Onshore Holdco and the WFOE elects to exercise its exclusive purchase option, or (iii) if the Loan Agreement, the Share Pledge Agreement (as defined below) or the Exclusive Option Agreement terminates for cause not attributable to the WFOE or is deemed to be invalid by a court.

Pursuant to the loan agreement dated January 25, 2021 between Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), Jian Cui (崔建) and Dingkai Yu (禹定凱), Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) made loans in an aggregate amount of RMB5 million to Jian Cui (崔建) and Dingkai Yu (禹定凱) solely for the capitalization of Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司)—the terms of such loan agreement substantially mirror the terms of the Loan Agreement set out above.

Shareholders’ Rights Entrustment Agreement and Powers of Attorney

Pursuant to the shareholder’s rights entrustment agreement entered into among the Registered Shareholders, the WFOE and the Onshore Holdco on January 25, 2021 (the “**Shareholders’ Rights Entrustment Agreement**”), and the irrevocable power of attorney executed by each of the Registered Shareholders on the same day (the “**Power of Attorney**”), whereby the Registered Shareholders appointed the WFOE or a director of its offshore holding company or his or her successor (including a liquidator replacing the WFOE’s director) as their exclusive agent and attorney to act on their behalf on all matters concerning the Onshore Holdco and to exercise all of its rights as a registered shareholder of the Onshore Holdco. These rights include (i) the right to propose, convene and attend shareholders’ meetings; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders’ voting rights; and (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of the Onshore Holdco. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of the Onshore Holdco on behalf of the Registered Shareholders. The Registered Shareholders have each undertaken to transfer all assets obtained after the winding up of the Onshore Holdco to the WFOE at nil

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consideration or the lowest price permissible by the then applicable PRC laws. As a result of the Shareholders’ Rights Entrustment Agreement and the Powers of Attorney, we, through the WFOE, are able to exercise management control over the activities that most significantly impact the economic performance of the Onshore Holdco.

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

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

Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), Jian Cui (崔建), Dingkai Yu (禹定凱) and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) also entered into a shareholder’s rights entrustment agreement on January 25, 2021 which substantially mirror the terms of the Shareholders’ Rights Entrustment Agreement set out above. Jian Cui (崔建) and Dingkai Yu (禹定凱) also executed irrevocable power of attorney on the same day which substantially mirror the terms of the Power of Attorney set out above.

Share Pledge Agreement

The Onshore Holdco, the Registered Shareholders and the WFOE entered into a share pledge agreement on January 25, 2021 (the “**Share Pledge Agreement**”). Under the Share Pledge Agreement, the Registered Shareholders will pledge as first charge all of their respective equity interests in the Onshore Holdco to the WFOE as collateral security for any or all of their payments due to the WFOE and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Loan Agreement, Shareholders’ Rights Entrustment Agreement and the Powers of Attorney. The Share Pledge Agreement will not terminate until (i) all obligations of the Onshore Holdco and the Registered Shareholders are satisfied in full; (ii) the WFOE exercises its exclusive option to purchase the entire equity interests held by the Registered Shareholders in the Onshore Holdco and/or the entire assets of the Onshore Holdco pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws; (iii) the WFOE exercises its unilateral and unconditional right of termination; or (iv) the Share Pledge Agreement is required to be terminated in accordance with applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Registered Shareholders may transfer or permit the encumbrance of any of their equity interests in and the relevant assets of the Onshore Holdco without the WFOE’s prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, the WFOE is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of the Onshore Holdco, which further strengthens the protection of the WFOE’s interests over the Onshore Holdco under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to the WFOE’s satisfaction within 30 days upon being notified by the WFOE, the WFOE may demand that the Onshore Holdco immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the

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pledged equity interests and use the proceeds to repay any outstanding payments due to the WFOE. The Registered Shareholders have pledged their equity interests in the Onshore Holdco to WFOE and registered such pledges with the relevant PRC governmental authority pursuant to PRC laws and regulations.

Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), Jian Cui (崔建), Dingkai Yu (禹定凱) and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) also entered into a share pledge agreement on January 25, 2021 which substantially mirrors the terms of the Share Pledge Agreement set out above. Jian Cui (崔建) and Dingkai Yu (禹定凱) have pledged their equity interests in Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) to Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) and registered such pledges with the relevant PRC governmental authority pursuant to PRC laws and regulations.

Other key terms thereunder

Dispute resolution

Each of the Contractual Arrangements stipulates that the parties thereto shall negotiate in good faith to resolve any dispute with respect to the construction and performance of the provisions of any such Contractual Arrangements. In the event the parties fail to resolve such a dispute within 30 days after any party’s request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the Contractual Arrangements also provides that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interest of the Onshore Holdcos, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Onshore Holdcos; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other jurisdiction (being the place of domicile of the Onshore Holdcos and where the principal assets of the Onshore Holdcos and WFOEs are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the equity or property interest of the Onshore Holdcos.

However, our PRC Legal Adviser has advised that (i) a tribunal normally would not grant such kind of injunctive relief or winding up order of the Onshore Holdcos under PRC laws; (ii) interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and (iii) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that our Consolidated Affiliated Entities, the Onshore Holdcos or their registered shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. Please refer to the section headed “Risk Factors—Risks Related to Our Corporate Structure—We rely

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on Contractual Arrangements with our Onshore Holdcos and their shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control” of this document for details.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the registered shareholders of the Onshore Holdcos, as if the successors were signing parties to the Contractual Arrangements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, the WFOEs can enforce their rights against the successors. Pursuant to the Contractual Arrangements, any successor of the registered shareholders of the Onshore Holdcos shall inherit any and all rights and obligations of the registered shareholders under the Contractual Arrangements as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstance which would affect their exercise of equity interest in the Onshore Holdcos, as if the successor was a signing party to such Contractual Arrangements.

According to the terms of the Exclusive Option Agreement, each of the registered shareholders of the Onshore Holdcos has undertaken, in the event of death or any other event which causes the inability of the shareholder to perform their day-to-day obligations including bankruptcy, marriage or divorce, to transfer all of the equity interests, including right and obligations, in the Onshore Holdcos, held by them without consideration to the WFOEs or an individual or legal entity designated by the WFOEs under applicable PRC law.

In addition, the spouse of each of Richard Qiangdong Liu (劉強東), Pang Zhang (張甯), Yayun Li (李婭雲), Jian Cui (崔建) and Dingkai Yu (禹定凱) executes an irrevocable undertaking on January 25, 2021, whereby they expressly and irrevocably acknowledge and undertake that (i) any equity interests held by Richard Qiangdong Liu (劉強東), Pang Zhang (張甯), Yayun Li (李婭雲), Jian Cui (崔建) and Dingkai Yu (禹定凱) in the Onshore Holdcos do not fall within the scope of their communal properties; (ii) they will not have any claim on the interests of the Onshore Holdcos obtained through the Contractual Arrangements; (iii) they have never participated and will not participate in the operation or management of the Onshore Holdcos.

Based on the foregoing, our PRC Legal Adviser is of the view that (i) the Contractual Arrangements provide protection to us even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the registered shareholders of the Onshore Holdcos; and (ii) loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the registered shareholders of the Onshore Holdcos would not affect the validity of the Contractual Arrangements, and the WFOEs can enforce their rights under the Contractual Arrangements against the successors of such shareholders.

Arrangements to address potential conflicts of interest

Each of the registered shareholders of the Onshore Holdcos has given their irrevocable undertakings in the shareholders’ rights entrustment agreement which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed “—Shareholders’ Rights Entrustment Agreement and the Powers of Attorney” above.

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Loss sharing

None of the agreements constituting the Contractual Arrangements provides that our Company or the WFOEs is obligated to share the losses of the Onshore Holdcos, but if the Onshore Holdcos suffers any losses or material difficulties of business, the WFOEs will provide financial support as permitted under PRC laws at its discretion to the Onshore Holdcos under the terms of the exclusive business cooperation agreements. Further, each of the Onshore Holdcos is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or the WFOEs are not expressly required to share the losses of the Onshore Holdcos or provide financial support to the Onshore Holdcos. Despite the foregoing, given that we conduct the Relevant Businesses in the PRC through the Consolidated Affiliated Entities which hold the requisite PRC license and approvals and that the Onshore Holdcos’ results of operations and assets and liabilities are consolidated into our results of operations and assets and liabilities under the applicable accounting principles, our business, financial condition and results of operations would be adversely affected if the Consolidated Affiliated Entities suffered losses.

Liquidation

Pursuant to the exclusive option agreements, in the event of a mandatory liquidation required by PRC laws, the Onshore Holdcos shall sell all of its assets, to the extent permitted by PRC laws, to the WFOEs or another qualifying entity designated by the WFOEs, at the lowest selling price permitted by applicable PRC laws. Any obligation for the WFOEs to pay the Onshore Holdcos as a result of such transaction shall be waived by the Onshore Holdcos and any profits arising from the above transactions shall be paid to the WFOEs or the qualifying entity designated by the WFOEs in partial satisfaction of the service fees under the exclusive business cooperation agreement, as applicable under the then current PRC laws. Accordingly, in the event of winding up of the Onshore Holdcos, a liquidator may seize the relevant assets of the Onshore Holdcos through the WFOEs based on the Contractual Arrangements for the benefit of our creditors/shareholders.

Termination

Each of the Contractual Arrangements provides that the WFOEs and the Onshore Holdcos shall terminate the Contractual Arrangements once the WFOEs holds the entire equity interests in and/or the entire assets of the Onshore Holdcos under the then PRC laws and if the WFOEs or their subsidiaries are able to conduct the Relevant Businesses directly as a result of being permitted to do so under the then PRC laws and the WFOEs are registered as the sole shareholder of the Onshore Holdcos. In addition, pursuant to the two exclusive business cooperation agreements aforementioned, the WFOEs have the unilateral right to terminate these agreements at any time by providing 30 days’ advance written notice to the Onshore Holdcos.

Insurance

We do not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Company’s confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through the Consolidated Affiliated Entities under the Contractual Arrangements.

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Legality of the Contractual Arrangements

Based on the above, our PRC Legal Adviser is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- (i) each of the WFOEs and the Onshore Holdcos is an independent legal entity which is duly established, and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto and none of the them would be deemed as void under the PRC Civil Code;
- (iii) none of the agreements under the Contractual Arrangements violates any provisions of respective articles of association of the WFOEs, the Consolidated Affiliated Entities;
- (iv) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that (a) the pledges under the share pledge agreement are required to be registered with the relevant local SAMR; (b) the exercise of the option by WFOEs of their right under exclusive option agreement to all or part of the equity interests in our Onshore Holdcos is subject to the approvals of, consent of, filing with and/or registration with the PRC governmental authorities;
- (v) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of the Onshore Holdcos, injunctive relief and/or winding up of the Onshore Holdcos, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the Onshore Holdcos in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and
- (vi) the consummation of the contemplated [REDACTED] of our shares on the Stock Exchange is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which was adopted by six PRC regulatory agencies, including MOFCOM and the CSRC, and effective since September 2006 and amended on June 22, 2009.

Our PRC Legal Adviser is of the view that the use of the Contractual Arrangements does not constitute a breach of the relevant laws and regulations. However, we have been advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Adviser.

Based on the above advice from our PRC Legal Adviser, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See the section headed “Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the Contractual Arrangements in relation to

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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.”

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed “Connected Transactions” of this document.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOEs through which we operate our business in the PRC. As advised by our PRC Legal Adviser, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see “Contractual Arrangements—Legality of the Contractual Arrangements”.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods”. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors—Risks related to our Corporate Structure—Our current corporate structure and business operations may be affected by the Foreign Investment Law”.

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COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;
2. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
4. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of the WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of operating entities

Under the exclusive business cooperation agreement, it was agreed that, in consideration of the services provided by the WFOEs, the Onshore Holdcos shall pay services fees to the WFOEs. The services fee shall equal to the Onshore Holdcos’ consolidated profit before tax excluding the service fee thereunder, after deducting any accumulated losses of the Consolidated Affiliated Entities from the preceding fiscal year, and any costs, expenses, tax and other statutory contribution in relation to the respective fiscal year. The WFOEs have the right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

In addition, under the exclusive option agreement, the WFOEs have absolute contractual control over the distribution of dividends or any other amounts to the registered shareholders of the Onshore Holdcos as the WFOEs’ prior written consent is required before any distribution can be made. If the registered shareholders of the Onshore Holdcos receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fee under the exclusive business cooperation agreement, such income, profit distribution or dividend to the WFOEs or any other person designated by the WFOEs to the extent permitted under applicable PRC laws.

As a result of the Contractual Arrangements between the WFOEs, the Onshore Holdcos and the registered shareholders of the Onshore Holdcos, the WFOEs are able to effectively control, recognize and receive substantially all the economic benefit of the business and operations of the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of the Consolidated Affiliated Entities is disclosed in Note 1.2 to the Accountants’ Report set out in Appendix I.

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Regulations relating to Foreign Investment

Investment activities in the PRC by foreign investors are principally governed by the Encouraging Catalog and the Negative List, which were promulgated and are amended from time to time by the MOFCOM and NDRC. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in the PRC, classifying businesses into three categories with regard to foreign investment: “encouraged”, “restricted” and “prohibited”. Industries not listed in the Encouraging Catalog and the Negative List are generally deemed as falling into a fourth category “permitted”. The NDRC and the MOFCOM promulgated the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄(2020年版)》) (the “**2020 Encouraging Catalog**”), on December 27, 2020, and the Special Management Measures (Negative List) for the Access of Foreign Investment (2020 Version) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**2020 Negative List**”), on June 23, 2020, to replace the previous encouraging catalog and negative list thereunder.

We are mainly engaged in express delivery services, which could not exclude the possibility of involving domestic express delivery services of letter in practices. According to the 2020 Negative List, foreign investments in domestic express delivery services of letter are prohibited. Therefore, we provide domestic express delivery services of letter through our consolidated affiliated entities in China.

On March 15, 2019, the NPC, promulgated the PRC Foreign Investment Law (《中華人民共和國外商投資法》) (the “**FIL**”), which came into effect on January 1, 2020 and replaced the trio of laws regulating foreign investment in the PRC, namely, the PRC Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》) and the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》). Its implementation rules promulgated by the State Council in December 2019 also came into effect on January 1, 2020. The FIL, by means of legislation, establishes the basic framework for the access, promotion, protection and administration of foreign investment in view of investment protection and fair competition.

According to the FIL, foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list.” The FIL provides that foreign invested enterprises operating in foreign “restricted” or “prohibited” industries will require entry clearance and other approvals. The FIL does not comment on the concept of “de facto control” or contractual arrangements with variable interest entities, however, it has a catch-all provision under definition of “foreign investment” to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment. In addition, pursuant to the Measures for Reporting of Information on Foreign Investment (《外商投資信息報告辦法》), a foreign investment information reporting system shall be established and foreign investors or foreign invested enterprises shall submit the investment information to competent departments for commerce through the enterprise registration system and the enterprise credit information publicity system.

Furthermore, the FIL provides that foreign invested enterprises established according to the previous laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the FIL, which means that foreign invested enterprises may

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be required to adjust the structure and corporate governance in accordance with the current PRC Company Law (《中華人民共和國公司法》) and other laws and regulations governing the corporate governance.

On December 26, 2019, the State Council promulgated the Implementation Rules to the PRC Foreign Investment Law (《中華人民共和國外商投資法實施條例》), which became effective on January 1, 2020. The implementation rules further clarified that the state encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimize foreign investment environment, and advances a higher-level opening.

According to the Measures for the Security Review of Foreign Investment (《外商投資安全審查辦法》) promulgated by the NDRC and the MOFCOM on December 19, 2020 and became effective on January 18, 2021, any foreign investment that has or possibly has an impact on state security shall be subject to security review in accordance with the provisions hereof. A foreign investor or a party concerned in China shall take the initiative to make a declaration to the working mechanism office prior to making the investment in any important infrastructure, important transportation services and other important fields that concern state security while obtaining the actual control over the enterprises invested in.

Regulations relating to Express Delivery Services

The PRC Postal Law (《中華人民共和國郵政法》) (the “**Postal Law**”), which was most recently amended on April 24, 2015, sets out the fundamental rules on the establishment and operation of an express delivery company. Pursuant to the Postal Law, an enterprise that operates and provides express delivery services must run its express delivery business by obtaining a Courier Service Operation Permit. In order to apply for a business permit for express delivery services, a company must meet all the requirements as a corporate legal person and satisfy certain prerequisites with respect to its service capacity and management system, and its registered capital must be no less than RMB500,000 to operate within a province, autonomous region, or municipality directly under the central government, no less than RMB1,000,000 in the case of cross-provincial operation, and no less than RMB2,000,000 to operate international express delivery services.

Filing with the postal administrative department is required where an express delivery company sets up branches. The requirements for the establishment of a branch of express delivery company are specified in the Administrative Measures for Courier Service Market (《快遞市場管理辦法》) (the “**Courier Market Measures**”), which was announced by the Ministry of Transport in 2013. The Courier Market Measures stipulates that where any express delivery company establishes its branches or business departments, it must register with the local counterpart of SAMR where such branches or business departments are located by submitting its express delivery services operation permit and a list of its branches and, such branches or business departments must, within 20 days after they obtain their relevant business licenses, file with the local postal administrative department. The Postal Law stipulates that if an express delivery company fails to complete such required registration and/or filing with the relevant governmental authority, it may be ordered to rectify and to pay general fines of no more than RMB10,000. If the non-compliance situations are severe, a fine ranging from RMB10,000 to RMB50,000 can be imposed, and the offender may face suspension of its business operation before completing the rectification.

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Pursuant to (i) the Postal Law, (ii) the Courier Market Measures, (iii) the Administrative Measures on Courier Service Operation Permits(《快遞業務經營許可管理辦法》), which was most recently amended on November 28, 2019, and (iv) the Interim Regulations on Express Delivery(《快遞暫行條例》), which was mostly recently amended on March 2, 2019, any entity engaging in express delivery services must obtain a Courier Service Operation Permit from the State Post Bureau or its local counterpart and is subject to their supervision and regulation. If an entity operates express delivery services without obtaining a Courier Service Operation Permit in accordance with the above measures and regulations, it may be compelled to make corrections, subject to the confiscation of its earnings generated from its unlicensed operating express delivery services, imposed a fine ranging from RMB50,000 to RMB100,000 or where the circumstances are severe, ranging from RMB100,000 to RMB200,000, and/or ordered to suspend its business operation for rectification or even cancellation of its Courier Service Operation Permit. If a permit-holder who ceases its business operation for over six months within the effective period of the Courier Service Operation Permit, it will be ordered by the postal administration departments to return the Courier Service Operation Permit, and if it refuses or fails to do so on time, the postal administration departments shall publicly announce the annulment of the Courier Service Operation Permit.

Enterprises engaged in express delivery services other than China Post and its wholly owned and/or controlled enterprises that provide postal services (“**Postal Enterprise**”) may not engage in post and mail delivery business which are exclusively operated by Postal Enterprise, and may not deliver any official documents of state-owned organizations. The express delivery business must operate within the permitted scope and under the valid terms of the Courier Service Operation Permit. The Courier Service Operation Permit is valid for 5 years upon its issuance and comes with an annual reporting obligation. The Circular on Implementing the Administrative Measures for the Courier Market and Strengthening the Administration of Courier Service Operations(《關於貫徹實施<快遞市場管理辦法>加強快遞業務經營活動管理的通知》), which was issued by the State Post Bureau in 2013, further clarifies that the postal administrative department must examine whether an entity operates express delivery service within the permitted business scope and geographic scope of its Courier Service Operation Permit, and the geographic examination must be carried out down to the level of cities that may be divided districts. Pursuant to the Courier Market Measures, failure to conduct express delivery services within the permitted operation scopes would subject the express delivery company to a correction order by the postal administrative department and a fine from RMB5,000 to RMB30,000. Moreover, in accordance with the Administrative Measures on Courier Service Operation Permits, an enterprise engaged in express delivery services must submit an annual reporting on its business licensing of courier services with the postal administrative authority which issued its Courier Service Operation Permit prior to 30 April each year. Where an express delivery service company fails to submit its annual report to the relevant postal administrative authority in a timely manner, it may be ordered by the postal administrative authorities to make correction, and may be subject to a fine of up to RMB10,000. Where an express delivery service company conceals any facts or commits fraud in its annual report, such express delivery service company may be ordered by the postal administrative authorities to make correction and imposed a fine ranging from RMB10,000 to RMB30,000.

In accordance with the Decision of the State Council on Issues concerning Canceling and Adjusting a Batch of Administrative Examination and Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) in February 2015, a company operating express delivery services must apply for and obtain the Courier Service Operation Permit prior to the application of its business license.

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In accordance with the Courier Market Measures, if any express delivery service is carried out through franchise, both the franchisees and franchisors must obtain the Courier Service Operation Permit and any franchisee must run its franchise business within franchisors' licensed scopes; and the franchisees and franchisors must enter into written agreements providing the rights and obligations of both parties and the liabilities of both parties in case of any violation of the legal rights and interests of the users of express delivery services. Any franchisee or franchisor failing to obtain the Courier Service Operation Permit or any franchisee failing to run its franchise business within franchisors' licensed scopes would be subject to a correction order by the relevant postal administrative authority and a fine ranging from RMB5,000 to RMB30,000.

Companies engaging in express delivery service must establish and implement a system for the examination of parcels or articles received for delivery. Pursuant to the PRC Postal Law and Measures for the Supervision and Administration of Postal Security in the Postal Industry (《郵政業寄遞安全監督管理辦法》) issued by the Ministry of Transport on January 2, 2020, which became effective on February 15, 2020, express delivery companies must examine the postal articles so as to inspect whether the postal articles are prohibited or restricted from express delivery. Express delivery companies must also examine whether the names, nature and quantity of the postal articles have been properly disclosed on delivery form. According to the Postal Law, any failure to establish or implement such inspection system, or any unlawful acceptance or delivery of prohibited or restricted parcels/articles may result in the sanctions to the in-charge persons bearing direct responsibility and other persons subject to direct liability of the express delivery companies and the suspension of the company's business operation for rectification or even cancelation of its Courier Service Operation Permit, being compelled to make corrections and being imposed a fine up to RMB5,000.

According to the Interim Regulations on Express Delivery, express delivery operators shall obtain the Courier Service Operation Permit for express delivery. Express delivery operators and their branches may open express delivery terminal outlets which are required to file with the local post administrations in the places where they are located for record within 20 days from the date of opening their express delivery terminal outlets. The delivery terminal outlets are not required to obtain a business license. Where an express delivery service operator fails to file with the local post administrations for opening their express delivery terminal outlets, such express delivery service company may be compelled to make corrections, imposed a fine ranging up to RMB50,000 and/or ordered to suspend business for rectification. In case an express delivery service company intends to suspend operating express delivery services, it shall (i) make public announcement ten days in advance, (ii) submit a written notice to the postal administrative departments, (iii) return the Courier Service Operation Permit and (iv) make proper arrangement on undelivered express parcels. Failure to comply with such requirement may be compelled to make corrections, imposed a fine ranging up to RMB50,000 and/or ordered to suspend business for rectification. According to the Interim Regulations on Express Delivery, express delivery operators shall also verify the identity of senders and register their identity information when receiving express parcels. Where senders refuse to furnish their identity information or furnish false identity information, express delivery operators shall not receive their express parcels. According to the Interim Regulations on Express Delivery, the Postal Law and the Anti-Terrorism Law (《反恐怖主義法》), if any express delivery operator fails to verify the identity of senders yet registers their identity information, or identifies that the senders provide false identity information, but still receives the express parcels, such express delivery operator may be subject to a fine ranging from RMB 100,000 to RMB 500,000 or ordered to suspend business operation until cancelation of its Courier Service Operation Permit, and the personnel directly in charge and other persons directly liable may be subject to a fine ranging up to RMB100,000. The Interim Regulations on

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Express Delivery also indicates that two or more express delivery operator may use a unified trademark, corporate name or express waybill to conduct the express delivery business. The express delivery operators shall enter into a written agreement to define their respective rights and obligations, carry out unified management of service quality, safety guarantee and business process, and provide unified express mail tracking, inquiry and complaint handling services for clients. Where the legitimate rights and interests of any client have been jeopardized due to the delay, missing, damage or shortage of express parcels, the client may request the express delivery operator to which the trademark, corporate name or express waybill belongs to offer compensation, or request the actual express delivery provider to pay compensation.

Pursuant to the E-commerce Law of the People’s Republic of China (《中華人民共和國電子商務法》) promulgated by Standing Committee of the National People’s Congress, which took effect on January 1, 2019, we are subject to certain requirements in e-commerce business, including but not limit to the following: while handing over commodities, express logistics service providers shall remind consignees to examine the commodities immediately on the spot; where the commodities are received by others for consignees, such providers shall obtain the consent of consignees. Express logistics service providers shall use environmental-friendly packaging materials in accordance with the relevant provisions in an effort to reduce the consumption of and recycle packaging materials. While offering express logistics services, the providers thereof may agree to be entrusted by e-commerce operators to collect payments for goods on a commission basis. The operation of our business is subject to E-commerce Law of the People’s Republic of China. If our express delivery services are not in compliance with the law, we may be required to rectify. See “Risk Factors — Risks Related to Our Business and Industry — Failure to comply with PRC laws and regulations by us or our strategic partners may materially and adversely impact our business, reputation, financial condition and results of operations.”

Road Transportation Operation Permit

Pursuant to the Regulations on Road Transportation (《道路運輸條例》) promulgated by the State Council in April 2004 and most recently amended in March 2019, and the Provisions on Administration of Road Freight Transportation and Stations (Sites) (《道路貨物運輸及站場管理規定》) issued by the Ministry of Transport in June 2005 and most recently amended in June 2019 (the “**Road Freight Provisions**”), the business operations of road freight transportation refer to commercial road freight transportation activities that provide public services. The road freight transportation includes general road freight transportation, special road freight transportation, road transportation of large articles, and road transportation of hazardous cargos. Special road freight transportation refers to freight transportation using special vehicles with containers, refrigeration equipment, or tank containers, etc. The Road Freight Provisions set forth detailed requirements with respect to vehicles and drivers.

Under the Road Freight Provisions, anyone engaging in the business of operating road freight transportation must obtain a Road Transportation Operation Permit from the local county-level road transportation administrative bureau, and each vehicle used for road freight transportation must have a Road Transportation Certificate from the same authority. The incorporation of a subsidiary of road freight transportation operator that intends to engage in road transportation business is subject to the same approval procedure. If it intends to establish a branch, it should file with the local road transportation administrative bureau where the branch is to be established. Pursuant to the Notice on the Cancellation of the Road Transportation Operation Permit and the Driver Qualification Certificate

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for Ordinary Freight Vehicles with a Total Mass of 4.5 Tons or Less (《交通運輸部辦公廳關於取消總質量4.5噸及以下普通貨運車輛道路運輸證和駕駛員從業資格證的通知》) promulgated by the PRC Ministry of Transport, which took effect on January 1, 2019, local transportation management departments will no longer issue road transportation operation permit for ordinary freight vehicles with a total mass of 4.5 tons or less, and shall not impose administrative penalties on such vehicles and drivers for the reasons of operating without permits and driving freight transportation vehicles without corresponding qualification certificates.

Although the Road Transportation Operation Permits have no limitation with respect to geographical scope, several provincial governments in China, including Shanghai and Beijing, promulgated local rules on administration of road transportation, stipulating that permitted operators of road freight transportation registered in other provinces should also make record-filing with the local road transportation administrative bureau where it carries out its business.

Regulations relating to Cargo Vehicles

Pursuant to the Administrative Provisions concerning the Running of Cargo Vehicles with Out-of-Gage Goods (《超限運輸車輛行駛公路管理規定》) promulgated by the PRC Ministry of Transport, which took effect on September 21, 2016, cargo vehicles running on public roads shall not carry cargo weighing more than the limits prescribed by this regulation and their dimensions shall not exceed those as set forth by the same regulation. Vehicle operators who violate this regulation may be subject to a fine of up to RMB30,000 for each violation. In the event of repeated violations, the regulatory authority may suspend the operating license of the vehicle operator and/or revoke the business operation registration of the relevant vehicle. In the event more than 10% of the total vehicles of any road transportation enterprise are not in compliance with this regulation in any year, such road transportation enterprise shall suspend its business for rectification and its road transportation license may be revoked.

The operation of our truck fleet is subject to this regulation. If our trucks are not in compliance with this regulation, we may be required to modify such trucks to reduce their length or purchase new ones to replace them. Otherwise, we may be subject to penalties under this regulation if we continue to operate those trucks that exceed the limits set forth in the regulation. See “Risk Factors—Risks Related to Our Business and Industry—Failure to comply with PRC laws and regulations by us or our strategic partners may materially and adversely impact our business, reputation, financial condition and results of operations.”

Regulations relating to International Freight Forwarding Business

Administrative Provisions on International Freight Forwarders (《國際貨物運輸代理業管理規定》) promulgated in 1995 and its detailed rules regulate the business of international freight forwarding. According to the provisions and its detailed rules, the minimum amount of registered capital must be RMB5 million for an international freight forwarder by sea, RMB3 million for an international freight forwarder by air and RMB2 million for an international freight forwarder by land or for an entity operating international express delivery services. An international freight forwarder must, when each time applying for setting up a branch, increase its registered capital (or the excess amount over its minimum registered capital) by RMB500,000. Under the Measures on Filing of International Freight Forwarders (Interim) (《國際貨運代理企業備案(暫行)辦法》) announced in March 2005 and amended in August 2016, all international freight forwarders and their branches registered with the SAMR must be filed with the MOFCOM or its authorized organs.

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Regulations relating to Unmanned Aerial Vehicles for Commercial Flight Activities

In March 2018, Civil Aviation Administration promulgated the Administrative Measures for Commercial Flight Activities of Civil Unmanned Aerial Vehicles (Interim) (《民用無人駕駛航空器經營性飛行活動管理辦法(暫行)》), pursuant to which an Civil Unmanned Aerial Vehicle Business License shall be obtained for the training of unmanned aerial vehicles pilots, and no commercial flight activities shall be conducted without a Civil Unmanned Aerial Vehicle Business License.

Regulations relating to Commercial Franchising

Pursuant to the Administrative Regulations on Commercial Franchising Operations (《商業特許經營管理條例》) promulgated by the State Council on February 6, 2007, which became effective on May 1, 2007, and Administrative Measures on the Record Filing of Commercial Franchises (《商業特許經營備案管理辦法》) issued by MOFCOM on December 12, 2011, which became effective on February 1, 2012, collectively the Regulations and Provisions on Commercial Franchising, commercial franchising refers to the business activities where an enterprise that possesses the registered trademarks, enterprise logos, patents, proprietary technology or any other business resources allows such business resources to be used by another business operator through contract and the franchisee follows the uniform business model to conduct business operations and pay franchising fees to the franchisor according to the contract. We and our network partners are therefore subject to regulations on commercial franchising. Under the Regulations and Provisions on Commercial Franchising, within 15 days of the first conclusion of franchising contract, the franchisor must carry out record-filing with MOFCOM or its local counterparts and must report the status of its franchising contracts in the previous year in the first quarter of each year after record-filing. The MOFCOM announces the names of franchisors who have completed filing on the government website and makes prompt updates. If the franchisor fails to comply with these Regulations and Provisions on Commercial Franchising, the MOFCOM or its local counterparts have the discretion to take administrative measures against the franchisor, including fines and public announcements. The Regulations and Provisions on Commercial Franchising also sets forth requirements on the contents of franchising contracts. Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司) and its subsidiaries have signed franchising contracts under the Regulations and Provisions on Commercial Franchising with its direct network partners. If we are deemed as a franchisor who fails to comply with the stipulations of filing with the competent commerce authority, we may be imposed a fine ranging from RMB10,000 to RMB100,000. See “Risk Factors — Risks Related to Our Business and Industry — Any lack of requisite approvals, licenses or permits applicable to our business operation may have a material and adverse impact on our business, financial condition and results of operations.”

Regulations relating to Personal Information Security and Consumer Protection

The Administrative Provisions on the Security of Personal Information of Express Service Users (《寄遞服務用戶個人信息安全管理規定》), promulgated by State Post Bureau on March 26, 2014, provides for the protection of the personal information of users of express or express delivery services, and the supervision on the express operations of postal enterprises and express delivery companies. In accordance with these provisions, the state postal administrative department and its local counterparts are the supervising and administering authority responsible for the security of the personal information of users of express or express delivery services, and postal enterprises and express delivery companies must establish and refine systems and measures for the security of such information. Specifically, express delivery companies must enter into confidentiality agreements with its employees regarding the information of its clients or users to specify confidentiality obligations and liabilities for

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violation thereof. Where express delivery companies are entrusted by operators engaging in online shopping, TV shopping, mail-order and other businesses to provide express delivery services, such express delivery companies must enter into agreements with the said principals agreeing upon provisions safeguarding the security of information of users of express delivery services. Courier companies operating through franchise are further required to formulate provisions on the security of information of users of express delivery services in franchising contracts and clarify the security responsibilities between franchisor and franchisee. A courier company and its employees causing damages to the users of express delivery services by divulging the users' information is expected to bear compensation liabilities. If a courier company is found to unlawfully furnish the information of users of express delivery services, the company and its employees are subject to administrative liabilities or even criminal penalties. A user of express delivery services may further seek remedies by following the Measures on Settling the Complaints of the Postal Users (《郵政業用戶申訴處理辦法》) issued by State Post Bureau, which took effect on September 8, 2020. The Postal Users Complaints Settling Center implements the regime of mediation to handle the complaints from users on the quality of the express delivery services. According to the Interim Regulations on Express Delivery, an express delivery service company shall not sell, reveal or illegally provide any information of client that has been exposed during the provision of express services. In case the information of client is revealed or may be revealed, the express delivery service company shall take remedial measures immediately and report to the local post administrations. Failure to comply with such requirement may be subject to penalties including a fine ranging from RMB10,000 to RMB100,000, suspension of business for rectification or revoke of its Courier Service Operation Permit.

Regulations relating to Leasing

We lease properties for our offices, sorting hubs, pickup and delivery outlets and other facilities. Pursuant to the Law on Administration of Urban Real Estate (《城市房地產管理法》) which took effect in January 1995 with the latest amendment on August 26, 2019, which became effective on January 1, 2020, lessors and lessees are required to enter into a written lease contract, containing such provisions as the term of the lease, the use of the premises, rental price, liability for repair, and other rights and obligations of both parties. Both lessor and lessee are also required to file for registration and record the lease contract with the real estate administration department. Pursuant to implementing rules stipulated by certain provinces or cities, if the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

According to the PRC Civil Code (《民法典》) which took effect on January 1, 2021, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the ownership of the leased premises changes during the lessee's possession in accordance with the terms of the lease contract, the validity of the lease contract shall not be affected.

Pursuant to the PRC Civil Code, if the mortgaged property has been leased and transferred for occupation prior to the establishment of the mortgage right, the original tenancy shall not be affected by such mortgage right. According to the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes Over Lease Contracts on Urban Buildings (2020 version) (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋(2020修正)》), which took effect on January 1, 2021, if the ownership of the leased premises changes during lessee's possession in accordance with the terms of the lease contract, and the

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leasee requests the assignee to continue to perform the original lease contract, the PRC court shall support it, except that the mortgage right has been established before the lease of the leased premises and the ownership changes due to the mortgagee’s realization of the mortgage right.

Regulations relating to Fire Security

Pursuant to the Fire Protection Law of the PRC (《中華人民共和國消防法》) which was latest revised on April 23, 2019, and the Measure for Supervision on and Inspection of Fire Protection (《消防監督檢查規定》) amended in 2012, enterprises shall implement a fire safety accountability system, install firefighting facilities and equipment, conduct a yearly comprehensive inspection of firefighting facilities and keep the inspection records for future reference, and perform other fire safety measures as well as other fire safety and protection responsibilities. Pursuant to Interim Provisions on the Administration of Fire Protection Design Review and Final Inspection of Construction Projects (《建設工程消防設計審查驗收管理暫行規定》)(“**Interim Provisions Regarding Fire Protection**”) effective on June 1, 2020, a special construction project as stipulated in the Interim Provisions Regarding Fire Protection shall be subject to fire protection design review before such project was commenced construction and shall be subject to fire protection inspection before such project was put into used. Other construction projects other than a special construction project shall be subject to fire protection inspection recordation, and the competent department of housing and urban-rural development shall conduct a random fire protection inspection thereof. If the project fails to pass the random fire protection inspection, such project shall be ceased to use.

Regulations relating to Taxation

Enterprise Income Tax

On March 16, 2007, the NPC promulgated the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which was latest amended on December 29, 2018, and the State Council enacted the Regulations for the Implementation of the Law on Enterprise Income Tax (《企業所得稅法實施條例》) which were latest amended on April 23, 2019 (collectively, the “**EIT Law**”). According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

Value-Added Tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on December 13, 1993 and latest amended on November 19, 2017, and the Implementation Rules for the Implementation of the

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Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the MOF on December 25, 1993 and latest as amended on October 28, 2011, and became effective on November 1, 2011, entities or individuals engaging in the services is required to pay a value-added tax (“VAT”).

On March 20, 2019, the MOF, the SAT and the General Administration of Customs jointly issued the Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) (“**Announcement 39**”), to further slash value-added tax rates. According to the Announcement 39, (i) for general VAT payers’ sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labor services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%. The Announcement 39 came into effect on April 1, 2019 and shall prevail in case of any conflict with existing provisions.

Dividend Withholding Tax

Pursuant to the Enterprise Income Tax Law (《企業所得稅法》) and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Furthermore, the Administrative Measures for Non-Resident Taxpayer to Enjoy Treatments under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》) (“**SAT Circular 60**”), which became effective in November 2015, require that non-resident enterprises which satisfy the criteria for entitlement to tax treaty benefits may, at the time of tax declaration or withholding declaration through a withholding agent, enjoy the tax treaty benefits, and be subject to ongoing administration by the tax authorities. In the case where the non-resident enterprises do not apply to the withholding agent to claim the tax treaty benefits, or the materials and the information stated in the relevant reports and statements provided to the withholding agent do not satisfy the criteria for entitlement to tax treaty benefits, the withholding agent should withhold tax pursuant to the provisions of the PRC tax laws. The SAT issued the

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Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (國家稅務總局關於發佈《非居民納稅人享受協定待遇管理辦法》的公告) (the “**SAT Circular 35**”) on October 14, 2019, which became effective on January 1, 2020. The SAT Circular 35 further simplified the procedures for enjoying treaty benefits and replaced the SAT Circular 60. According to the SAT Circular 35, no approvals from the tax authorities are required for a non-resident taxpayer to enjoy treaty benefits, where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, but it shall gather and retain the relevant materials as required for future inspection, and accept follow-up administration by the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. According to the Circular of the State Administration of Taxation on Several Issues regarding the “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) (“**Circular 9**”), which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties.

Regulations relating to Intellectual Property Rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

Copyright. Copyright in the PRC, including copyrighted computer software, is principally protected under the Copyright Law of the PRC (《中華人民共和國著作權法》) and its implementation rules. The Standing Committee of the National People’s Congress has promulgated the Copyright Law of the People’s Republic of China on January 17, 2021 (the “**New Copyright Law**”) and the New Copyright Law will come into force on June 1, 2021. Pursuant to the existing Copyright Law promulgated on February 26, 2010 and the New Copyright Law, the term of protection for copyrighted computer software shall be 50 years. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law of the PRC and related rules and regulations, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

Patent. The Patent Law (《專利法》) provides for three types of patents, “invention”, “utility” and “design”. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. The National Intellectual Property Administration is responsible for examining and approving patent applications. The Standing Committee of the National People’s

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Congress has published the revised Patent Law of the People’s Republic of China on October 17, 2020, which will come into force on June 1, 2021.

Trademark. The Trademark Law (《商標法》) and its implementation rules protect registered trademarks. The Trademark Office of National Intellectual Property Administration is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a “first-to-file” principle with respect to trademark registration.

Domain Name. Domain names are protected under the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the CNNIC is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the “first to file” principle with respect to the registration of domain names. In November 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity’s shareholders), or the entity’s principal or senior manager.

Regulations relating to Foreign Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on January 29, 1996 and was latest amended on August 5, 2008. Pursuant to these regulations and other PRC rules and regulations on currency conversion, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the SAFE or its local counterpart is obtained.

On February 13, 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》), according to which, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration. On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “Circular 19”). According to Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement, which means that the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution have been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise, and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and proceed with the review process with the banks. Furthermore, Circular 19 stipulates that the use of capital by

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foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for payments beyond the business scope of the enterprises or payments as prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities unless otherwise provided by the relevant laws and regulations; (iii) directly or indirectly used for granting entrust loans in Renminbi (unless permitted by the scope of business), repaying inter-enterprise borrowings (including advances by the third-party) or repaying the bank loans in Renminbi that have been sub-lent to third parties; or (iv) directly or indirectly used for expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

The Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”) which became effective on June 1, 2015 and was amended on December 30, 2019, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to SAFE Circular 13, investors should register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《關於改革和規範資本專案結匯管理政策的通知》) (the “**Circular 16**”), was promulgated by SAFE on June 9, 2016. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC Laws, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

On January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including: (i) banks should check board resolutions regarding profit distribution, the original version of tax filing records, and audited financial statements pursuant to the principle of genuine transactions; and (ii) domestic entities should hold income to account for previous years’ losses before remitting the profits. Moreover, pursuant to this circular, domestic entities should make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts, and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, the SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which, among other things, allows all FIEs to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. However, since this circular is newly promulgated, it is unclear how the SAFE and competent banks will carry it out in practice.

According to the Circular of the State Administration for Foreign Exchange on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (國家外匯

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管理局關於優化外匯管理支持涉外業務發展的通知) (the “SAFE Circular 8”) promulgated and effective on April 10, 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

Regulations relating to Labor

According to the Labor Law (《勞動法》) of the PRC, or the Labor Law, which was promulgated by the Standing Committee of the National People’s Congress (the “SCNPC”) in July 1994, effective on January 1, 1995, and most recently amended in December 2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards.

The Labor Contract Law (《勞動合同法》) of the PRC, which was promulgated by the SCNPC on June 29, 2007, effective on January 1, 2008, and most recently amended in December 2012, and the Implementation Regulations on Labor Contract Law (《勞動合同法實施條例》), promulgated and became effective on September 18, 2008, regulate both parties to a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated by the Labor Contract Law and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an unfixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching an agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labor contracts concluded prior to the enactment of the Labor Contract Law and subsisting within the validity period thereof shall continue to be honored. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contract shall be entered into within one month from the effective date of the Labor Contract Law. In addition, the Labor Contract Law also imposes requirements on the use of employees of temp agencies, who are known in China as “dispatched workers”. Dispatched workers are entitled to equal pay with fulltime employees for equal work. Employers are only allowed to use dispatched workers for temporary, auxiliary or substitutive positions. The Interim Provisions on Labor Dispatching (《勞務派遣暫行規定》), issued by the Ministry of Human Resources and Social Security of the People’s Republic of China, on January 24, 2014 and came into effect on March 1, 2014, requires the number of dispatched workers to not exceed 10% of the total number of employees.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law (《社會保險法》) of the PRC, an employer that fails to

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make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% or 0.2% per day, as the case may be. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the Regulations on Management of Housing Fund (《住房公積金管理條例》), an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

Regulations relating to Overseas Listing and M&A

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors shall comply with the M&A rules when they purchase equity interests of a domestic company or subscribe for the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC for the purpose of purchasing the assets of a domestic company and operating the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A rules, among other things, purports to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

Regulations relating to Anti-Monopoly

The currently effective Anti-Monopoly Law of PRC (《中華人民共和國反壟斷法》) (the “**Anti-Monopoly Law**”) was promulgated by SCNPC in 2007, and SAMR has sought public comments on the Draft Amendment to the Anti-Monopoly Law (the “**Draft for Comment**”) in January 2020. Pursuant to the Anti-Monopoly Law, the relevant operators of a concentration of undertakings which reaches the standard for declaration shall make an advance declaration to the anti-monopoly law enforcement authority under the State Council. On February 7, 2021, the Anti-Monopoly Committee of the State Council promulgated the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》) which stipulates that any concentration of undertakings involving variable interest entities (VIE) shall fall within the scope of anti-monopoly review. Moreover, the Draft for Comment also suggests that when a foreign investor participates in the concentration of undertakings by merging and acquiring a domestic enterprise or by any other means, the matter may also be subject to review on national security as is required by the relevant regulations.

Regulations relating to Dividend Distribution

The principal regulations governing distribution of dividends of wholly foreign-owned enterprise, or WFOE, include the PRC Company Law (《中華人民共和國公司法》), the PRC Foreign Investment Law (《中華人民共和國外商投資法》) and the Implementation Rules of the Foreign Investment Law (《中華人民共和國外商投資法實施條例》). Under these regulations, wholly foreign-

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owned enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, Foreign invested enterprises in the PRC are required to allocate at least 10% of their accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

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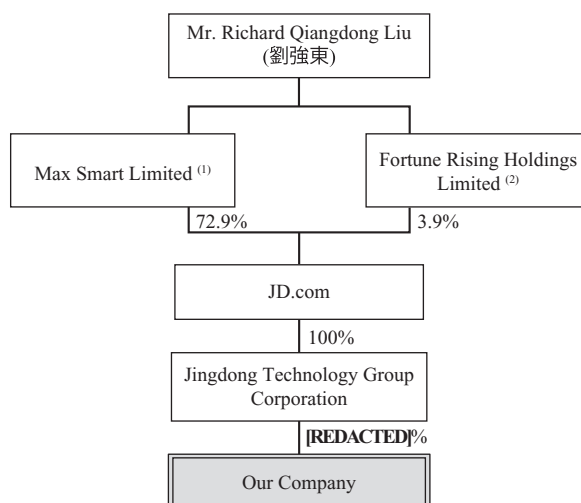
OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, JD.com, through Jingdong Technology Group Corporation, its wholly-owned subsidiary, is indirectly interested in 3,924,000,000 Shares, representing approximately 79.12% of our total issued share capital. Immediately after the completion of [REDACTED] (assuming the [REDACTED] is not exercised and excluding shares to be issued under the [REDACTED] ESOP), JD.com, through Jingdong Technology Group Corporation, will control approximately [REDACTED]% of our total issued share capital. Accordingly, our Company will remain as a subsidiary of JD.com after [REDACTED].

Further, as of the Latest Practicable Date, Mr. Richard Qiangdong Liu (劉強東) (JD.com’s chairman and chief executive officer) is interested in and controls, through Max Smart Limited (a company beneficially owned by him through a trust and of which he is the sole director), 421,507,423 Class B ordinary shares of JD.com. In addition, as of the Latest Practicable Date, Fortune Rising Holdings Limited (of which Mr. Richard Qiangdong Liu (劉強東) is the sole shareholder and the sole director) holds 22,743,428 Class B ordinary shares for the purpose of transferring such shares to the plan participants according to awards under JD.com’s share incentive plan, and administers the awards and acts according to JD.com’s instruction. As of the Latest Practicable Date, Mr. Liu holds approximately 76.9% of the voting rights in JD.com through shares capable of being exercised on resolutions in general meetings. Therefore, Mr. Liu, Max Smart Limited and Fortune Rising Holdings Limited will be deemed to be a Controlling Shareholder after [REDACTED], and together with JD.com and Jingdong Technology Group Corporation, will constitute a group of Controlling Shareholders of our Company.

JD.com is a company incorporated in the BVI on November 6, 2006 and subsequently redomiciled to and registered by way of continuation in the Cayman Islands on January 16, 2014 as an exempted company under the laws of the Cayman Islands. JD.com’s shares are listed on the Main Board (stock code: 9618) under Chapter 19C of the Listing Rules and its ADSs are listed on NASDAQ under the symbol “JD”. JD.com is a leading technology driven e-commerce company in the PRC.

The following diagram illustrates the ultimate beneficial interest of our Controlling Shareholders’ voting rights for resolutions in general meetings with respect to matters, immediately following the completion of [REDACTED] (assuming [REDACTED] is not exercised, the shares to be issued pursuant to JD.com’s share incentive plan are not exercised and excluding shares to be issued under the [REDACTED] ESOP):



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Notes:

- (1) Represents 421,507,423 Class B ordinary shares of JD.com directly held by Max Smart Limited as of the Latest Practicable Date. Max Smart Limited is a BVI company beneficially owned by Mr. Richard Qiangdong Liu (劉強東) through a trust and of which Mr. Richard Qiangdong Liu (劉強東) is the sole director.
- (2) Represents 22,743,428 Class B ordinary shares of JD.com held by Fortune Rising Holdings Limited as of the Latest Practicable Date. Fortune Rising Holdings Limited holds these Class B ordinary shares for the purpose of transferring such shares to the plan participants according to the awards under JD.com’s share incentive plan, and administers the awards and acts according to JD.com’s instruction. Fortune Rising Holdings Limited exercises the voting power with respect to these shares according to JD.com’s instruction. Fortune Rising Holdings Limited is a company incorporated in the BVI. Mr. Richard Qiangdong Liu (劉強東) is the sole shareholder and the sole director of Fortune Rising Holdings Limited.

Clear delineation of business

There is a clear delineation between our businesses and those of JD Group. We offer a full spectrum of supply chain solutions and high-quality logistics services enabled by technology, ranging from warehousing to distribution, spanning across manufacturing to end-customers, covering regular and specialized items. On the other hand, JD Group will continue to operate, among others, an online retail and marketplace e-commerce business offering a diverse range of products and services.

Save as set out below (together, the “**Excluded Businesses**”), JD Group is not engaged in the provision of such services similar to our Group. The revenue contributed by the Excluded Businesses, in aggregate (after taking into account Dada Group’s revenue in relation to JD.com’s ownership), for the nine months ended September 30, 2020 was less than 5% of our Group’s revenue for the corresponding period. Consequently, the revenue contribution of the Excluded Businesses relative to our Group’s revenue is indicative of the immateriality of the Excluded Businesses.

i. *Intra-city and last-mile delivery services—Dada Group*

As of the Latest Practicable Date, JD Group holds approximately 46.5% of the shareholding of Dada Group, which is a leading platform of local on-demand delivery in China. Consequently, Dada Group is an associate of JD Group under the Listing Rules. Dada Group operates *JD-Daojia* (“**JDDJ**”), one of China’s largest local on-demand retail platforms, and *Dada Now*, a leading local on-demand intra-city delivery platform in China.

- *JDDJ* is an on-demand retail platform, and partners with retailers and offers their products through its mobile app. Such a business model is different from our businesses and our Group does not offer services similar to *JDDJ*.
- *Dada Now* mainly offers two types of delivery services:
 - Intra-city delivery service, which enables merchants and individual senders to have their intra-city parcels delivered quickly on an on-demand basis. Such service is different from our business which focuses on providing integrated services across the entire supply chain with different timespans and across its entire nationwide logistics network.
 - Last-mile delivery service, which mainly provides last-mile delivery services to logistics companies, such as our Group. With the growth in customer needs, especially during major online shopping events, e-commerce transaction volume increases significantly which results in spikes in the volume of parcels to be delivered. After goods are purchased and transported from warehouses to delivery stations in individual cities (which typically involves

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numerous steps including warehousing, sortation, transportation, etc) by supply chain solution providers such as our Group, Dada Group’s system matches crowd-sourced riders with nearby delivery stations and the parcels are delivered from the delivery stations to the designated recipients by Dada Group’s riders. Our Group does not provide such last-mile delivery services to other logistics companies. Such business model is different from our businesses.

In summary, there is clear business delineation between our Group and Dada Group, as there are fundamental differences between Dada Group and our business in terms of business model, target customers and coverage scope of the services provided. Dada Group does not provide services comparable to those offered by our Group in all material respects.

ii. *Development and management of logistics and industrial properties—JD Property Holding Limited (“JD Property”)*

- JD Property, a subsidiary of JD Group, owns, develops and manages its logistics and industrial properties which are leased to our Group and other third parties. JD Property is not engaged in the provision of supply chain solutions and logistics services similar to our Group.
- In contrast, we do not own, develop or manage logistics and industrial properties as a property developer and property management services provider. Our Group leases and operates warehouses and logistics parks as a warehouse and logistics facilities operator.

iii. *Domestic logistics and delivery services in Thailand and Indonesia—Central JD Commerce Limited (“Central JD”) and PT. Jaya Ekspress Tansindo (“J-Express”)*

- Central JD is a joint venture of JD Group, whose financial results are not consolidated to that of JD Group. It is an e-commerce platform targeting the Thailand domestic market. Central JD has its own logistics division which fulfills orders for Central JD as well as merchants selling on Central JD’s platform by providing domestic logistics and last-mile delivery services. Despite Central JD having its own logistics capabilities, it is fundamentally an e-commerce platform which is a different business model compared to that of our Group.
- J-Express is an Indonesia-based associate of JD Group, established to support the local e-commerce operations of JD Group’s non-wholly owned subsidiary in Indonesia through the provision of domestic delivery services. In contrast, our Group only provides cross-border logistics services, but does not engage in the provision of domestic logistics and last-mile delivery services in Indonesia.

On the basis of the differences as set forth above, we consider that apart from their interest in our Company, our Controlling Shareholders and our Directors do not currently control a business similar to the principal business of our Group that competes or is likely to compete, either directly or indirectly, with our Group’s business.

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INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates after [REDACTED].

Management independence

Our business is managed and conducted by our Board and senior management. Our Board comprises of three executive Directors, three non-executive Directors and three independent non-executive Directors.

The Directors are of the view that our Board and our senior management are capable of operating our business and managing all actual or potential conflicts of interest independently of JD Group for the following reasons:

- Except for Yui Yu (余睿), Richard Qiangdong Liu (劉強東), Sandy Ran Xu (許冉) and Pang Zhang (張雱), there will not be any overlap between JD Group and our Company in terms of directors and senior management. Furthermore, Yui Yu (余睿) is classified as senior management of JD Group solely due to his role and position as chief executive officer of our Group as our Group is one of JD Group’s major business units. Save for his role as chief executive officer in our Group, Yui Yu (余睿) does not have any other role and positions in JD Group. Richard Qiangdong Liu (劉強東) is the chairman of the board of directors of JD.com, while Sandy Ran Xu (許冉) and Pang Zhang (張雱) both hold senior management positions with JD Group, being the chief financial officer and chief human resources officer respectively. Richard Qiangdong Liu (劉強東), Sandy Ran Xu (許冉) and Pang Zhang (張雱) are all non-executive directors of our Company and will not be involved in the day-to-day management and operations of our business. They will provide strategic advice to our Company. See the section headed “Directors and Senior Management” in this document for their roles within JD Group.
- The executive Directors and the members of our senior management are responsible for the day-to-day management of our business and none of them holds any directorships and/or other roles within JD Group.
- All of our independent non-executive Directors are independent of JD Group and are professional parties having extensive experience in their respective areas of expertise. See the section headed “Directors and Senior Management” in this document for more details. Our independent non-executive Directors are appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. None of our independent non-executive Directors are directors of JD Group or otherwise connected with JD Group in any manner that may affect their independent judgment or independence as required under the Listing Rules.
- Each Director is aware of his fiduciary duties as a director which require, among others, that he acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall not vote and shall not be counted in the quorum in respect of such transactions. See “—Corporate governance measures” for other corporate governance measures we have

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adopted to manage conflicts of interest, if any, between our Group and our Controlling Shareholders.

Based on the above, our Directors believe that our business is managed independently of our Controlling Shareholders.

Operational independence

Save as disclosed in the sections headed “Business—Intellectual Property”, “Business—Licenses, Approvals and Permits” and “Connected Transactions—Exempt Continuing Connected Transactions—1. IP Licensing Framework Agreement” in this document, our Group holds all material licenses and owns all material intellectual properties (or rights to use intellectual properties) and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. Apart from certain back-office and administrative support services from JD Group to our Group as set out in the section headed “Connected Transaction—Non-Exempt and Partially Exempt Continuing Connected Transactions—7. Shared Services Framework Agreement”, we have established our own accounting and internal audit departments which operate independently from JD Group. We have also adopted a set of internal control procedures to maintain effective and independent operation of our business.

We have independent access to our customers and an independent management team to operate our business. To the best knowledge of our Directors, save in respect of the ongoing services provided to us, and expected to continue to be provided to us, by JD Group and its associates as further described in the section headed “Connected Transactions” in this document, all of our suppliers are independent third parties.

Given our close business relationship with JD Group, we have entered into a number of transactions with JD Group which constitute the framework for our business cooperation with JD Group. The transactions between us and JD Group constitute a significant proportion of our business transactions and collaborative arrangements. See the section headed “Connected Transactions” in this document for further details of and the reasons for entering into these transactions.

Supply Chain Solutions and Logistics Services Framework Agreement

Our Group provides integrated supply chain solutions and other logistics services to JD Group and its associates including but not limited to warehouse operation and storage services, domestic and international transportation and delivery services, after sales and maintenance services, cash on delivery services, and other related ancillary services in exchange for service fees.

The roles of JD Group (as the operator of online retail platform and marketplace) and of our Group (as the provider of supply chain solutions and logistics services) are highly complementary and beneficial to each other.

Given that JD Group enjoys a leading position in the PRC’s e-commerce industry with an extensive customer and user base, it is natural for, and in the best interest of, our Group to provide JD Group with supply chain solutions and logistics services in exchange for service fees. From the perspective of JD Group, given our Group’s leading position in the PRC’s supply chain solutions and logistics services, our Group is able to provide comprehensive related solutions and services to JD Group as well as the users and merchants on their platforms and ensure a superior consumer experience.

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Therefore, it is also natural for, and in the best interest of, JD Group to cooperate with our Group for the provision of supply chain solutions and logistics services.

Given the established long-term mutually beneficial relationship between our Group and JD Group and that our Company will continue to be a consolidated subsidiary of JD Group after [REDACTED], both parties do not anticipate such arrangements to materially adversely change or terminate.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—2. Supply Chain Solutions and Logistics Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Advertising and Promotional Services Framework Agreement

Our Group provides JD Group, its associates and its customers with certain advertising services utilizing the advertising resources operated or managed by our Group, including the display of advertisements on various vehicles and the packaging of the parcels, and other promotional services among our customers and suppliers in return for service fees which are calculated in accordance with the underlying standard services agreements and the standard terms and conditions as amended from time to time.

Since there is demand from the customers of JD Group, namely, the merchants on the platforms of JD Group, to display advertisements and promote their products/services utilizing the resources of our Group, it is mutually beneficial to both JD Group and our Group for JD Group to utilize our Group’s resources to promote the service and product offerings (including placing advertisements of their service and product offerings on our Group’s vehicles and other advertising spaces) of JD Group, its associates and its customers. Further, our Group is not bound and will not be bound to accept advertisements from JD Group.

Given the established long-term relationship between our Group and JD Group and that our Company will continue to be a consolidated subsidiary of JD Group after the [REDACTED], such arrangements are unlikely to materially adversely change or terminate.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—3. Advertising and Promotional Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Property Leasing Framework Agreement

We lease warehouses owned by JD Group and its associates by paying a rental fee. The rental fee to be charged by JD Group will be determined based on the prevailing market rental rates of warehouses of similar functions, gross floor area and location, among others. In addition, JD Group entered into short-term and long-term leases for warehouses on behalf of our Group with third party property owners on a cost basis (“**Agency Lease Arrangements**”). JD Group will not charge our Group additional fees on such Agency Lease Arrangements beyond its cost.

Warehouses owned by JD Group

- It is mutually beneficial to both JD Group and our Group for our Group to selectively lease the warehouses owned and built by JD Group. Given warehouses are the critical

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foundation of our Group’s supply chain solutions and logistics services, the high efficiency of which forms a core part of the superior customer experience for the users of and merchants on JD Group’s e-commerce platforms, and thus it is in the best interest of JD Group to lease its warehouses to our Group.

- The proportion of warehouses (by gross floor area) owned and leased by JD Group to our Group constitutes a minority portion of the total gross floor area of warehouses leased by our Group for the nine months ended September 30, 2020 (not taking into account the short-term Agency Lease Arrangements or leases under one year).

Agency Lease Arrangements

- With respect to the Agency Lease Arrangements, JD Group will not charge our Group additional fees on these lease arrangements beyond its cost. Our Group shall pay JD Group rental fee as charged by the third party property owners. The reason for such an arrangement is that our Group, through the Agency Lease Arrangements, can enjoy more favorable rental terms given the scale and brand recognition of JD Group.
- The proportion of long-term Agency Lease Arrangements (i.e. leases for over one year), by gross floor area, for warehouses leased by JD Group to our Group constitutes a minority portion of the total gross floor area of warehouses leased by our Group (not taking into account the short-term Agency Lease Arrangements or leases under one year).
- The proportion of short-term Agency Lease Arrangements (i.e. leases for under one year) and related ancillary fees, calculated by fees paid by our Group to JD Group, constitutes a minority portion of all fees paid by our Group for short-term leases (i.e. leases for under one year) and related ancillary fees for the nine months ended September 30, 2020.

Our Group is not bound and will not be bound to lease warehouses owned by JD Group (or use the Agency Lease Arrangements for that matter) only. Our Group currently also has leases of warehouses from third party property owners and will continue to lease warehouses from third party property owners if the terms and conditions of the lease and/or the location or infrastructure of the warehouses offered by third party property owners are more favorable to our Group.

Given the established long-term relationship between our Group and JD Group and that our Company will continue to be a consolidated subsidiary of JD Group after [REDACTED], such arrangements are unlikely to materially adversely change or terminate.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—4. Property Leasing Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Dada Delivery Services Framework Agreement

Dada Group is one of our local delivery partners, and provides us with on-demand delivery services by utilizing its crowd-sourced delivery force to supplement our last-mile delivery force, especially during peak seasons.

It is mutually beneficial to both our Group and Dada Group for our Group to use Dada Group’s on-demand delivery services to supplement our last-mile delivery force given Dada Group possesses a large rider team mostly consisting of part-time crowd-sourced individuals and our Group’s last-mile delivery needs can experience significant spikes throughout the year.

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Our Group is not bound and will not be bound to use on-demand last-mile delivery services offered by Dada Group only. Our Group also engages other third party on-demand last-mile delivery service providers to supplement delivery force, and will continue to engage other third party on-demand last-mile delivery service providers if the terms and conditions for the services provided by third party on-demand last-mile delivery service providers are more favorable to our Group.

Given the established long-term relationship between our Group and JD Group, who held approximately 46.5% of the shareholding of Dada Group, and the fact that our Company will continue to be a consolidated subsidiary of JD Group after [REDACTED], such arrangements are unlikely to materially adversely change or terminate.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—5. Dada Delivery Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Payment Services Framework Agreement

Jingdong Digits Technology Holding Co., Ltd. (“**JD Digits**”) provides payment and ancillary services to our Group. For example, for customers who choose cash on delivery, the pick-up stations or the delivery personnel of our Group will have to collect payment for the parcel on behalf of JD Group or online merchants (i.e. customers of our Group) and the delivery fee upon the receipt of the products. JD Digits is only one of the payment service providers which cooperates with our Group. With respect to the payment by customers who choose cash on delivery, such payment can be settled through other third party payment channels, such as WeChat Pay, cash or credit card.

Given the established long-term relationship between our Group and JD Group and our Company will continue to be a consolidated subsidiary of JD Group after [REDACTED], such arrangements are unlikely to materially adversely change or terminate. See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—6. Payment Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Shared Services Framework Agreement

JD Group provides us with back-office and administrative support services, including but not limited to cloud service, provision of servers, information technology support service, maintenance and related customer services, certain human resources services, in addition to certain shared services, including office premises sharing and leasing, transportation and canteen facilities for staff, administrative purchases and various support services.

We are of the view that we do not and will not significantly rely on JD Group as a result of JD Group’s provision of these services considering (i) their peripheral nature and (ii) the fact that we could if necessary obtain similar services from independent third parties. These administrative services only relate to the peripheral aspects of our Group’s business operations that can be easily replicated by our Group should we find it more cost efficient to do so, and therefore these services will not give rise to any operational independence issue.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—7. Shared Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, our Directors believe that our business is operationally independent of our Controlling Shareholders.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. We have an independent internal control and accounting systems and also have an independent finance department. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

As of the Latest Practicable Date, our Group had certain payables to JD Group, which can be sufficiently covered with our existing financial resources, including the proceeds received in the Series A Preference Shares financing (“**Series A Financing Proceeds**”). However, substantially all of the Series A Financing Proceeds currently remain offshore while the amounts due to related parties are primarily onshore in the PRC. As advised by our PRC legal advisor, the repatriation of funds are subject to various regulatory approvals, the timing of which is uncertain. Furthermore, in practice, depending on the method of repatriation, there may be certain restrictions required by banks on the use of repatriated funds, among other things, which may make it difficult for us to use the repatriated funds to settle related party balances. Upon the completion of the carve-out process, which will occur before [REDACTED], the amounts due to related parties under the section headed “Financial Information—Accrued expenses and other payables” will (1) cease to fluctuate with respect to the non-trade portion and (2) not be payable on demand of the relevant related party, (3) be paid down over time, either with internally generated cash onshore or with repatriated Series A Financing Proceeds. We expect such amounts to be fully settled within two years from [REDACTED]. Our Directors believe that the amounts due to related parties do not impact the financial independence of our Group as a whole.

Other than the above and certain accounts receivables and accounts payables arising from the normal course of business, there are no loans or other forms of financial assistance provided by JD Group or its associates, and there are no outstanding loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates. In addition, it is expected that all outstanding accounts receivables and accounts payables between JD Group and our Group will be settled prior to [REDACTED], except for those payable above and arising from the normal course of business.

Based on the above, our Directors believe that our business is financially independent of our Controlling Shareholders.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We will adopt the following corporate governance measures to resolve actual or potential conflict of interests between our Group and our Controlling Shareholders:

- (a) under the Articles, where any member is, under the Listing Rules, required to abstain from voting only for or only against any particular resolution proposed at a Shareholders’ meeting, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted in the quorum in respect of such transactions;
- (b) our Company has established internal control mechanisms to identify connected transactions, and we will comply with the applicable Listing Rules if we enter into

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

connected transactions with our Controlling Shareholders or any of their associates after [REDACTED];

- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholders (the “**Annual Review**”) (including review of the composition of the Board and consider whether the Board, in light of the management overlap and the matters requiring the overlapping Directors to abstain from voting, can maintain effective functioning) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholders will undertake to provide all information necessary or requested by the independent non-executive Directors for the Annual Review, including all relevant financial, operational and market information;
- (e) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expenses; and
- (f) we have appointed Guotai Junan Capital Limited as our compliance adviser for the period prescribed by the Listing Rules to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders’ interests after [REDACTED].

CONNECTED TRANSACTIONS

Upon [REDACTED], transactions between us and our connected persons will constitute our connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

We have entered into certain transactions with the following connected persons, which will constitute our continuing connected transactions upon [REDACTED]:

JD.com and its associates:

Connected Relationship	Name
Controlling Shareholder	JD.com and its subsidiaries and consolidated affiliated entities
JD.com’s associates	Including, but not limited to JD Digits, Dada Group and AiHuiShou International Co., Ltd. (“ AiHuiShou Group ”)

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions with JD Group and its associates:

Continuing connected transactions	Proposed annual cap for the year ending December 31, (RMB in thousands)
Exempt Continuing Connected Transaction	
1. IP Licensing Framework Agreement	
Royalties to be paid by us to JD Group	N/A
Non-Exempt and Partially Exempt Continuing Connected Transaction	
2. Supply Chain Solutions and Logistics Services Framework Agreement	
Transaction amount to be paid by JD Group and its associates to us	2021: [53,400,000] 2022: [70,700,000] 2023: [93,400,000]
3. Advertising and Promotional Services Framework Agreement	
Transaction amount to be paid by JD Group and its associates to us	2021: [240,000] 2022: [320,000] 2023: [400,000]
4. Property Leasing Framework Agreement	
Transaction amount to be paid by us to JD Group	2021: [3,600,000] 2022: [3,200,000] 2023: [3,900,000]
5. Dada Delivery Services Framework Agreement	
Transaction amount to be paid by us to Dada Group	N/A

CONNECTED TRANSACTIONS

Continuing connected transactions	Proposed annual cap for the year ending December 31, (RMB in thousands)
6. Payment Services Framework Agreement	
Transaction amount to be paid by us to JD Digits	2021: [120,000] 2022: [140,000] 2023: [160,000]
7. Shared Services Framework Agreement	
Transaction amount to be paid by us to JD Group	2021: [2,900,000] 2022: [3,600,000] 2023: [4,300,000]
<i>Contractual Arrangements</i>	
8. Contractual Agreements	
Non-Exempt Continuing Connected Transaction	
Contractual Arrangements	N/A

EXEMPT CONTINUING CONNECTED TRANSACTION

1. IP Licensing Framework Agreement

Principal terms

Our Company [entered] into an IP licensing framework agreement with JD.com (the “**IP Licensing Framework Agreement**”) on [●], pursuant to which JD Group will grant to the Group exclusive and non-exclusive licenses for the use of certain intellectual property rights owned by JD.com, including patents, trademarks and software copyrights that are either registered or for which registration applications have been filed globally, that are owned by JD Group (the “**Licensed IP Rights**”) on a royalty-free basis. The Company will use the Licensed IP Rights within the scope specified in the IP Licensing Framework Agreement. For details of the Licensed IP Rights, please see the section headed “Appendix IV—Statutory and General Information—B. Further Information about our Business—2. Intellectual property rights” in this document.

Period of agreement and termination clause

The initial term of the IP Licensing Framework Agreement will commence on [REDACTED] and end on ten years from [REDACTED] on the condition that JD.com or its subsidiaries remain the largest shareholder of our Company. The IP Licensing Framework Agreement is subject to renewal through mutual consent by the parties.

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for the continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the agreement to be of a duration longer than three years. The Directors (including the independent non-executive Directors) are of the view that the IP Licensing Framework Agreement was [entered] into on normal commercial terms or better and the Licensed IP Rights are necessary for our business operations and a longer duration of the agreement will avoid any unnecessary business interruption and help ensure the long-term development and continuity of our business.

CONNECTED TRANSACTIONS

Reasons for the transaction

The Directors consider that the use of JD Group’s Licensed IP Rights will enable the Company to leverage on the popularity and reputation of JD Group, thereby promoting its services. Moreover, the Company has been using some of the Licensed IP Rights of JD Group for several years and the Directors believe it is in the best interests of the Company and its Shareholders to continue to use the Licensed IP Rights after [REDACTED]. Further, JD Group is not able to transfer to our Group certain trademarks without transferring trademarks that belong to and are being used by JD Group due to their similarity (e.g. “JD” and “JD Logistics”). This is because the “JD Logistics” trademark involves the trademark “JD”, which belongs to and has been registered by JD Group. Consequently, in order for the trademark “JD Logistics” to be transferred to our Group, the trademark “JD” would also have to be transferred to our Group, which would be commercially impracticable for JD Group to do.

Further, as advised by our PRC Legal Adviser, pursuant to Trademark Law of the People’s Republic of China (中華人民共和國商標法) and Implementing Regulations of the Trademark Law of the People’s Republic of China (中華人民共和國商標法實施條例), (i) where a trademark registrant intends to transfer a registered trademark, it shall transfer all the similar registered trademarks used for the same or similar commodities; and (ii) if the trademark registrant fails to transfer all of its similar registered trademarks used for the same or similar commodities, the Trademark Office under the State Administration for Market Regulation (the “**Trademark Office**”), which is in charge of trademark registrations in China, is entitled to instruct the transferor to rectify it within a prescribed time limit. Failure to do so, the application for transfer of the registered trademark will be deemed to be withdrawn, and the Trademark Office shall inform the transferor in writing. Therefore, due to the similarity of the registered trademarks used by our Group and JD Group (e.g. “JD Logistics” and “JD”), the application for transfer of the registered trademark “JD Logistics” will not be approved by the Trademark Office if JD Group does not transfer similar trademarks (e.g. “JD”) used for the same or similar commodities to our Group.

Consequently, it is submitted the IP Licensing Framework Agreement remains the most appropriate and feasible means for ensuring that both JD Group and our Group can continue to use the Licensed IP Rights.

Historical amounts

There were no historical amounts for the IP Licensing Framework Agreement for each of the two years ended December 31, 2019 and the nine months ended September 30, 2020.

Listing Rules implications

As the license to use the Licensed IP Rights is granted to us on a royalty-free basis, the transactions under the IP Licensing Framework Agreement constitute de minimis transactions and are fully exempt from the annual reporting, announcement, independent Shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT AND PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have conducted the following transactions in the ordinary and usual course of our business, which will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting, announcement and independent Shareholders’ approval (as the case may be)

CONNECTED TRANSACTIONS

requirements under Chapter 14A of the Listing Rules (the “**Non-exempt Continuing Connected Transactions**”). During the Track Record Period, although the pricing policies of some of the connected transactions set out below have not yet been established, the rationale of the pricing policies of all of the connected transactions below has been consistently adopted.

2. Supply Chain Solutions and Logistics Services Framework Agreement

Principal terms

Our Company [entered] into a supply chain solutions and logistics services framework agreement with JD.com on [●] (the “**Supply Chain Solutions and Logistics Services Framework Agreement**”), pursuant to which our Group will provide integrated supply chain solutions and other logistics services to JD Group and its associates including but not limited to warehouse operation and storage services, domestic and international transportation and delivery services, after sales and maintenance services, cash on delivery services, and other related ancillary services in exchange for service fees.

The period of the Supply Chain Solutions and Logistics Services Framework Agreement will commence on [REDACTED] and end on December 31, 2023, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Given that JD Group enjoys a leading position in the PRC’s e-commerce industry with an extensive customer and user base, it is natural for, and in the best interest of our Group to provide JD Group with supply chain solutions and logistics services in exchange for service fees. From the perspective of JD Group, given our Group’s leading position in integrated supply chain logistics services industry in the PRC (with its extensive network of warehouses and delivery personnel), we are able to provide comprehensive related solutions and services to JD Group as well as the users and merchants on its platforms and ensure superior consumer experience. Therefore, it is mutually beneficial for our Group and JD Group to cooperate on the provision of supply chain solutions and logistics services.

Pricing policies

The fees we charge JD Group and its associates (i) will be in the range of applicable price we charge third party customers which are strategic clients of our Group; or (ii) will be determined in accordance with the prevailing market rates, taking into account the volume of business. Our Group and JD Group along with its associates will, on an annual basis, engage an industry consultant or conduct researches on comparable companies to determine the applicable market rates for the services provided under the Supply Chain Solutions and Logistics Services Framework Agreement.

Historical amounts

In respect of the supply chain solutions and logistics services provided by us to JD Group and its associates, the historical amounts were approximately RMB26.5 billion, RMB30.7 billion and RMB28.1 billion for the two years ended December 31, 2019 and the nine months ended September 30, 2020, respectively.

In February 2018, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain [REDACTED] Investors. Based on the terms stipulated in the Series

CONNECTED TRANSACTIONS

A Share Subscription Agreement, which became effective on February 14, 2018 (the “**Agreement Effective Date**”), pricing policies of certain related party transactions between us and JD Group were established and became effective since January 1, 2018 (the “**Pricing Policies Effective Date**”), which include, supply chain solutions and logistics services, advertising and promotional services, property leasing services, shared services and others. For the avoidance of doubt, the abovementioned Pricing Policies Effective Date is solely for the purpose of identifying related party transactions’ effective date.

Since the Pricing Policies Effective Date of Series A Preference Shares financing, the transaction amounts in relation to the provision of supply chain solutions and logistics services from our Group to JD Group are charged based on the agreed fee rates chargeable on the various logistics services provided to JD Group in the relevant period and year.

Annual caps

In respect of the Supply Chain Solutions and Logistics Services Framework Agreement, the transaction amounts to be paid by JD Group and its associates to us for the three years ending December 31, 2023 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2021	2022	2023
	(RMB in thousands)		
Transaction amount to be paid by JD Group and its associates to us	[53,400,000]	[70,700,000]	[93,400,000]

Basis of caps

The above proposed annual caps for the transaction amount to be paid by JD Group and its associates to us in respect of the provision of supply chain solutions and logistics services are determined with reference to the following basis:

- We primarily considered: (i) the historical transaction amounts and the growth trend for the two years ended December 31, 2019 and the nine months ended September 30, 2020 under the existing supply chain solutions and logistics services arrangements between our Group and JD Group and its associates; and (ii) the projected growth rate of the overall e-commerce market in China and, in turn, the estimated growth rate of JD Group and its associates’ business volume and consequently, their needs for supply chain solutions and logistics services.
- Revenues derived from JD Group and its associates in respect of the provision of supply chain solutions and logistics services, as a percentage of our Group’s total revenue, have been decreasing throughout the Track Record Period, which is a trend we expect to continue in the foreseeable future.

Listing Rules implications

As the highest applicable percentage ratio of the transactions contemplated under the Supply Chain Solutions and Logistics Services Framework Agreement for each of the three years ending

CONNECTED TRANSACTIONS

December 31, 2023 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules.

3. Advertising and Promotional Services Framework Agreement

Principal terms

Our Company [entered] into an advertising and promotional services framework agreement with JD.com on [●] (the “**Advertising and Promotional Services Framework Agreement**”), pursuant to which our Group will provide JD Group and its associates and its customers certain advertising services utilizing the advertising resources operated and managed by our Group, including the display of advertisements on various vehicles and the packaging of the parcels, and other promotional services among our customers and suppliers in return for service fees which shall be calculated in accordance with the underlying standard services agreements and the standard terms and conditions as amended from time to time.

The period of the Advertising and Promotional Services Framework Agreement will commence on [REDACTED] and end on December 31, 2023, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Since there is demand from the customers of JD Group, namely, the merchants on the platforms of JD Group, to display advertisements and promote their products/services utilizing certain existing resources of our Group, it is mutually beneficial to both our Group and JD Group to make use of our existing resources to promote products and services of JD Group, its associates and its customers (including placing advertisements on our Group’s vehicles, parcels and other advertising spaces). Our Group is not bound and will not be bound to provide advertising and promotional services to JD Group, its associates and its customers.

Pricing policies

The fees our Group charges JD Group and its associates will be determined in accordance with the prevailing market rates, taking into account the volume of business. Our Group and JD Group along with its associates will, on an annual basis, engage an industry consultant or conduct researches on comparable companies to determine the applicable market rates for the services provided under the Advertising and Promotional Services Framework Agreement.

Historical amounts

In respect of the advertising and promotional services provided by our Group to JD Group and its associates, the historical amounts were approximately RMB41.1 million, RMB122.4 million and RMB103.7 million for the two years ended December 31, 2019 and the nine months ended September 30, 2020, respectively.

In February 2018, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain [REDACTED] Investors. Based on the terms stipulated in the

CONNECTED TRANSACTIONS

Series A Share Subscription Agreement, which became effective on February 14, 2018 (the “**Agreement Effective Date**”), pricing policies of certain related party transactions between us and JD Group were established and became effective since January 1, 2018 (the “**Pricing Policies Effective Date**”), which include, supply chain solutions and logistics services, advertising and promotional services, property leasing services, shared services and others. For the avoidance of doubt, the abovementioned Pricing Policies Effective Date is solely for the purpose of identifying related party transactions’ effective date.

Since the Pricing Policies Effective Date of Series A Preference Shares financing, the transaction amounts in relation to the provision of advertising and promotional services from our Group to JD Group are charged based on the agreed fee rates chargeable on the various advertising and promotional services provided to JD Group in the relevant period and year.

Annual caps

In respect of the Advertising and Promotional Services Framework Agreement, the transaction amounts to be paid by JD Group and its associates to us for the three years ending December 31, 2023 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2021	2022	2023
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by JD Group and its associates to us . . .	[240,000]	[320,000]	[400,000]

Basis of caps

The above proposed annual caps for the transaction amount to be paid by JD Group and its associates to us in respect of the provision of advertising and promotional services are determined with reference to the following basis:

- We primarily considered: (i) the historical transaction amounts and the growth trend for the two years ended December 31, 2019 and the nine months ended September 30, 2020 under the existing advertising and promotional services arrangements between our Group and JD Group and its associates; and (ii) the expected increase in our Group’s advertising resources (e.g. more parcels hence more advertising space on the packaging and the brochures that come with the parcels) as a result of the expected growth in our supply chain solutions and logistics services business volume; and (iii) the expected increase in the business volume of JD Group, its associates and in its customer base considering the projected growth rate of the overall e-commerce market in China and, as a result, the expected increase in the demand for our advertising and promotional services.
- We expect revenues derived from JD Group and its associates in respect of the provision of the advertising and promotional services, as a percentage of our Group’s total revenue, to remain immaterial in the foreseeable future.

CONNECTED TRANSACTIONS

Listing Rules implications

As the highest applicable percentage ratio of the transactions contemplated under the Advertising and Promotional Services Framework Agreement for each of the three years ending December 31, 2023 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1%, but less than 5% on an annual basis, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

4. Property Leasing Framework Agreement

Principal terms

Our Company [entered] into a property leasing framework agreement with JD.com on [●] (the “**Property Leasing Framework Agreement**”), pursuant to which (i) we will lease warehouses in logistics parks owned by JD Group in return for rental fees; and (ii) JD Group will enter into short-term and long-term leases for warehouses on our behalf with third party property owners on a cost basis (“**Agency Lease Arrangements**”). JD Group will not charge our Group additional fees on these lease arrangements beyond its own cost. Our Group shall pay JD Group rental fees (including related ancillary fees) as charged by the third party property owners.

The period of the Property Leasing Framework Agreement will commence on [REDACTED] and end on December 31, 2023, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

It is mutually beneficial to both our Group and JD Group for us to lease the warehouses owned and built by JD Group. Given warehouses are the critical foundation of our Group’s supply chain solutions and logistics services, the high service quality of which forms a core part of the consumer experience for JD Group’s e-commerce customers, it is in the best interest of JD Group to lease its warehouses to our Group.

The reason for having Agency Lease Arrangements is that our Group, through JD Group, can enjoy more favorable rental terms given the scale and brand recognition of JD Group.

Our Group is not bound and will not be bound to lease warehouses owned by JD Group (or through the Agency Lease Arrangements) only. Our Group currently leases a majority of our warehouses from third party property owners and will continue to lease warehouses from third party property owners if the terms and conditions of the lease and/or the location or infrastructure of the warehouses offered by third party property owners are more favorable to us.

Pricing policies

The rental fees to be charged in relation to the properties owned by JD Group will be determined based on the prevailing market rental rates of warehouses of similar functions, gross floor area and location, among others. In respect of the Agency Lease Agreements, JD Group will not charge our Group additional fees beyond what it pays to the relevant third party property owners and our Group shall pay JD Group rental fees (including related ancillary fees) as charged by such third party property owners, and the rental fees will be determined based on the prevailing market rental rates of

CONNECTED TRANSACTIONS

warehouses of similar functions, gross floor area and location (among others) or determined based on arm’s length negotiation between us (or JD Group on behalf of our Group) and third party property owners of the warehouses.

Historical amounts

In respect of the property leasing services provided by JD Group to us, the historical transaction amounts were approximately RMB3.5 billion, RMB1.9 billion and RMB433.8 million for the two years ended December 31, 2019 and the nine months ended September 30, 2020, respectively. Historical amounts consist of leasing expenses which are not capitalized and the one-off recognition of right-of-use assets in relation to the capitalization of operating lease under IFRS 16.

In February 2018, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain [REDACTED] Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, which became effective on February 14, 2018 (the “**Agreement Effective Date**”), pricing policies of certain related party transactions between us and JD Group were established and became effective since January 1, 2018 (the “**Pricing Policies Effective Date**”), which include, supply chain solutions and logistics services, advertising and promotional services, property leasing services, shared services and others. For the avoidance of doubt, the abovementioned Pricing Policies Effective Date is solely for the purpose of identifying related party transactions’ effective date.

Since the Pricing Policies Effective Date of Series A Preference Shares financing, the transaction amounts in relation to the provision of property leasing services from JD Group to our Group are charged based on the agreed fee rates chargeable on the property leasing services provided to our Group in the relevant period and year.

Annual caps

In respect of the Property Leasing Framework Agreement, the transaction amounts to be paid by us to JD Group for the three years ending December 31, 2023 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2021	2022	2023
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by us to JD Group	[3,600,000]	[3,200,000]	[3,900,000]

Basis of caps

The above proposed annual caps for the transaction amount to be paid by us to JD Group in respect of the provision of property leasing services are determined with reference to the following basis:

- We primarily considered: (i) the historical transaction amounts and the existing leases for the two years ended December 31, 2019 and the nine months ended September 30, 2020

CONNECTED TRANSACTIONS

under the property leasing services arrangements between our Group and JD Group; (ii) the expected signing of new property leases and renewal of existing leases to meet our business needs, and (iii) expected rental rate under and the expected tenor of the new leases. The annual caps consist of leasing expenses which are not capitalized and the one-off recognition of right-of-use assets in relation to the capitalization of operating lease under IFRS 16.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Property Leasing Framework Agreement for each of the three years ending December 31, 2023 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1%, but less than 5% on an annual basis, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

5. Dada Delivery Services Framework Agreement

Principal terms

Our Company [entered] into the Dada delivery services framework agreement with Dada Group on [●] (the “**Dada Delivery Services Framework Agreement**”), pursuant to which Dada Group will provide on-demand delivery services to our Group utilizing its crowd-sourced delivery force to supplement our Group’s last-mile delivery force, especially during peak seasons.

The period of the Dada Delivery Services Framework Agreement will commence on the [REDACTED] and end on December 31, 2023, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

It is mutually beneficial to both Dada Group and our Group for our Group to use Dada Group’s on-demand delivery services to supplement our last-mile delivery force, given (i) from our perspective, it is more cost efficient to use Dada Group’s crowd-sourced riders during peak seasons (e.g. major online shopping events such as June 18 Anniversary Sale and China’s new online shopping festival on November 11) than to maintain a larger delivery force on our own throughout the year and (ii) from Dada Group’s perspective, transactions with our Group provide them with a significant amount of their last-mile delivery revenue.

Our Group is not bound and will not be bound to use on-demand last-mile delivery services offered by Dada Group. Our Group also engages other third party on-demand last-mile delivery service providers to supplement delivery force, and will continue to engage other third party on-demand last-mile delivery service providers if the terms and conditions for the services provided by third party on-demand last-mile delivery service providers are more favorable to us.

Pricing policies

The fees Dada Group charges our Group (i) will be in the range of applicable price Dada Group charges third party customers which are strategic clients of Dada Group; or (ii) will be determined in

CONNECTED TRANSACTIONS

accordance with the prevailing market rates, taking into account the volume of business from our Group as well as the delivery requirements. Our Group will, on an annual basis, engage an industry consultant or conduct researches on comparable companies to determine the applicable market rates for the services provided under the Dada Delivery Services Framework Agreement.

Historical amounts

In respect of the delivery services provided by Dada Group to our Group, the historical amounts were approximately RMB938.6 million, RMB1.6 billion and RMB1.5 billion for the two years ended December 31, 2019 and the nine months ended September 30, 2020, respectively.

Annual caps

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

$$\text{average fee per order} * \text{number of orders}$$

The average fee per order Dada Group shall charge us on the number of orders shall not exceed RMB5.

Basis for not setting monetary annual caps

It would be unsuitable to adopt monetary annual caps for the transactions contemplated in the Dada Delivery Services Framework Agreement for the following reasons:

- Our Group primarily utilizes Dada Group’s services during peak seasons (e.g. June 18 Anniversary Sale and China’s new online shopping festival on November 11). Logistics volume during peak seasons is subject to factors such as promotion strategies of e-commerce platforms and merchants which are not within our Group’s control and is thus difficult to forecast with accuracy. It would be impracticable to set a monetary cap which may limit our Group’s ability to procure sufficient resources to support our operations during peak seasons, which could severely impact customer experience and damage our Group’s brand recognition;
- Since a significant portion of the transaction amount with Dada Group occurs during a few major promotional events (e.g. June 18 Anniversary Sale and China’s new online shopping festival on November 11), real-time monitoring is required in order to ensure strict compliance with any monetary annual cap. It is practically impossible for our Group to monitor transaction amounts with Dada Group on a real-time basis during peak seasons; and
- Dada Group is a listed company on NASDAQ and our Group contributes a significant portion of Dada Group’s revenue. Setting a monetary cap on the transaction amount with Dada Group on a unilateral basis may impact our Group’s business relationship with a key business partner and may as a result cause disruption to our business operations and impact the interests of our Group and our Shareholders.

Listing Rules implications

We have applied for, [and the Stock Exchange has granted us], a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to express annual caps for the Dada

CONNECTED TRANSACTIONS

Delivery Services Framework Agreement in terms of monetary value. As the highest applicable percentage ratio of the transactions contemplated under the Dada Delivery Services Framework Agreement for each of the three years ending December 31, 2023 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1%, but less than 5% on an annual basis, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

6. Payment Services Framework Agreement

Principal terms

Our Company [entered] into a payment services framework agreement with JD Digits on [●] (the “**Payment Services Framework Agreement**”), pursuant to which JD Digits agreed to provide payment and ancillary services to our Group. For example, for consumers who choose cash on delivery, the pick-up stations or our Group’s delivery personnel will have to collect payment for the parcel on behalf of JD Group or online merchants (i.e. customers of our Group) and the delivery fee upon the receipt of the products. The relevant amounts are then settled with our customers through JD Digits.

The initial term of the Payment Services Framework Agreement will commence on [REDACTED] Date and will end on December 31, 2023, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Given that our Group provides supply chain solutions and logistics services to JD Group and a large number of JD Group’s customers, such payment services from JD Digits will ensure a consistent and superior customer experience. JD Digits is only one of the payment service providers which cooperate with our Group. With respect to the payment by customers who choose cash on delivery, such payment can be settled through other third party payment channels, such as WeChat Pay, cash or credit card.

Pricing policies

The fees to be charged by JD Digits will be calculated with reference to the prevailing marketing rates (e.g. a commission rate with reference to market rates charged by other payment service providers, and/or the market rate charged by JD Digits to its other third party service receivers), and taking into account the volume of the business to JD Digits.

Historical amounts

With respect to the payment services provided by JD Digits for our business, the historical amounts incurred were approximately RMB110.0 million, RMB96.4 million and RMB71.0 million for the two years ended December 31, 2019 and the nine months ended September 30, 2020, respectively.

CONNECTED TRANSACTIONS

Annual caps

With respect to the Payment Services Framework Agreement, the transaction amounts to be paid by us to JD Digits for the three years ending December 31, 2023 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2021	2022	2023
	(RMB in thousands)		
Transaction amount to be paid by us to JD Digits	[120,000]	[140,000]	[160,000]

Basis of caps

The above proposed annual caps are determined with reference to the following factors:

- The historical transaction amounts and the trend for the two years ended December 31, 2019 and the nine months ended September 30, 2020 under the existing payment services arrangements between our Group and JD Digits and the projected growth rate of the overall e-commerce market in China.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Payment Cooperation Framework Agreement for each of the three years ending December 31, 2023 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1%, but less than 5% on an annual basis, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

7. Shared Services Framework Agreement

Principal terms

Our Company [entered] into a shared services framework agreement with JD.com on [●] (the “Shared Services Framework Agreement”), pursuant to which JD Group will provide to our Group certain back-office and administrative support services, including but not limited to cloud services, provision of servers, information technology support service, certain human resources services, in addition to certain shared services, including office premises sharing and leasing, canteen facilities for staff, administrative purchases and various support services.

The initial term of the Shared Services Framework Agreement will commence on [REDACTED] Date and will end on December 31, 2023, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

The services provided under Shared Services Framework Agreement can help enhance utilization and economies of scale of JD Group’s operational support resources, which in turn, reduces the administrative costs of our Group in procuring similar services from a wide range of other providers. The Shared Services Framework Agreement will allow our Group to better leverage on the mature infrastructure and resources already built by JD Group.

CONNECTED TRANSACTIONS

Pricing policies

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

Historical amounts

With respect to the administrative support provided by JD Group to our business, the historical amounts incurred were approximately RMB8.2 billion, RMB1.9 billion and RMB1.6 billion for the two years ended December 31, 2019 and the nine months ended September 30, 2020, respectively. The decrease in the amounts incurred for the year ended December 31, 2018 compared with the year ended December 31, 2019 was mainly due to our Group’s restructuring and carve-out process.

In February 2018, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain [REDACTED] Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, which became effective on February 14, 2018 (the “**Agreement Effective Date**”), pricing policies of certain related party transactions between us and JD Group were established and became effective since January 1, 2018 (the “**Pricing Policies Effective Date**”), which include supply chain solutions and logistics services, advertising and promotional services, property leasing services, shared services and others. For the avoidance of doubt, the abovementioned Pricing Policies Effective Date is solely for the purpose of identifying related party transactions’ effective date.

Since the Pricing Policies Effective Date of Series A Preference Shares financing, the transaction amounts in relation to provision of shared services from JD Group to our Group are derived and calculated on the agreed basis set out in the Series A Share Subscription Agreement in each year respectively.

Annual caps

With respect to the Shared Services Framework Agreement, the transaction amounts to be paid by us to JD Group for the three years ending December 31, 2023 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2021	2022	2023
	(RMB in thousands)		
Transaction amount to be paid by us to JD Group	[2,900,000]	[3,600,000]	[4,300,000]

CONNECTED TRANSACTIONS

Basis of caps

The above proposed annual caps are determined with reference to the following factors:

- The Company primarily considered: (i) the historical transaction amounts and the trend for the two years ended December 31, 2019 and the nine months ended September 30, 2020 under the existing shared services arrangements between our Group and JD Group and (ii) the expected growth of the business of our Group and as a result, the increasing need for various administrative and support services.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Shared Services Framework Agreement for each of the three years ending December 31, 2023 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules, and the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules.

8. Contractual Arrangements

Background

As disclosed in the section headed “Contractual Arrangements” in this document, due to regulatory restrictions on foreign ownership and other legal restrictions in the PRC, we conduct a portion of our business through our Consolidated Affiliated Entities, namely the Onshore Holdcos and their respective subsidiaries, in the PRC. We do not hold any equity interests in our Onshore Holdcos. The registered shareholders of the Onshore Holdco are Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱), and the registered shareholders of Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) are Jian Cui (崔建) and Dingkai Yu (禹定凱). The Contractual Arrangements among the WFOEs, Onshore Holdcos and the shareholders of Onshore Holdcos enable us to (i) receive substantially all of the economic benefits from the Onshore Holdcos in consideration for the services provided by the WFOEs; (ii) exercise effective control over our Consolidated Affiliated Entities through our Onshore Holdcos; and (iii) hold an exclusive option to purchase all or part of the equity interests and assets of our Onshore Holdcos when and to the extent permitted by PRC laws.

See the section headed “Contractual Arrangements” in this document for detailed terms of the Contractual Arrangements.

Listing Rules Implications

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

CONNECTED TRANSACTIONS

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group’s legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of our Group (“**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules.

WAIVERS GRANTED BY THE STOCK EXCHANGE

(5) Dada Delivery Services Framework Agreement

In relation to the Dada Delivery Services Framework Agreement, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the announcement requirements, the circular (including the opinion and recommendation from an independent financial advisor) requirements, the independent shareholders’ approval requirements, and the annual monetary cap requirements for the Dada Delivery Services Framework Agreement pursuant to Rule 14A.105 of the Listing Rules, subject to the following conditions:

- (a) we will disclose in our subsequent annual and interim reports (i) a clear description of the bases for calculating the commissions charged by Dada Group under the Dada Delivery Services Framework Agreement, and (ii) the actual transaction amounts under the Dada Delivery Services Framework Agreement;
- (b) our independent non-executive Directors will review the underlying transactions entered into pursuant to the Dada Delivery Services Framework Agreement on an annual basis and confirm in our annual reports the matters set out in Rule 14A.55 of the Listing Rules;
- (c) we will comply with the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules if there is any material change to the terms of the Dada Delivery Services Framework Agreement;
- (d) we will engage an external auditor to report on, among other things, transactions contemplated in the Dada Delivery Services Framework Agreement pursuant to Rule 14A.56 of the Listing Rules. We will also ensure that the auditors are allowed sufficient access to our records for the purpose of reporting on the transactions contemplated in the Dada Delivery Services Framework Agreement;
- (e) we and our Board will ensure that the relevant transactions under the Dada Delivery Services Framework Agreement are undertaken in accordance with the terms of the Dada Delivery Services Framework Agreement and will use our best endeavors to comply with

CONNECTED TRANSACTIONS

such terms and the Listing Rules requirements applicable to the Dada Delivery Services Framework Agreement to the extent not waived by the Stock Exchange;

- (f) we will disclose in this document (i) the background of entering into the Dada Delivery Services Framework Agreement, (ii) the salient terms of the Dada Delivery Services Framework Agreement, (iii) the grounds of application for waivers set out in the final waiver application(s) submitted to the Stock Exchange, and (iv) our Directors’ and the Joint Sponsors’ views on the fairness and reasonableness of the Dada Delivery Services Framework Agreement as a whole; and
- (g) we will implement internal procedures so as to ensure that the Dada Delivery Services Framework Agreement are undertaken in accordance with the terms provided therein and the underlying transaction agreements entered into pursuant to or governed by the Dada Delivery Services Framework Agreement.

(3) Advertising and Promotional Services Framework Agreement, (4) Property Leasing Framework Agreement and (6) Payment Services Framework Agreement

In relation to the (3) Advertising and Promotional Services Framework Agreement, (4) Property Leasing Framework Agreement and (6) Payment Services Framework Agreement, since the highest applicable percentage ratio is expected to be 0.1% or more but less than 5%, the transactions contemplated thereunder are exempt from the circular (including the opinion and recommendation from an independent financial advisor) and the independent shareholders’ approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of these transactions, provided that the total values of these transactions for each of the three years ending December 31, 2023 will not exceed the relevant proposed annual caps above.

(2) Supply Chain Solutions and Logistics Services Framework Agreement and (7) Shared Services Framework Agreement

In respect of the continuing connected transactions as described above under the (2) Supply Chain Solutions and Logistics Services Framework Agreement and (7) Shared Services Framework Agreement, the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2023 are expected to be more than 5% on an annual basis. Accordingly, the continuing connected transactions under these framework agreements are subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders’ approval requirement under Rule 14A.36 of the Listing Rules.

As the above continuing connected transactions are expected to be carried out on a recurring basis, our Directors consider that strict compliance with the aforesaid announcement and independent Shareholders’ approval requirements will be impractical, and such requirements will lead to unnecessary administrative costs and create an onerous burden on us. Accordingly, we have applied to the Stock Exchange for, [and the Stock Exchange has granted us], pursuant to Rule 14A.105 of the

CONNECTED TRANSACTIONS

Listing Rules, waivers from strict compliance with the announcement and independent Shareholders’ approval requirements under Rule 14A.35 and Rule 14A.36 of the Listing Rules in respect of the transactions under (2) Supply Chain Solutions and Logistics Services Framework Agreement and (7) Shared Services Framework Agreement, provided that the total amount of transactions for each of the three years ending December 31, 2023 will not exceed the relevant proposed annual caps as set out in this section. Any material changes to the terms of these continuing connected transactions will be approved by independent shareholders. The independent non-executive Directors and auditors of the Company will review whether the transactions under the above continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the relevant framework agreements as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules.

The Contractual Arrangements

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

(a) ***No change without independent non-executive Directors’ approval***

No change to the Contractual Arrangements (including with respect to any fees payable to the WFOEs thereunder) will be made without the approval of our independent non-executive Directors.

(b) ***No change without independent Shareholders’ approval***

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders’ approval. Once independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will, however, continue to be applicable.

(c) ***Economic benefits flexibility***

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the Consolidated Affiliated Entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOEs by the Consolidated Affiliated Entities under the relevant exclusive business cooperation agreement, and (iii) our Group’s

CONNECTED TRANSACTIONS

right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

(d) ***Renewal and reproduction***

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) ***Ongoing reporting and approvals***

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial reporting period will be disclosed in our Company’s annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Onshore Holdcos to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and Onshore Holdcos during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company’s auditor will carry out review procedures annually on the transactions, pursuant to the Contractual Arrangements, and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our Consolidated Affiliated Entities will be treated as our Company’s

CONNECTED TRANSACTIONS

subsidiaries, and at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are **[REDACTED]** on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.
- In addition, we have also applied to the Stock Exchange for, [and the Stock Exchange has granted], a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated in any New Intergroup Agreements (as defined above), (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from our Consolidated Affiliated Entities in any New Intergroup Agreements, and (iii) the requirement to limit the term of any New Intergroup Agreement to three years or less, for so long as Shares are **[REDACTED]** on the Stock Exchange. The waiver is subject to the condition that the Contractual Arrangements subsist and that the consolidated affiliated entities will continue to be treated as our Company’s subsidiaries, but their directors, chief executives or substantial shareholders of the consolidated affiliated entities and its associates will be treated as connected persons of our Company (excluding, for this purpose, our consolidated affiliated entities), and transactions between these connected persons and our Group (including, for this purpose, our Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONFIRMATION BY DIRECTORS

Our Directors (including independent non-executive Directors) are of the view that:

- (a) the Non-Exempt Continuing Connected Transactions set out in this document have been entered into in the ordinary and usual course of our business, on normal commercial terms or better, on terms that are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole;
- (b) the proposed annual caps of the Non-Exempt Continuing Connected Transactions set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole;

CONNECTED TRANSACTIONS

- (c) the term of the IP Licensing Framework Agreement, which is longer than three years, is in the normal business practice of our Company and is in the interests of the Company and the Shareholders as a whole and it is a normal business practice for intellectual property license agreements to be of a similar or longer duration in order to minimize the possibility of disruption of the Group’s business operation and the occurrence of unnecessary costs; and
- (d) the non-monetary annual cap of the Dada Delivery Services Framework Agreement set out above is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONFIRMATION BY THE JOINT SPONSORS

Based on the documentation, information and data (including historical figures) provided by the Company, the representations and confirmations provided by the Company and the Directors to the Joint Sponsors, and participation in due diligence and discussions, the Joint Sponsors are of the view that:

- (a) the Non-exempt Continuing Connected Transactions for which a waiver has been sought have been entered into in the ordinary and usual course of the Company’s business, on normal commercial terms or better, that are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole;
- (b) the proposed annual caps of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (c) it is in the normal business practice of the Company and in the interests of the Company and the Shareholders as a whole to enter into the IP Licensing Framework Agreement with a term longer than three years; and
- (d) the non-monetary annual cap of the Dada Delivery Services Framework Agreement set out above is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Upon [REDACTED], our Board will consist of nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. The following table sets out certain information in respect of our Directors:

Name	Age	Position(s)	Date of joining our Group	Date of appointment	Roles and responsibilities
Directors					
Yui Yu (余睿)	38	Executive Director and chief executive officer	July 2008	January 18, 2021	Overall strategic planning and business direction
Yanlei Chen (陳岩磊)	39	Executive Director	January 2012	January 27, 2021	Overall strategic planning and business direction
Jun Fan (樊軍)	45	Executive Director	February 2017	January 27, 2021	Overall strategic planning and business direction
Richard Qiangdong Liu (劉強東)	47	Chairman, Non-executive Director	January 2012	January 19, 2012 ^(Note)	Provide strategic advice to the Board
Sandy Ran Xu (許冉)	44	Non-executive Director	September 2020	September 2, 2020	Provide strategic advice to the Board
Pang Zhang (張雱)	31	Non-executive Director	May 2016	May 12, 2016 ^(Note)	Provide strategic advice to the Board
Nora Gu Yi Wu (顧宜)	63	Independent non-executive director	[REDACTED]	[REDACTED]	Provide independent opinion and judgment to the Board
Liming Wang (王利明)	60	Independent non-executive director	[REDACTED]	[REDACTED]	Provide independent opinion and judgment to the Board
Carol Yun Yau Li (李恩祐)	41	Independent non-executive director	[REDACTED]	[REDACTED]	Provide independent opinion and judgment to the Board

Note: Mr. Liu was appointed a director of our Company from January 2012 to May 2016 and from March 7, 2018 to December 30, 2019, and was subsequently re-appointed a director of our Company on October 15, 2020. Ms. Zhang was appointed a director of our Company from May 12, 2016 to January 1, 2018 and was subsequently re-appointed a director of our Company on January 27, 2021.

Executive Directors

Yui Yu (余睿) is an executive Director and the chief executive officer of our Group. Mr. Yu is responsible for the Company’s overall strategic planning and business direction.

Mr. Yu joined JD Group in July 2008 and has served as our Group’s chief executive officer since December 2020. He has held multiple executive positions within JD Group including its retail and logistics businesses. In particular, Mr. Yu has extensive experience in operations and management in the logistics industry. He served as head of JD Logistics’ Central China department and JD Logistics’ East China logistics department from January 2011 to October 2012 and from October 2012 to May 2015, respectively, where he helped to establish JD Logistics’ operations across China. Mr. Yu then served as the CEO of Yihaodian (1號店) from June 2016 to March 2018 before serving as

DIRECTORS AND SENIOR MANAGEMENT

head of JD Group’s customer experience and service department from March 2018 to February 2019. He was also chief human resources officer of JD Group from February 2019 to December 2020.

Mr. Yu received his bachelor of laws from China University of Political Science and Law (中國政法大學) in July 2005 and an EMBA from China Europe International Business School (中歐國際工商學院) in June 2017.

Yanlei Chen (陳岩磊) is an executive Director of our Group. Mr. Chen joined JD Group in April 2007 and has served as the head of Jingxida Express (京喜達快遞) and the head of the Supply Chain Products Department since July 2020.

Previously, Mr. Chen served as the head of JD Logistics’ Southeast China Department from May 2017 to July 2020, head of JD Logistics Northeast China Department from January 2016 to May 2017 and head of JD Logistics Southeast China Warehouse Management Department from April 2007 to January 2016.

Mr. Chen received his EMBA from Sun Yat-sen University (中山大學) in April 2012.

Jun Fan (樊軍) is an executive Director of our Group. Mr. Fan joined JD Group in February 2017 and has served as the head of the Express Products Department since July 2019. Previously, he served as head of the JD Logistics’ Central China Department.

Prior to joining our Group, Mr. Fan was general manager of national sales operations at METRO Jinjiang Cash & Carry Co., Ltd., where he served for approximately 17 years and spent his time in senior managerial roles. Due to his extensive experience in the logistics industry, Mr. Fan also currently holds the position of vice president of China Express Association.

Mr. Fan received his diploma in business administration from Northwestern Polytechnical University (西北工業大學) in January 2008.

Non-executive Directors

Richard Qiangdong Liu (劉強東) is a non-executive Director and chairman of our Board. Mr. Liu has been the chairman and chief executive officer of the JD Group since its inception. Mr. Liu founded JD.com’s business in 2004 and has guided its development and growth since then. In December 2011, Mr. Liu received the prestigious award “2011 China Economic Person of the Year” from CCTV, China’s largest nationwide television network. Mr. Liu has received numerous other awards for his achievements in the e-commerce industry in China, such as “2011 Chinese Business Leader” and Fortune China’s “2012 Chinese Businessman.” Mr. Liu currently serves as the chairman and director of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since June 2020 and chairman and non-executive Director of JD Health International Inc. (HKEX: 6618) since September 2020.

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

Sandy Ran Xu (許冉) is a non-executive Director of our Group. Ms. Xu has served as the chief financial officer of JD Group since June 2020. Ms. Xu joined JD Group in July 2018 serving as Vice

DIRECTORS AND SENIOR MANAGEMENT

President of Finance Department and was promoted to Senior Vice President of Finance Department in January 2020. From July 2018 to May 2020, Ms. Xu oversaw group finance, accounting and tax functions in addition to serving as chief financial officer of JD Retail business group of JD Group. Prior to joining JD Group, Ms. Xu was an audit partner and spent nearly 20 years with PricewaterhouseCoopers Zhong Tian LLP, Beijing office and PricewaterhouseCoopers LLP, San Jose office, focusing on the TMT industry and capital markets in the U.S. Ms. Xu currently serves as a director (and member of the compensation committee and nominating and governance committee) of Dada Nexus Limited, whose shares have been listed on the NASDAQ (ticker: DADA) since June 2020, a director of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since June 2020 and a non-executive Director of JD Health International Inc. (HKEX: 6618) since August 2020.

Ms. Xu was a Certified Public Accountant in both China and the United States. Ms. Xu received her double degree in the bachelor of science and bachelor of economics from Peking University (北京大學) in July 1998.

Pang Zhang (張雱) is a non-executive Director of our Group. Ms. Zhang joined the JD Group in July 2011 and has served as JD Group’s chief human resources officer since December 2020. She has significant experience in leadership development as well as organizational processes optimization, and has held multiple key roles within different departments in JD Group including JD Group’s CEO office, JD Retail and JD Digits business groups.

Ms. Zhang also holds directorships in various subsidiaries of JD Group and our Group, including Beijing Jingdong Century Information Technology Co., Ltd. (北京京東世紀信息技術有限公司), Xi’an Jingdong Xuncheng Logistics Co., Ltd. (西安京東訊成物流有限公司) and Xi’an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司).

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

Independent Non-executive Directors

Nora Gu Yi Wu (顧宜) currently serves as a trustee for the University of San Francisco and is an independent board member of Meditrina, Inc.

Ms. Wu retired from PricewaterhouseCoopers (“PwC”) in July 2016. Before her retirement, she served as the Vice Chairwoman and Global Human Capital Leader for PwC International Ltd. Prior to this global leadership role, she also served as a PwC Global Board member for PwC International Ltd. from 2013 to 2014.

In 2016, Ms. Wu was named onto the *Financial Times* UPstanding Leader’s List of the Top 100 Ethnic-Minority Executives in the U.S. and U.K.

Ms. Wu received her bachelor of science in business administration with a major in accounting from the University of San Francisco in 1988. In 2018, she completed a year-long fellowship program with Stanford University’s Distinguished Careers Institute.

Carol Yun Yau Li (李恩祐) has served as Managing Director of Yale Center Beijing, Yale University’s first university-wide center outside of the United States, since September 2014.

DIRECTORS AND SENIOR MANAGEMENT

Formerly, from April 2008 to May 2012, Ms. Li was a Senior Vice President at China Investment Corporation, China’s sovereign wealth fund, where she focused on private equity investments. She started her career in investment banking at Credit Suisse First Boston in New York. Upon completing her Doctor of Jurisprudence degree, Ms. Li worked as an attorney at Sullivan & Cromwell LLP and WilmerHale LLP, specializing in corporate, financial, and transactional matters. Ms. Li was named a World Economic Forum Young Global Leader in 2016. She has served as a member of the Hong Kong X-Tech Startup Platform Advisory Committee since December 2017.

Ms. Li received her bachelor of arts degree in economics and international studies from Yale University in May 2000 and her Doctor of Jurisprudence degree from Stanford University in June 2006. She is admitted to practice law in the State of New York and in the District of Columbia in the United States.

Liming Wang (王利明) has served as a professor of law at Renmin University of China (“RUC”) since June 1992.

Previously, Mr. Wang also served as RUC’s executive vice president from June 2014 to August 2020. From December 2008 to June 2014, Mr. Wang held various leadership roles within RUC. He was formerly dean of RUC’s School of Law from May 2005 to December 2008.

Mr. Wang is widely recognized as a leading figure in the legal industry and was named as one of “China’s Top 10 Educational Elites” in 2006, “China Newsweek’s Person of the Year in the Rule of Law” in 2019 and “CCTV Person of the Year in the Rule of Law” in both 2007 and 2020.

He graduated from Hubei University of Finance and Economics with a bachelor’s degree in law in July 1981. He obtained both his master’s and doctor’s degree in law from RUC in February 1985 and July 1990, respectively.

SENIOR MANAGEMENT

The following table provides information about members of our senior management (other than our executive Directors):

Name	Age	Position(s)	Date of joining our Group	Roles and responsibilities
Yue Ma (馬越)	45	Chief financial officer	July 2018	Responsible for the Company’s finance and investments

Yue Ma (馬越) is the chief financial officer of our Group and oversees the finance and investments of our Group.

Ms. Ma joined JD Group in July 2018 and was JD Group’s Head of Property and Insurance Finance Department and the Property Investment and Funds Management Department from July 2018 to February 2019. She was appointed as our Group’s chief financial officer in February 2019.

Prior to joining JD Group, Ms. Ma was an audit partner with Ernst & Young Hua Ming LLP, where she spent nearly 18 years of her career. Ms. Ma was a Certified Public Accountant in China.

Ms. Ma received her bachelor’s degree in international business management and master’s degree in business management from Renmin University of China (中國人民大學) in July 1997 and July 2000, respectively.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ming King Chiu (趙明璟), our company secretary is an executive director of Corporate Services of Vistra Corporate Services (HK) Limited. He has over 10 years of experience in the company secretarial field. He is currently (1) the joint company secretary of Shanghai Haohai Biological Technology Co., Ltd., a main board listed company in Hong Kong (HKEX: 6826); (2) the joint company secretary of Kunming Dianchi Water Treatment Co., Ltd., a main board listed company in Hong Kong (HKEX: 3768); (3) the company secretary of Grace Wine Holdings Limited, a GEM listed company in Hong Kong (GEM: 8146); (4) the joint company secretary of AAG Energy Holdings Limited, a main board listed company in Hong Kong (HKEX: 2686); (5) the joint company secretary of CanSino Biologics Inc., a main board listed company in Hong Kong (HKEX: 6185); (6) the company secretary of Sheng Yuan Holdings Limited, a main board listed company in Hong Kong (HKEX: 851); (7) the company secretary of Loco Hong Kong Holdings Limited, a GEM listed company in Hong Kong (GEM: 8162) and (8) the company secretary of JD Health International Inc., a main board listed company in Hong Kong (HKEX: 6618).

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

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

Management and corporate governance

Board Committees

Audit committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions and provide advice and comments to the Board. The audit committee comprises three members, namely Nora Gu Yi Wu (顧宜), Carol Yun Yau Li (李恩祐) and Sandy Ran Xu (許冉), with Nora Gu Yi Wu (顧宜) (being our independent non-executive Director with the appropriate professional qualifications) as chair of the audit committee.

Remuneration committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee comprises three members, namely Liming Wang (王利明), Nora Gu Yi Wu (顧宜) and Pang Zhang (張雱), with Liming Wang (王利明) as chair of the remuneration committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination committee

We have established a nomination committee with written terms of reference in compliance with the Code on Corporate Governance in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The nomination committee comprises three members, namely Richard Qiangdong Liu (劉強東), Liming Wang (王利明) and Carol Yun Yau Li (李恩祐) with Richard Qiangdong Liu (劉強東) as chair of the nomination committee.

Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, we expect to comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules after [REDACTED].

Board diversity

Our Company [has adopted] a board diversity policy which sets out the approach to achieve diversity of the Board. Our Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company’s competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. Pursuant to the board diversity policy, in reviewing and assessing suitable candidates to serve as a director of the Company, the nomination committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. Pursuant to the board diversity policy, the nomination committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

Management presence

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Accordingly, we have applied for[, and the Stock Exchange has granted], a waiver from strict compliance with Rule 8.12 of the Listing Rules. See “Waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance” for further details.

Remuneration

Our Directors receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf. For the details of the service contracts and appointment letters that we have entered into with our Directors, see the section headed “Statutory and General Information—C. Further Information about our Directors—1. Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this document.

DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans, discretionary bonuses and share-based payment expenses) for our Directors for the years ended December 31, 2018, 2019 and 2020 was approximately RMB136.4 million, RMB125.1 million and RMB[●], respectively. Further information on the remuneration of each Director during the Track Record Period is set out in the Accountants’ Report as set out in Appendix I to this document.

The five highest paid individuals of our Group for the years ended December 31, 2018, 2019 and 2020 included one Director. The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans, discretionary bonuses and share-based payment expenses) for the remaining highest paid individuals for the years ended December 31, 2018, 2019 and 2020 was approximately RMB59.8 million, RMB45.5 million and RMB[●], respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2018, 2019 and 2020 by our Company to our Directors.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

Compliance Adviser

We have appointed Guotai Junan Capital Limited as our Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use [REDACTED] of [REDACTED] in a manner different from that detailed in this document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its [REDACTED] or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of the Compliance Adviser shall commence on [REDACTED] and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after [REDACTED].

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of [REDACTED] (assuming [REDACTED] is not exercised and excluding the shares to be issued under the [REDACTED] ESOP) the following persons will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group:

<u>Name of Shareholder</u>	<u>Capacity / Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company after [REDACTED]</u>
Jingdong Technology Group Corporation ⁽¹⁾	Beneficial owner	3,924,000,000	[[REDACTED]]%
JD.com ⁽¹⁾	Interest in controlled corporation	3,924,000,000	[[REDACTED]]%

Notes:

(1) Jingdong Technology Group Corporation is wholly-owned by JD.com. Under the SFO, JD.com is deemed to be interested in and control the 3,924,000,000 Shares held by Jingdong Technology Group Corporation.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following completion of [REDACTED] (assuming [REDACTED] is not exercised and excluding the shares to be issued under the [REDACTED] ESOP), have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of our authorized share capital and the amount in issue and to be issued as fully paid or credited as fully paid immediately prior to and following completion of [REDACTED] assuming that (i) [REDACTED] becomes unconditional and [REDACTED] are issued pursuant to [REDACTED], (ii) [REDACTED] is not exercised, (iii) the shares to be issued under the [REDACTED] ESOP and (iv) each Preference Share is converted into one Share:

Authorized share capital at the date of this document

Shares	Approximate aggregate nominal value of Shares
40,000,000,000	US\$1,000,000

Issued Share Capital

The issued share capital of our Company immediately following the completion of [REDACTED] will be as follows:

Number of shares	Description of Shares	Approximate aggregate nominal value of Shares (US\$)	% of the issued share capital
[4,959,335,226]	Shares in issue as of the date of this document	[123,983.38]	[REDACTED]%
[REDACTED]	Shares to be [REDACTED] under [REDACTED]	[REDACTED]	[REDACTED]%
[REDACTED]	Shares in total	[REDACTED]	100.00%

The tables above do not take into account any Shares which may be [REDACTED] or repurchased by us under the general mandates granted to our Directors as referred to below.

Ranking

The [REDACTED] are ordinary shares in our share capital and rank equally with all Shares currently in issue and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meeting and class meeting are required

Our Company may by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may reduce its share capital or capital redemption reserve by its shareholders passing a special resolution.

See “Summary of the constitution of our Company and Cayman company law—Articles of Association—Alteration of capital” in Appendix III to this document for further details.

Subject to the Cayman Companies Act, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares

SHARE CAPITAL

may (unless otherwise provided for by the terms of issue of the shares of that class) be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

See “Summary of the constitution of our Company and Cayman company law—Articles of Association—Shares—Variation of rights of existing shares or classes of shares” in Appendix III to this document for further details.

General mandate to issue Shares

Subject to [REDACTED] becoming unconditional, our Directors were granted a general mandate to allot, issue and deal with any Shares or securities convertible into Shares of not more than the sum of:

- 20% of the total number of Shares in issue immediately following completion of [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of [REDACTED] and the shares to be issued under the [REDACTED] ESOP); and
- the total number of Shares repurchased by our Company pursuant to the authority referred to in “—General mandate to repurchase Shares” below.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

General mandate to repurchase Shares

Subject to [REDACTED] becoming unconditional, our Directors were granted a general mandate to repurchase our own Shares up to 10% of the total number of Shares in issue immediately following completion of [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of [REDACTED] and excluding the share to be issued under the [REDACTED] ESOP).

This mandate only relates to repurchases on the Stock Exchange or on any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, and in accordance with all applicable laws and the requirements under the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time.

This general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;

SHARE CAPITAL

- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

See “Statutory and General Information—Further Information About Our Group—Explanatory Statement on Repurchase of Our Own Securities” in Appendix IV to this document for further details of this general mandate to repurchase Shares.

Share Incentive Plan

We adopted the [REDACTED] ESOP on March 31, 2018. See “Statutory and General Information—Share Incentive Plan” in Appendix IV to this document for further details.

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You should read the following discussion and analysis in conjunction with our audited combined financial statements included in “Appendix I—Accountants’ Report” and our condensed combined financial statements included in “Appendix IA—Condensed Combined Financial Statements” to this document, together with the accompanying notes. Our combined financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountants’ Report and Condensed Combined Financial Statements and not merely rely on the information contained in this section.

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

OVERVIEW

We are the leading technology-driven integrated supply chain logistics services provider in China. We offer a full spectrum of supply chain solutions and high-quality logistics services enabled by technology, ranging from warehousing to distribution, spanning across manufacturing to end-customers, covering regular and specialized items. According to the CIC Report, we are the largest player in China’s integrated supply chain logistics services market in terms of total revenue in 2019.

Our value proposition is to empower our customers’ supply chains and substantially improve their operational efficiencies, which in turn enhance their own customer experience and stickiness. We help our customers reduce redundant distribution layers, improve the agility of their supply chains, and optimize inventory management. Our solutions are powered by our proprietary technology, industry know-how and insights of product merchandizing. In 2020, we served more than 190,000 corporate customers across a wide array of industries, such as FMCG, apparel, home appliances, home furniture, 3C, automotive and fresh produce, among others.

Our journey began with the establishment of JD Group’s in-house logistics department in 2007, and we have been continually building our logistics infrastructure, technologies, as well as operational and industry know-hows for over a decade. With the fundamental approaches of minimizing the number of transits and shortening the distance between merchandises and consumers, we believe we have revolutionized and led the upgrade of the supply chains of the e-commerce industry in China. Through this process, we have built up our nationwide and strategically-located logistics infrastructure and technology platform from ground up, redefined the industry standards for service quality, and accumulated deep know-hows in key industry verticals. We have then opened up our solutions and services to external customers since 2017 with the goal of empowering their supply chains.

We believe China’s rapid digitalization of the economy has created increasingly multi-faceted customer demands. Such demands are currently serviced by a fragmented group of incumbent logistics

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players and are severely underserved, which present significant opportunities for supply chain solutions and logistics services providers like us. According to the CIC Report, the market size of the integrated supply chain logistics services industry is expected to grow from RMB2,023 billion in 2020 to RMB3,185 billion by 2025, representing a CAGR of 9.5%, which is approximately 1.8 times the growth of China’s logistics spending over the same period. Currently, the integrated supply chain logistics services industry in China is highly fragmented, with the top ten players only accounting for 7.9% of the market in terms of revenue in 2019.

Supply chain technology is the bedrock of our operations and differentiates us from our competitors. We leverage fundamental technologies such as 5G, AI, big data, cloud computing and IoT to continuously improve our capabilities in automation, digitalization, and intelligentization. We use advanced unmanned technologies and robotics, such as automated guided vehicles (AGVs), autonomous mobile robots (AMRs) and sorting robots, self-driving vehicles, among others, to deliver critical improvements in speed, accuracy and productivity in all key logistical operations including warehousing, transportation, sorting and delivery. As of September 30, 2020, we operated 28 Asia No. 1 smart mega warehouses covering 18 cities in China, including a fully unmanned warehouse located in Shanghai, which can process more than 1.3 million orders per day during peak seasons. Our proprietary warehouse management system (WMS), transportation management system (TMS) and order management system (OMS) support the digitalization of our customers’ supply chains, and are coordinated and synchronized by our intelligent algorithms to enable centralized decision making in areas such as sales forecasting, merchandise distribution planning and supply chain network optimization.

We have established six highly synergized logistics networks which are extensive, flexible and digitally integrated, providing us with strong competitive advantages in delivering compelling customer experience and serving as an effective entry barrier against our competitors. These six logistics networks are our warehouse network, line-haul transportation network, last-mile delivery network, bulky item logistics network, cold-chain logistics network and cross-border logistics network. Our logistics networks cover almost all districts and counties in China as well as China’s total population. As of September 30, 2020, we operated over 800 warehouses, which covered an aggregate gross floor area of approximately 20 million square meters, including warehouse space managed under our Open Warehouse Platform. As of December 31, 2020, we had a team of over 190,000 delivery personnel and also connect with an extensive crowd-sourced on-demand delivery network.

While we control and operate our mission-critical logistics infrastructure to deliver high-quality services and best-in-class customer experiences, we embrace synergistic collaborations in building our supply chain network in order to bring together the complementary capabilities of various industry participants and strategic partners in China and globally. As an example, utilizing our Open Warehouse Platform, we can improve the operating efficiencies of our customers’ warehouses through implementation of our advanced warehouse management systems. Furthermore, we also utilize capacity from these warehouses to further expand the reach of our warehouse network. As part of our global strategy, we are also continually building our international supply chain network, which covered more than 220 countries and regions as of December 31, 2020.

We have achieved rapid growth during the Track Record Period. Our revenue grew by 31.6% from RMB37.9 billion in 2018 to RMB49.8 billion in 2019, and grew by 43.2% from RMB34.6 billion in the nine months ended September 30, 2019 to RMB49.5 billion in the same period in 2020. We

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incurred net losses of RMB2.8 billion, RMB2.2 billion and RMB11.7 million in 2018, 2019 and for the nine months ended September 30, 2020, respectively.

BASIS OF PRESENTATION

Our Company, formerly known as Jingdong Express Group Corporation, was incorporated as an exempted company with limited liability under the laws of the Cayman Islands in January 2012. Beginning June 2017, to comply with the relevant laws and regulations in the PRC which prohibit or restrict foreign ownership of the companies where the PRC operating licenses are required, we underwent a series of reorganization transactions to establish the ultimate holding company of the business operated by our PRC entities, including obtaining control over and becoming the primary beneficiary of Xi'an Jingdong Xincheng by entering into a series of contractual arrangements with Xi'an Jingdong Xincheng and its shareholders. In addition, in February 2018, we commenced undertaking a series of [REDACTED] transactions (the “[REDACTED]”) for our remaining business operations conducted under certain subsidiaries and consolidated affiliated entities of JD Group (collectively the “[REDACTED]”). See note 1.2 to the Accountants’ Report in Appendix I to this document for a detailed description of the [REDACTED] transactions.

We have adopted a “carve-out” approach to present our financial information in accordance with the “Carve outs” section in the HKSIR 200 and taken into consideration the recognition, measurement, presentation and disclosure requirements under IFRS, and disclosed the basis of preparation and presentation of historical financial information on pages I-11 through I-14 in the Accountants’ Report as set out in Appendix I to this document.

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

During the Track Record Period, the [REDACTED] was operated by certain subsidiaries and consolidated affiliated entities of JD Group, which had not been controlled by us. Accordingly, the sales and procurement contracts of the [REDACTED] were contracted under the name of entities of JD Group other than the entities controlled by us. Taken into consideration of (1) we were not legally entitled to collect or obligated to pay for the transactions in relation to the [REDACTED] operated by JD Group, but JD Group had such rights and obligations; (2) we did not maintain separate bank accounts in relation to the [REDACTED] since the treasury and cash disbursement functions of the [REDACTED] were centrally administrated under JD Group and the net cash flows generated by the [REDACTED] were kept in the bank accounts of JD Group; and (3) we did not enter into any separation agreements with JD Group, the trade receivables and trade payables of JD Group attributable to the [REDACTED] were not recognized as our Group’s financial assets and financial liabilities in accordance with IFRS 9 but recognized as net return to/contribution from JD Group or amount due from/to JD Group as further stated below. The non-IFRS trade receivables and non-IFRS trade payables are presented as if the trade receivables and trade payables of JD Group attributable to the [REDACTED] were included in our statement of financial position because we

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believe that the non-IFRS trade receivables and non-IFRS trade payables are more indicative of our financial position during the Track Record Period and provide useful information to [REDACTED] and others in understanding and evaluating our combined results of operations in the same manner as they do to our management. For other financial assets and financial liabilities, such as other receivables and other payables, the consideration and basis aforementioned are also applicable. We expect that the [REDACTED] will be completed prior to [REDACTED] and accordingly all of such non-IFRS trade receivables and non-IFRS trade payables will be reflected as our trade receivables and payables on our annual report subsequent to [REDACTED] for the following reasons: (1) all of the [REDACTED] will have been transferred to the entities of our Group upon completion of [REDACTED]; (2) we will directly enter into business contracts with the counterparties relating to the [REDACTED] under the name of our entities instead of JD Group’s, therefore we will be legally entitled to collect or obligated to pay the respective amounts under such contracts; and (3) we will conduct our business through bank accounts of the entities of our Group, such as the receipt and payment of the sales and purchase of products.

In February 2018, we entered into the Series A Share Subscription Agreement with certain third-party investors, which became effective on February 14, 2018 (the “Agreement Effective Date”). Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies for certain related party transactions between JD Group and us, including supply chain solutions and logistics services, advertising and promotional services, property leasing services, shared services and others, were established and priced based on the terms effective since January 1, 2018 (the “Pricing Policies Effective Date”).

Prior to the Agreement Effective Date of the Series A Preference Shares financing, for the [REDACTED] which was operated by JD Group:

- (1) Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, expenses incurred by JD Group that are impracticable to be specifically identified to the [REDACTED] Business are determined on the following basis: (i) items included in selling and marketing expenses, research and development expenses, and general and administrative expenses that are impracticable to be specifically identified were allocated from the JD Group’s respective expenses on the basis of the combination of revenues, the headcount of employees, and total operating expenses; (ii) income tax expense was calculated based on the tax rate of the entities that the [REDACTED] Business were spun off from, as if the [REDACTED] Business was a separate tax reporting entity. After the Pricing Policies Effective Date of the Series A Preference Shares financing, revenue or expenses that were generated from/charged by JD Group in accordance with the related party transactions listed out in the Series A Share Subscription Agreement was recognized by our Group directly in accordance with the terms stipulated on the Series A Share Subscription Agreement. Other items of expenses which are impracticable to be specifically identified to the [REDACTED] Business are determined as same as before the Pricing Policies Effective Date.

As there were no arrangements between us and JD Group on the settlement of such loss with us, such loss legally belonged to JD Group and was recorded as “net contribution from JD Group” in our combined statement of changes in equity as the loss stayed in JD Group.

- (2) the trade receivables and trade payables of such business were not recognized in our combined statements of financial position as our financial assets and liabilities since we

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

- (3) the cash and cash equivalents generated/used by the [REDACTED] did not belong to us as such balances were included in JD Group’s bank accounts and the treasury and cash disbursement functions were centrally managed under JD Group.
- (4) for assets and liabilities other than financial assets and liabilities, such as property and equipment, right-of-use assets, intangible assets, inventories, contract assets, contract liabilities and lease liabilities, the balances were recorded in our combined statements of financial position since these assets and liabilities have been allocated by JD Group to us through [REDACTED] given that they are specifically identified within the [REDACTED] and separately managed and controlled by JD Group. We had neither right claims on nor obligation to any third parties, in contrast to financial assets and liabilities such as trade receivables involving the right to receive from customers or trade payables involving obligation to pay to suppliers. Therefore, there is no need for adjustments regarding the assets and liabilities other than financial assets and liabilities.

After the Agreement Effective Date of Series A Preference Shares financing, for the [REDACTED] which was operated by JD Group:

- (1) the revenue, cost of revenue and expenses of such business were recorded in our combined statements of profit or loss based on the related party transactions established in accordance with terms stipulated in the Series A Share Subscription Agreement. For revenue, cost of revenue and expenses that were not covered by the Series A Share Subscription Agreement, they were recorded following the same principle as prior to the Agreement Effective Date of Series A Preference Shares financing. In addition, the profit generated from/funds utilized by the [REDACTED] was recorded as amounts due from/due to related parties in our combined statement of financial position as we have the right to receive such profit based on Series A Share Subscription Agreement.
- (2) the trade receivables and trade payables and other financial assets and liabilities were not recognized in our combined statements of financial position as financial assets and liabilities since it was still JD Group that entered into the contracts with customers or suppliers. Such trade receivables and trade payables and other financial assets and liabilities, especially other receivables and other payables, were recorded as amounts due from/to JD Group in our combined statements of financial position, which is different from the treatment prior to the Agreement Effective Date of the Series A Preference

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Shares financing as discussed on the previous page, which were recorded as net (return to)/ contribution from JD Group. This is mainly because upon the Agreement Effective Date of Series A Preference Shares, we have established the arrangement with JD Group through which we have the right to receive from or obligation to pay JD Group on such trade receivables and trade payables, and other financial assets and liabilities.

- (3) the cash and cash equivalents generated from/used by the [REDACTED] were also not recorded following the same method as prior to the Agreement Effective Date of Series A Preference Shares financing.
- (4) for assets and liabilities other than financial assets and liabilities, such as property and equipment, right-of-use assets, intangible assets, inventories, contract assets, contract liabilities and lease liabilities these balances were recorded on our combined statements of financial position following the same method as prior to the Agreement Effective Date of Series A Preference Shares financing.

The net contribution from JD Group we recognized on the items attributable to our [REDACTED] as discussed above for the years ended December 31, 2018 and 2019 and the nine months ended September 30, 2020 were RMB1,342 million, nil and nil, respectively.

The method of recognition or allocation of the above items forms a reasonable basis of presenting the operating results and financial position of our business for the Track Record Period.

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

Adoption of IFRS 9, IFRS 15 and IFRS 16

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

Neither have we prepared, nor the reporting accountants have audited or reviewed, our combined financial statements for the Track Record Period prepared under IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 18 *Revenue*. We started applying IFRS 16 *Leases* since January 1, 2019. We have elected to use the modified retrospective approach and have therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019. Financial information for the year ended December 31, 2018 has not been restated and continues to be reported under IAS 17 *Leases*.

For the purpose of providing additional information to our [REDACTED], our Directors have used their best efforts to assess the respective impact on our combined financial statements of the adoption of IFRS 9, IFRS 15 and IFRS 16. Save as disclosed below, our Directors consider that the adoption of IFRS 9, IFRS 15 and IFRS 16 has no significant impact on our financial position and performance when compared to that of IAS 39, IAS 18 and IAS 17, respectively.

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IFRS 9

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

IFRS 15

Based on our internal assessments, the adoption of IFRS 15 has no significant impact on our financial position and performance as compared with IAS 18, except that contract liabilities would have been classified as “advances from customers” and contract assets would have been classified as “trade receivables” had IAS 18 been applied during the Track Record Period. The reclassification has no significant impact on our key financial ratios, such as gearing ratio, current ratio and quick ratio as of December 31, 2018 and 2019 and September 30, 2020.

IFRS 16 Lease

IFRS 16 superseded IAS 17 *Lease* and the related interpretations. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

We started applying IFRS 16 as from January 1, 2019. We have elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes of accounting policies and the transition options applied are set out below:

Definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and to direct the use of the identified asset. The election to use the transitional practical expedient allows the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, we allocate the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices, unless such allocation cannot be made reliably.

As a lessee

As of January 1, 2019, we recognized additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the applicable discount rates of the relevant group entities at the date of initial

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application by applying IFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, we applied the following practical expedients to leases previously classified as operating leases under IAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for our leases with extension and termination options.

The table below explains the difference between operating lease commitments disclosed at December 31, 2018 by applying IAS 17 and lease liabilities recognized at January 1, 2019 by applying IFRS 16:

	As of January 1, 2019
	<u>RMB'000</u>
Operating lease commitments disclosed as of December 31, 2018	6,435,469
Lease liabilities discounted at applicable discount rate	5,895,781
Lease liabilities recognized upon application of IFRS 16 as of January 1, 2019	5,895,781
Analyzed as:	
Current	2,382,821
Non-current	<u>3,512,960</u>
Total	<u>5,895,781</u>

When recognizing the lease liabilities for leases previously classified as operating leases, we applied a weighted average discount rate of 4.75% for the relevant group entities at the date of initial application.

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The following table summarizes the impacts of the adoption of IFRS 16 on our combined statements of financial position. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as of December 31, 2018	Impact of initial application of IFRS 16	Carrying amounts under IFRS 16 as of January 1, 2019
	RMB'000	RMB'000	RMB'000
Non-current assets			
Right-of-use assets	—	5,926,087	5,926,087
Prepayments, other receivables and other assets	240,862	(11,197)	229,665
Current assets			
Prepayments, other receivables and other assets	963,240	(260,288)	702,952
Capital and reserves			
Accumulated losses	(2,095,273)	(3,413)	(2,098,686)
Non-current liabilities			
Lease liabilities	—	3,512,960	3,512,960
Current liabilities			
Lease liabilities	—	2,382,821	2,382,821
Accrued expenses and other payables	9,232,110	(237,766)	8,994,344

Our historical financial information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out in note 3 to the Accountants’ Report included in Appendix I to this document. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The preparation of our historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in note 4 to the Accountants’ Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by general factors driving China’s economy, the e-commerce industry, and the integrated supply chain logistics services industry. These factors include levels of per capita disposable income, levels of consumer spending, rate of internet and mobile penetration, overall logistics spending and other general economic conditions in China that affect consumption and business activities in general. In particular, we have benefited from the rapid growth of China’s e-commerce industry and its demand for more supply chain solutions and logistics services. Our business and growth depend in part on and contribute to the prospects of the e-commerce industry in China. We anticipate that the demand for supply chain solutions and logistics services in e-commerce industry and other industry verticals will continue to grow.

In addition, we are affected by government policies and regulations that address all aspects of our operations, including warehousing, transportation, delivery and labor management, among others. See “Risk Factors—Risks Related to Our Business and Industry—We are subject to changing laws and

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regulations regarding corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.” We have benefited from certain recent favorable regulatory and policy changes in China, especially various policy initiatives that have promoted the development of logistics infrastructure.

In particular, we believe our results of operations are more directly affected by the following major factors:

- macroeconomic trends and demand for supply chain solutions and logistics services;
- our ability to generate more revenue by attracting new customers and expanding the service scope with existing customers;
- our ability to continually develop and expand our solution and service offerings;
- our ability to control cost and enhance operating leverage and efficiency;
- our ability to effectively invest in our logistics networks;
- our ability to effectively invest in our technology capabilities; and
- our ability to pursue strategic alliances, partnerships and acquisitions.

Macroeconomic Trends and Demand for Supply Chain Solutions and Logistics Services

Our growth and results of operations and financial condition are significantly affected by consumer demand for products manufactured, distributed or sold by our corporate customers, which in turn is linked to macro factors driving China’s economy, the e-commerce industry, and the integrated supply chain logistics services industry. These factors include levels of per capita disposable income, levels of consumer spending, rate of Internet and mobile penetration, overall logistics spending and other economic conditions in China that affect consumption and business activities in general. Our results of operations have also demonstrated seasonal patterns. For example, the second and fourth quarters have historically been our stronger quarters in terms of order volume, resulting from the June 18 Anniversary Sale and China’s new online shopping festival on November 11. As our customers reduce business activities during Chinese holidays, such as the Chinese New Year, the first quarter historically has been a lower volume quarter. We anticipate to continue to grow, benefitting from the gradually increasing trend toward omni-channel retail, which is the seamless integration of online and offline retail enabled by comprehensive supply chain solutions and logistics services. The development of omni-channel retail and transformation of the integrated supply chain logistics services industry affects the demand for our services and our business opportunities.

In addition, as supply chain demands become increasingly sophisticated, more companies are expected to outsource their supply chain operations to third parties that can provide comprehensive supply chain solutions and logistics services. Furthermore, various industry verticals are in need of more efficient and integrated supply chain solutions and logistics services, driven by more sophisticated demand of enterprises and their end consumers in the forms of end-to-end solutions, timely and precise delivery and better omni-channel experience. Our ability to continually improve our services and solutions will allow us to meet the increasingly complex needs of our customers across all industry verticals.

In 2020, the demand for our supply chain solutions and logistics services was affected by COVID-19. See “—Impact of COVID-19 On Our Operations” for more details.

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Our Ability to Generate More Revenue by Attracting New Customers and Expanding the Service Scope with Existing Customers

During the Track Record Period, our business experienced significant growth. Our total revenue increased by 31.6% from RMB37.9 billion in 2018 to RMB49.8 billion in 2019 and by 43.2% from RMB34.6 billion for the nine months ended September 30, 2019 to RMB49.5 billion for the nine months ended September 30, 2020. Such growth was in part driven by our ability to expand our scope of services provided to existing customers and attract new customers. According to the CIC Report, there remains a significant opportunity to increase market penetration of our supply chain solutions and logistics services in China, where over 56.0% of supply chain and logistics is still handled in-house in terms of spending amount. During the Track Record Period, we successfully attracted new corporate customers by targeting companies with substantial logistics needs and demonstrating our ability to optimize their logistics operations with our solutions and services. Many of our corporate customers are leading players in their respective industry sectors. In addition to expanding our corporate customer base, we have been working to expand our individual customer base, i.e. those who primarily use our express and freight delivery services. We believe we will continue to increase our market share given our leading market position, operating efficiency, brand image, customer service, technology capabilities and synergic infrastructure.

In addition, we believe our integrated business model helps us to expand the service scope with our existing customers. We are able to continually enhance our relationship with customers by providing high-quality and efficient services. Our involvement in their supply chain or logistics operations allows us to identify the pain points in their operation which we can better address through our services and solutions. As such, we seek to expand our share of wallet of our existing customer base by broadening and deepening our services offerings to them. As our customers continue to grow and their supply chain demands naturally increase in size and complexity, we will be able to expand our range of solutions, increase the volume of services and increase our revenue. During the Track Record Period, we were successful in increasing our cooperation with existing customers. The average revenue per external integrated supply chain customer increased from RMB234,057 in 2018 to RMB279,401 in 2019 and from RMB213,538 for the nine months ended September 30, 2019 to RMB241,622 for the nine months ended September 30, 2020.

Our Ability to Continually Develop and Expand Our Solution and Service Offerings

Our solutions and services enable our customers to focus on their core competencies while relying on us for their supply chain and logistics needs. Since our inception, we have continually sought to enhance our solutions and expand our service offerings through investment in infrastructure, technology and service capabilities. For example, leveraging our experience and expertise in cold-chain logistics, we upgraded our cold-chain logistics, aiming to provide safe, secure and optimized logistics service that is time- and temperature- sensitive. Our cold-chain logistics services currently focus on fresh product and pharmaceutical product logistics. As another example, in order to meet the strong demand for convenient and reliable international express delivery and logistics services, we have started providing integrated cross-border supply chain services through our own network and collaboration with our global partners. We provide bonded warehouses, customs clearance and other logistics services to Chinese companies importing goods from overseas. We also provide full supply chain services, including first mile transportation, offshore storage, freight forwarding and contract logistics, to Chinese enterprises tapping into overseas markets. Leveraging our cross-border logistics network, we strive to provide a “48-48 service” to address our customers’ cross-border logistics needs,

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meaning that any package can be delivered from China to the destination country within 48 hours of dispatch, and can be delivered to the end consumers within 48 hours thereafter.

Our ability to enhance and expand our solution and service offerings to adapt to changing market conditions may impact our results of operations. Our results of operations may also be affected by the timing of the launch of new solution or service offerings. We may incur start-up costs in the early stages and may continue to incur losses as we ramp up such service offerings. The timing and trend in revenue generation and profitability of new services may vary.

Our Ability to Control Cost and Enhance Operating Leverage and Efficiency

Our ability to improve profitability is dependent in part on our ability to control our costs and expenses through enhancing our operating leverage and efficiency. Our cost of revenue, including employee benefit expenses, outsourcing costs (primarily for transportation, labor and other services) and rental expenses, are subject to various factors, such as fluctuations in general wage level, fuel prices and availability of warehousing facilities, among other things. Our results of operations are also affected by our ability to (i) increase the utilization of our existing infrastructure, technology and workforce; and (ii) apply new technology to improve efficiencies across our business, and drive optimization in our solutions and services with our data insights. We believe the continued growth of our business and expansion of our market share can benefit us from economies of scale, resulting from higher utilization of our logistics networks, higher efficiency of our facilities and stronger bargaining power with our suppliers.

Our Ability to Effectively Invest in Our Logistics Networks

Our results of operations depend in part on our ability to effectively invest in our logistics networks to meet the increasingly complex demands of our new and existing customers. Our logistics infrastructure is the foundation of our superior supply chain solutions and logistics services and consists of our warehousing, line-haul transportation, last-mile, bulky items, cold-chain, and cross-border networks.

We have one of the largest warehouse networks in China in 2019, according to the CIC Report. As of September 30, 2020, our warehouse network covered almost all counties and districts across China, consisting of over 800 warehouses operated by us and over 1,400 cloud warehouses operated by third-party warehouse owner-operators under our Open Warehouse Platform. The warehouses under our Open Warehouse Platform are “cloud-based” as these third-party warehouses leverage our cloud-based warehousing technologies, standards and brand name and constitute an extension of our self-operated warehouses. As of September 30, 2020, our warehouse network (including the cloud warehouses) had an aggregate GFA of approximately 20 million square meters. See “Business—Our Logistics Infrastructure and Networks—Our warehouse network” for a detailed description of our warehouse network. Our versatile warehouse network geared with our insights on consumer demand enables us to achieve effective inventory management; for example, we have the ability to store the right inventories close to the right consumers, resulting in speedy and cost-efficient delivery to our end customers. We lease the warehouses and other facilities used in our operations from logistics-focused property developers and make significant investments in warehouse equipment in order to maximize the level of automation, and therefore efficiency, of our warehouses. We have been working with and plan to continue to work with such property developers to lease warehouse facilities and to invest in advanced warehouse equipment to improve our operating efficiency and serve supply chain needs of

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our customers across industries. Our ability to continue to invest in and expand our logistics network in desired locations and maintain our operating efficiency through investments in advanced logistics equipment is critical to our results of operations.

Our Ability to Effectively Invest in Our Technology Capabilities

Our ability to engage customers and enhance our supply chain solutions and logistics services is affected by our technology capabilities, which are critical to our ability to timely adapt to the rapidly evolving industry trends. We have made significant investments in developing our technology capabilities to attract customers, enhance customer experience and expand the capabilities and scale of our solution and service offerings. In 2018, 2019 and the nine months ended September 30, 2020, our research and development expenses amounted to RMB1.5 billion, RMB1.7 billion and RMB1.4 billion, respectively. We believe the further enhancement of our technologies is important to our future performance and expect to continue to make investments in developing and implementing new technologies. Specifically, we plan to continue to invest in improving and expanding our technology infrastructure, talent recruitment in the fields of automation, digitalization and intelligentization to strengthen our technological advantage. We believe investments in technology will drive overall long-term growth, while increasing our operating efficiency.

Our Ability to Pursue Strategic Alliances, Partnerships and Acquisitions

We have established, and intend to continue to pursue, strategic alliances and partnerships to grow our business and service offerings. This is in line with our approach whereby we integrate our partners’ capabilities into our platform to deliver end-to-end solutions while focusing on our core competencies. For example, we have established a strategic partnership with Dada Group, one of JD Group’s equity investees. Under this partnership, we are able to leverage *Dada Now*, one of China’s largest local on-demand last-mile delivery platforms operated by Dada Group, to supplement our logistics networks and provide on-demand last-mile delivery. Dada Group acts as an important supplementary to our last-mile delivery force in peak seasons around June 18 Anniversary Sale and China’s new online shopping festival on November 11.

In addition, we have expanded, in part, through acquisitions. We seek to identify bolt-on acquisitions which can enhance our geographical coverage, service capabilities or infrastructure network. To further enhance our freight capabilities, in August 2020, we acquired a controlling interest in Kuayue Express, a renowned modern integrated express freight enterprise specializing in less-than-truckload (LTL) in China. The acquisition of Kuayue Express has enabled our existing freight network to expand further, and we believe the acquisition will strengthen our supply chain solutions and logistics services and increase our customer base particularly in air freight. Going forward, we may continue to selectively pursue acquisitions, investments, joint ventures and partnerships that we believe are strategic and complementary to our expertise and capabilities. We may also evaluate opportunities to access markets outside China from time to time, or selectively consider strategic partnerships that can grow new long-term customer relationships, further improve our services and advance our strategic objectives.

IMPACT OF COVID-19 ON OUR OPERATIONS

Our revenue is primarily derived from provision of supply chain solutions and logistics services. Our results of operations and financial condition have been and may continue to be affected

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by the spread of COVID-19. Although China had substantially controlled the spread of COVID-19 by the end of 2020, the extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak which are highly uncertain.

In response to the initial spread of COVID-19, the Chinese government took a number of actions, including compulsory quarantining arrangement, travel restrictions, remote work arrangement and public activities restrictions, among others. COVID-19 also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China and around the world. We also took a series of measures in response to the initial outbreak, including, among others, remote working arrangements for some of our employees and temporary closure of some of our branch offices, warehouses, delivery stations and service stations from late January to late February 2020. These measures temporarily reduced the capacity and efficiency of our operations, which negatively affected our results of operations. The measures and timing for business resumption varied across different localities in the PRC, and our branch offices, warehouses, delivery stations and service stations closed and opened in accordance with measures adopted by their respective local government authorities. We also experienced a temporary labor shortage in January and February 2020. We have taken measures to reduce the impact of the COVID-19 outbreak, including strictly implementing self-quarantine and disinfection measures at our headquarters, warehouses, delivery stations and service stations in accordance with government-issued protocols. We have also provided our delivery personnel with masks, hand sanitizers and other protective equipment immediately after the outbreak. By April 2020, we had resumed substantially all of our businesses.

Despite an initial drop in our business activities at the start of the COVID-19 outbreak due to the nationwide lockdown in the PRC, we have seen a swift resumption in our business growth starting in the second quarter of 2020. As consumers became accustomed to online shopping in order to minimize exposure to the virus, there was an increase in the demand for our supply chain solutions and logistics services especially in certain industry verticals, such as FMCG. In addition, several government subsidy programs, such as reduction in social security fund contribution and waiver of toll charges, have also contributed to the improvement our financial performance during the nine months ended September 30, 2020. Despite the impact of the COVID-19 outbreak, our revenue increased by 43.2% from RMB34.6 billion for the nine months ended September 30, 2019 to RMB49.5 billion for the nine months ended September 30, 2020.

As of September 30, 2020, we had cash and cash equivalents of RMB9.8 billion and term deposit of RMB1.0 billion. For the nine months ended September 30, 2020, we had net cash generated from operating activities of RMB6.6 billion. We believe our liquidity is sufficient to successfully navigate an extended period of uncertainty.

Taking into account (i) the worst case scenario that our operations and businesses are adversely affected by the COVID-19 outbreak, (ii) the financial resources available to us, including cash and cash equivalents, term deposits and the portion of the estimated [REDACTED] from [REDACTED] expected to be used for working capital and general corporate purposes, and (iii) the prudent estimates for the settlement of trade receivables and trade payables, we believe we retain substantial ability to manage our business growth and achieve an optimal balance between business expansion and operating efficiency. Accordingly, we believe that we can further utilize our internal resources and [REDACTED] from [REDACTED] designated for general working capital and our operations based on the low-end of [REDACTED], and remain financially viable for more than five years.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in note 3 and note 4 to the Accountants’ Report in Appendix I and note 3 to the Condensed Combined Financial Statements in Appendix IA to this document.

Significant Accounting Policies

Revenue from contracts with customers

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

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

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

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

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

A contract asset represents our right to consideration in exchange for goods or services that we transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents our unconditional right to consideration, i.e., only the passage of time is required before payment of that consideration is due.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

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A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations

For contracts that contain more than one performance obligations, we allocate the transaction price to each performance obligation on a relative stand-alone selling price.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which we would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, we estimate it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which we expect to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict our performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, we determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., we are a principal) or to arrange for those goods or services to be provided by the other party (i.e., we are an agent).

We are a principal if we control the specified good or service before that good or service is transferred to a customer.

We are an agent if our performance obligation is to arrange for the provision of the specified good or service by another party. In this case, we do not control the specified good or service provided by another party before that good or service is transferred to the customer. When we act as an agent, we recognize revenue in the amount of any fee or commission to which we expect to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Share-based payments

Shared-based awards to our employees and non-employees are granted under a share incentive plan of JD Group. Our historical financial information includes allocation of the expenses recorded at JD Group based on our employees and non-employees participating under JD Group’s share incentive plan. JD Group grants its service-based restricted share units (“RSUs”) and share options to our eligible employees and non-employees, which are treated as deemed contribution from JD Group and recorded in other reserves in our combined statements of financial position.

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In addition, we operate a share incentive plan, under which we receive services from employees and non-employees as consideration for share options of our Company. The fair value of the services received in exchange for the grant of options is recognized as an expense on the combined statements of profit or loss with a corresponding increase in equity.

Equity-settled share-based payments transactions

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

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

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

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

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

At each reporting period end, we revise the estimates of the number of options and awarded shares that are expected to ultimately vest. We recognize the impact of the revision to original estimates, if any, in the combined statements of profit or loss, with a corresponding adjustment to equity.

Taxation

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

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

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

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

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

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

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

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

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

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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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Convertible redeemable preferred shares

Series A Preference Shares we issued are contingently redeemable by the holders under certain events. This instrument can be converted into ordinary shares of our Company at the option of the holders of Series A Preference Shares or automatically converted under certain events. See note 32 to the Accountants’ Report in Appendix I and note 28 to the Condensed Combined Financial Statements in Appendix IA to this document for a detailed description of the Series A Preference Shares.

The convertible redeemable preferred shares are initially recognized at fair value. We do not account for the embedded derivatives separately from the host contract and designates the entire convertible redeemable preferred shares as financial liabilities at fair value through profit or loss with fair value change recognized in “fair value changes of convertible redeemable preferred shares” in profit or loss. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

Critical Accounting Estimates and Judgments

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

Consolidation of affiliated entities

We obtained control over a PRC domestic company, Xi’an Jingdong Xincheng, by entering into a series of the contractual arrangements with Xi’an Jingdong Xincheng and its respective nominee shareholders. Nevertheless, the contractual arrangements and other measures may not be as effective as direct legal ownership in providing us with direct control over the PRC domestic company and uncertainties presented by the PRC legal system could impede our beneficiary rights of the results, assets and liabilities of the PRC domestic company. Our Directors, based on the advice of our PRC Legal Advisers, consider that the contractual arrangements among Xi’an Jingxundi, Xi’an Jingdong Xincheng and its respective nominee shareholders are in compliance with the relevant PRC Laws and are legally enforceable.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation of the fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about expected volatility, discount for lack of marketability and risk-free rate associated with the instruments, which are subject to uncertainty and might materially differ from the actual results.

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Estimation of the fair value of the convertible redeemable preferred shares

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

Provision of expected credit losses (ECL) for trade receivables and contract assets

Credit-impaired trade receivables and contract assets are assessed for ECL individually. In addition, we use practical expedient in estimating ECL on trade receivables and contract assets which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration our historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changed in the forward-looking information including forecast of gross domestic product ratio, forecast of consumer price index and other relevant factors are considered. The provision of ECL is sensitive to changes in estimates.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

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

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Revenue	37,873,445	100.0	49,847,639	100.0	34,575,812	100.0	49,507,217	100.0
Cost of revenue	(36,793,265)	(97.1)	(46,415,425)	(93.1)	(31,632,343)	(91.5)	(44,088,570)	(89.1)
Gross profit	1,080,180	2.9	3,432,214	6.9	2,943,469	8.5	5,418,647	10.9
Selling and marketing expenses	(593,809)	(1.6)	(946,853)	(1.9)	(643,976)	(1.9)	(1,087,013)	(2.2)
Research and development expenses	(1,519,528)	(4.0)	(1,677,949)	(3.4)	(1,242,163)	(3.6)	(1,442,335)	(2.9)
General and administrative expenses	(1,731,098)	(4.6)	(1,874,391)	(3.8)	(1,429,459)	(4.1)	(1,454,077)	(2.9)
Other income, gains/(losses), net	28,441	0.1	(527,977)	(1.1)	(198,613)	(0.6)	407,201	0.8
Finance income	326,519	0.9	386,140	0.8	299,662	0.9	202,773	0.4
Finance costs	(63,224)	(0.2)	(430,105)	(0.9)	(333,702)	(1.0)	(314,882)	(0.6)
Fair value changes of convertible redeemable preferred shares	(239,142)	(0.7)	(315,477)	(0.6)	(236,608)	(0.7)	(1,556,464)	(3.1)
Impairment losses under expected credit loss model, net of reversal	(52,330)	(0.1)	(137,131)	(0.3)	(118,487)	(0.3)	(165,318)	(0.3)
Share of results of an associate	—	—	(68,627)	(0.1)	(3,834)	(0.0)	(12,130)	(0.0)
Loss before income tax	(2,763,991)	(7.3)	(2,160,156)	(4.3)	(963,711)	(2.8)	(3,598)	(0.0)
Income tax expense	(556)	(0.0)	(77,330)	(0.2)	(32,587)	(0.1)	(8,116)	(0.0)
Loss for the year/period	(2,764,547)	(7.3)	(2,237,486)	(4.5)	(996,298)	(2.9)	(11,714)	(0.0)
Owners of the Company	(2,764,547)	(7.3)	(2,233,900)	(4.5)	(996,299)	(2.9)	(71,226)	(0.0)
Non-controlling interests	—	—	(3,586)	(0.0)	1	0.0	59,512	0.0
Non-IFRS Measure:⁽¹⁾								
Non-IFRS (loss)/profit for the year/period (unaudited)	(1,601,956)	(4.2)	(274,648)	(0.6)	241,775	0.7	2,279,875	4.6

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

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Revenue

Given the central role of inventory management in our integrated supply chain solutions and logistics services, we categorize our customers based on whether they have utilized our warehouse or inventory management related services, namely our warehousing and distribution services. We review our customers on a regular basis, and customers who have utilized our warehousing and distribution services in the recent past are classified as our integrated supply chain customers. During the Track Record Period, revenue from integrated supply chain customers accounted for a substantial majority of our total revenue in each of 2018 and 2019 and the nine months ended September 30, 2020.

The following table sets forth a breakdown of our revenue both in absolute amount and as a percentage of our total revenue for the year/period presented.

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Revenue:								
From integrated supply chain customers . . .	34,151,014	90.2	41,837,437	83.9	29,253,062	84.6	39,141,104	79.1
From other customers	3,722,431	9.8	8,010,202	16.1	5,322,750	15.4	10,366,113	20.9
Total	37,873,445	100.0	49,847,639	100.0	34,575,812	100.0	49,507,217	100.0

Cost of Revenue

Our cost of revenue primarily consists of (i) employee benefit expenses for employees involved in warehouse management, sorting, picking, packaging, shipping and delivery, (ii) outsourcing cost, (iii) rental cost of warehouses and delivery stations, (iv) depreciation and amortization of logistics and electronic equipment and (v) other costs of revenue such as the cost of packaging materials.

The following table sets forth the components of our cost of revenue, in absolute amounts and as percentages of total revenue for the year/period indicated:

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Cost of revenue:								
Employee benefit expenses	17,071,287	45.1	19,692,060	39.5	13,636,021	39.4	17,889,490	36.1
Outsourcing cost	10,491,538	27.7	16,308,388	32.7	10,686,277	30.9	16,228,902	32.8
Rental cost	4,443,848	11.7	4,651,270	9.3	3,316,020	9.6	4,445,687	9.0
Depreciation and amortization	1,122,379	3.0	1,177,555	2.4	858,605	2.5	1,006,644	2.0
Others	3,664,213	9.6	4,586,152	9.2	3,135,420	9.1	4,517,847	9.2
Total	36,793,265	97.1	46,415,425	93.1	31,632,343	91.5	44,088,570	89.1

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Employee benefit expenses include salary and benefits of our employees involved in warehousing, sorting, picking, packaging, shipping and delivery. Outsourcing cost includes (i) the costs charged by transportation companies, couriers and other service providers for sorting, shipping, dispatching and delivering services, and (ii) labor outsourcing costs. Rental cost mainly includes leasing expenses of logistics facilities such as warehouses and delivery stations which are not capitalized and the depreciation of right of use assets in relation to the capitalization of operating lease of logistics facilities. Depreciation and amortization is mainly generated from logistics and electronic equipment installed in our warehouses and other logistics facilities. Other costs of revenue include cost of packaging materials, fuel cost, cost of after-sales service, office expense, etc.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) employee benefit expenses for employees involved in sales and marketing activities, (ii) promotion fee and (iii) other sales and marketing expenses, including traveling expenses, rental expenses and offices expenses, among others.

Our selling and marketing expenses increased significantly during the Track Record Period as we expanded our business and acquired new customers. We expect our selling and marketing expenses to remain substantial in absolute amounts as we hire additional personnel and continue to expand our business operations. We plan to conduct more brand promotion and marketing activities to continually enhance our brand recognition so as to attract new customers and increase the penetration in our existing customer base.

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

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Employee benefit expenses	445,461	75.0	737,867	77.9	540,245	83.9	808,266	74.4
Promotion fee	76,875	13.0	89,599	9.5	26,691	4.1	65,715	6.0
Others	71,473	12.0	119,387	12.6	77,040	12.0	213,032	19.6
Total	593,809	100.0	946,853	100.0	643,976	100.0	1,087,013	100.0

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefit expenses for our research and development personnel, (ii) bandwidth and data center costs and (iii) others, primarily including servers and other equipment depreciation, rent, utilities and other expenses necessary to support our research and development activities.

Our research and development expenses increased during the Track Record Period. We expect our research and development expenses to further increase in absolute amounts as we continue to expand our technology team, enhance our technology capabilities and develop solutions and services to better serve our customers.

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

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Employee benefit expenses	1,094,301	72.0	1,143,711	68.2	874,580	70.4	966,248	67.0
Bandwidth and data center costs	70,740	4.7	165,035	9.8	114,294	9.2	121,311	8.4
Others	354,487	23.3	369,203	22.0	253,289	20.4	354,776	24.6
Total	1,519,528	100.0	1,677,949	100.0	1,242,163	100.0	1,442,335	100.0

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) employee benefit expenses for employees of general corporate functions, including legal, finance and human resources, (ii) expenses of administrative support services, such as certain human resources services, office premises sharing and leasing, and canteen facilities for staff, charged by JD Group, and (iii) other expenses, such as general office expenses, among others.

Our general and administrative expenses increased during the Track Record Period. We expect our general and administrative expenses to continue to increase in absolute amounts in the foreseeable future. We plan to continue to hire qualified employees for our general corporate functions to support our business operations and planned expansion.

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

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Employee benefit expenses	1,063,250	61.4	1,221,148	65.2	904,959	63.3	1,065,424	73.3
Expenses of administrative support services charged by JD Group	424,319	24.5	356,556	19.0	248,329	17.4	185,170	12.7
Others	243,529	14.1	296,687	15.8	276,171	19.3	203,483	14.0
Total	1,731,098	100.0	1,874,391	100.0	1,429,459	100.0	1,454,077	100.0

Other Income, Gains/(Losses), Net

Other income, gains/(losses), net consist of government grants, impairment of interest in a joint venture, fair value changes of financial assets at fair value through profit or loss (“FVTPL”), gains or losses on disposal of property and equipment, investment losses attributable to interest holders of consolidated investment funds, and others.

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The following table sets forth a breakdown of our other income, gains/(losses), net both in absolute amount and as a percentage of our total other income, gains/(losses), net for the year/period indicated:

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Government grants	39,476	138.8	104,486	19.8	80,878	40.7	297,652	73.1
Impairment of interest in a joint venture	—	—	(150,000)	(28.4)	(150,000)	(75.5)	—	—
Fair value changes of financial assets at FVTPL	(13,064)	(45.9)	(469,241)	(88.9)	(130,333)	(65.6)	50,967	12.5
(Losses)/gains on disposal of property and equipment	(12,546)	(44.1)	4,610	0.9	4,295	2.2	1,550	0.4
Investment losses attributable to interest holders of consolidated investment funds	—	—	6,511	1.2	176	0.1	625	0.2
Others	14,575	51.2	(24,343)	(4.6)	(3,629)	(1.9)	56,407	13.8
Total	28,441	100.0	(527,977)	(100.0)	(198,613)	(100.0)	407,201	100.0

Finance Income

Our finance income consists of interest income from bank deposits and related parties.

The following table sets forth a breakdown of our finance income both in absolute amount and as a percentage of our total finance income for the year/period indicated:

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Interest income from bank deposits	169,561	51.9	316,316	81.9	268,465	89.6	132,592	65.4
Interest income from related parties	156,958	48.1	69,824	18.1	31,197	10.4	70,181	34.6
Total	326,519	100.0	386,140	100.0	299,662	100.0	202,773	100.0

Interest income from related parties primarily represents the interest payments made by JD Group to us in relation to the interest-bearing amount due to us, which we expect to fully collect before or around the time of [REDACTED]. See “—Discussion of Certain Key Items of Combined Statements of Financial Position—Prepayments, other receivables and other assets.”

Finance Costs

Our finance costs primarily consist of interest on lease liabilities, interest to related parties, and interest expense from external borrowings.

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The following table sets forth a breakdown of our finance costs both in absolute amount and as a percentage of our total finance costs for the year/period indicated:

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Interest expense on lease liabilities	—	—	370,137	86.1	273,737	82.0	300,610	95.5
Interest expense to related parties	48,451	76.6	59,968	13.9	59,965	18.0	—	—
Interest expense from borrowings	—	—	—	—	—	—	10,693	3.4
Others	14,773	23.4	—	—	—	—	3,579	1.1
Total	63,224	100.0	430,105	100.0	333,702	100.0	314,882	100.0

Interest expense on lease liabilities primarily represents, as a result of adoption of IFRS 16, interest accrued on our leases in relation to properties that we lease, primarily for our warehouses, delivery stations, offices and staff quarters.

Interest expense to related parties primarily represents the interest accrued on interest-bearing amounts due to JD Group, which we expect to fully settle before or around the time of [REDACTED].

Others primarily consist of transaction costs associated with our Series A Preference Shares financing.

Fair Value Changes of Convertible Redeemable Preferred Shares

We adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares issued by us. Please refer to note 32 to the Accountants’ Report included in Appendix I and note 28 to the Condensed Combined Financial Statements in Appendix IA to this document for the key assumptions in determining the fair value of the convertible redeemable preferred shares.

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

Impairment Losses under Expected Credit Loss Model, Net of Reversal

Impairment losses recognized, net of reversal primarily consist of the impairment charges we recorded on trade receivables and other receivables generated in the ordinary course of our business.

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The following table sets forth a breakdown of our impairment losses recognized, net of reversal both in absolute amounts and as a percentage of our impairment losses recognized, net of reversal for the year/period indicated:

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)		(Unaudited)	
Impairment losses recognized, net of reversal, on:								
—trade receivables	51,848	99.1	127,452	92.9	118,487	100.0	154,533	93.5
—other receivables	482	0.9	9,679	7.1	—	—	10,785	6.5
Total	52,330	100.0	137,131	100.0	118,487	100.0	165,318	100.0

Share of Results of an Associate

Share of results of an associate is primarily associated with the share of the profit or loss of our interest in Jiangsu Xinning Modern Logistics (“Xinning Logistics”), a PRC company engaged in the business of warehouse logistics. We acquired 10% of the equity interest and voting power of Xinning Logistics for RMB357.4 million in 2019 and have the right to appoint two out of the six directors of Xinning Logistics under its articles of association. As we are able to exercise significant influence on Xinning Logistics, we treat Xinning Logistics as an associate. We use the equity method to account for our interest in Xinning Logistics based on the financial information of Xinning Logistics.

Taxation

Cayman Islands

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

British Virgin Islands

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

Hong Kong

The Company’s subsidiaries domiciled in Hong Kong are subject to a two-tiered income tax rate for taxable income earned in Hong Kong effectively since April 1, 2018. The first 2 million Hong Kong dollars of profits earned by the company are subject to be taxed at an income tax rate of 8.25%, while the remaining profits will continue to be taxed at the existing tax rate, 16.5%. To avoid abuse of the two-tiered tax regime, each group of connected entities can nominate only one entity to benefit from the two-tiered tax rate. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

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PRC

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

Certain enterprises can benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the catalog of encouraged industries in western regions (initially effective through the end of 2010 and further extended to 2030) (“Western Regions Catalog”), subject to certain general restrictions described in the EIT Law and the related regulations. During each of the two years ended December 31, 2019 and nine months ended September 30, 2020, our several entities are qualified as enterprises within the Western Regions Catalog and enjoyed 15% preferential income tax rate.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The State Taxation Administration of the PRC announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020.

Withholding tax on undistributed dividends

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

According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the FIE satisfies the criteria for “beneficial owner” under Circular No. 9, which was issued by the State Administration of Taxation in February 2018, and the foreign investor owns directly at least 25% of the shares of the FIE). The Company has not declared or paid, or planned to declare, any dividend to its shareholders from the profits generated during each of the two years ended December 31, 2019 and nine months ended September 30, 2020. Therefore, the Company has not recorded any withholding tax on any profits generated by the PRC Operation Entities.

NON-IFRS MEASURE: NON-IFRS PROFIT/(LOSS) FOR THE YEAR/PERIOD

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

We believe non-IFRS profit/(loss) provides useful information to [REDACTED] and others in understanding and evaluating our combined results of operations in the same manner as they help our

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management. However, our presentation of non-IFRS profit/(loss) may not be comparable to similarly titled measures presented by other companies. The use of non-IFRS profit/(loss) has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

We define non-IFRS profit/(loss) as profit/(loss) for the year/period, excluding share-based payments, fair value changes of financial assets at fair value through profit or loss, impairment of investments, amortization of intangible assets resulting from acquisitions, fair value changes of convertible redeemable preferred shares and reconciling items on the share of results of an associate. We exclude these items because they do not involve any cash outflow and are neither operating in nature nor indicative of our core operating results and business outlook. We account for the compensation cost from share-based payment transactions with employees based on the grant-date fair value of the equity instrument issued by JD.com, Inc., us and Kuayue Express. The grant-date fair value of the award is recognized as compensation expense, net of forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. The reconciling item is non-cash and does not result in cash outflow, and the adjustment has been consistently made during the Track Record Period, which complies with GL103-19. In addition, we account for the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. The fair value of convertible redeemable preferred shares has been determined by using the income approach and is affected primarily by the changes in our equity value. The convertible redeemable preferred shares will automatically convert into ordinary shares upon the completion of [REDACTED], and no further loss or gain on fair value changes is expected to be recognized afterwards. The reconciling item is non-cash, non-recurring and does not result in cash outflow, which complies with GL103-19.

The following table (in absolute amounts and as percentages of total revenue for year/period indicated) reconciles our non-IFRS profit/(loss) for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year/period:

	For the Year Ended December 31,				For the Nine Months Ended September 30,			
	2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)				(Unaudited)			
Reconciliation of loss to non-IFRS (loss)/profit:								
Loss for the year/period	(2,764,547)	(7.3)	(2,237,486)	(4.5)	(996,298)	(2.9)	(11,714)	(0.0)
Add:								
Share-based payments	910,385	2.4	997,912	2.0	721,132	2.1	741,759	1.5
Fair value changes of financial assets at								
fair value through profit or loss	13,064	0.0	469,241	0.9	130,333	0.4	(50,967)	(0.1)
Impairment of investments	—	—	150,000	0.3	150,000	0.4	—	—
Amortization of intangible assets								
resulting from acquisitions	—	—	—	—	—	—	44,333	0.1
Fair value changes of convertible								
redeemable preferred shares	239,142	0.7	315,477	0.6	236,608	0.7	1,556,464	3.1
Reconciling items on the share of results								
of an associate	—	—	30,208	0.1	—	—	—	—
Non-IFRS (loss)/profit for the year/								
 period	<u>(1,601,956)</u>	<u>(4.2)</u>	<u>(274,648)</u>	<u>(0.6)</u>	<u>241,775</u>	<u>0.7</u>	<u>2,279,875</u>	<u>4.6</u>

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Revenue

Our revenue increased by 43.2% from RMB34.6 billion for the nine months ended September 30, 2019 to RMB49.5 billion for the nine months ended September 30, 2020. The increase in our total revenue was driven by a 33.8% increase in revenue from our integrated supply chain customers and a 94.8% increase in revenue from other customers.

The increase in revenue from integrated supply chain customers was primarily driven by an increase in the number of our customers, as well as more revenues from existing customers. The number of our external integrated supply chain customers increased from 36,671 for the nine months ended September 30, 2019 to 46,083 for the nine months ended September 30, 2020. The increase in the number of external integrated supply chain customers was due to the increased demand of our services. In addition, we achieved an average revenue per external integrated supply chain customer of RMB213,538 and RMB241,622 for the nine months ended September 30, 2019 and 2020, respectively. Such an improvement signified the deepened collaborations between our customers and us.

Revenue from other customers increased by 94.8% from RMB5.3 billion for the nine months ended September 30, 2019 to RMB10.4 billion for the nine months ended September 30, 2020, primarily due to the increases in parcel volume and tonnage of our express delivery and freight delivery services driven by the increase in the number of other customers.

Cost of revenue

Our cost of revenue increased by 39.4% from RMB31.6 billion for the nine months ended September 30, 2019 to RMB44.1 billion for the nine months ended September 30, 2020, which was in line with the rapid growth of our revenue during the same period.

Our employee benefit expenses for employees involved in warehouse management, sorting, picking, packaging, shipping and delivery increased by 31.2% from RMB13.6 billion for the nine months ended September 30, 2019 to RMB17.9 billion for the nine months ended September 30, 2020, primarily due to an increase in the number of employees involved in the provision of our services, which was in line with the continued growth of our business, as well as general wage inflation.

Outsourcing cost, including costs charged by transportation companies, couriers and other service providers for sorting, shipping, dispatching, delivering and labor outsourcing services, increased by 51.9% from RMB10.7 billion for the nine months ended September 30, 2019 to RMB16.2 billion for the nine months ended September 30, 2020. The increase was primarily driven by the rapid growth of our business, which in turn required an increase in various services from suppliers, especially during peak seasons when external services were brought in on an on-demand basis to supplement our own resources. In addition, the significant growth of our express delivery and freight delivery services, for which suppliers are frequently used for the line haul transportation portion, also contributed to the increase in our outsourcing cost.

Rental cost increased by 34.1% from RMB3.3 billion for the nine months ended September 30, 2019 to RMB4.4 billion for the nine months ended September 30, 2020, primarily due to expansion of leased warehouses areas, sorting centers and delivery stations in support of the growth of our supply chain solutions and other logistics services.

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Depreciation and amortization increased by 17.2% from RMB858.6 million for the nine months ended September 30, 2019 to RMB1.0 billion for the nine months ended September 30, 2020, primarily due to an increase in the number of our logistics facilities, which in turn resulted in a larger amount of capital expenditure having been incurred for the logistics equipment in these facilities.

Other cost of revenue increased by 44.1% from RMB3.1 billion for the nine months ended September 30, 2019 to RMB4.5 billion for the nine months ended September 30, 2020, primarily due to the increase of cost of packaging and other consumable materials, fuel cost and cost of maintenance service.

Gross profit and gross profit margin

As a result of the foregoing, we recorded (i) a gross profit of RMB2.9 billion and RMB5.4 billion for the nine months ended September 30, 2019 and 2020, respectively, and (ii) a gross profit margin of 8.5% and 10.9% for the nine months ended September 30, 2019 and 2020, respectively. The increase in the gross profit margin was primarily due to economies of scale and operational efficiency enhancement, as well as COVID-19 related government subsidy programs, such as reduction in social security fund. See “—Impact of COVID-19 on Our Operations” for a more detailed disclosure of the impact of COVID-19 on our operations.

Selling and marketing expenses

Our selling and marketing expenses increased by 68.8% from RMB644.0 million for the nine months ended September 30, 2019 to RMB1,087.0 million for the nine months ended September 30, 2020. The increase was in line with the growth of our revenues from external customers and was primarily due to the increase in headcount of sales and marketing personnel to promote our service offerings to both new and existing customers, and the increase in branding and promotional activities.

Research and development expenses

Our research and development expenses increased by 16.1% from RMB1.2 billion for the nine months ended September 30, 2019 to RMB1.4 billion for the nine months ended September 30, 2020. The increase was primarily attributable to the increase of research and development headcount and other research and development related expenses as we continued to invest in technology and innovation after the launch of our technology upgrade initiatives in 2019.

General and administrative expenses

Our general and administrative expenses increased by 1.7% from RMB1.4 billion for the nine months ended September 30, 2019 to RMB1.5 billion for the nine months ended September 30, 2020, primarily attributable to the continued increase of administrative headcounts, partially offset by decrease of expenses of administrative support services charged by JD Group as a result of the continued progress of our [REDACTED] from JD Group.

Other income, gains/(losses), net

We recorded other losses of RMB198.6 million for the nine months ended September 30, 2019, and other gains of RMB407.2 million for the nine months ended September 30, 2020. The change was primarily attributable to (i) government grants of RMB297.7 million we received for the nine months

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ended September 30, 2020, as compared with RMB80.9 million for the nine months ended September 30, 2019, (ii) impairment charges of RMB150 million for the nine months ended September 30, 2019 on our investment in Suqian Jingdong Aosheng Enterprise Management Co., Ltd. (“Aosheng”), a joint venture company of ours and (iii) a fair value gain of financial assets of RMB51.0 million for the nine months ended September 30, 2020, as compared with a fair value loss of financial assets of RMB130.3 million for the nine months ended September 30, 2019.

Finance income

Our finance income decreased by 32.3% from RMB299.7 million for the nine months ended September 30, 2019 to RMB202.8 million for the nine months ended September 30, 2020, primarily due to a decrease in interest income from bank deposits from RMB268.5 million for the nine months ended September 30, 2019 to RMB132.6 million for the nine months ended September 30, 2020, which was due to a decrease in average bank deposits amount and lower interest rate. The decrease was partially offset by an increase in interest income from loans to related parties from RMB31.2 million for the nine months ended September 30, 2019 to RMB70.2 million for the nine months ended September 30, 2020 due to increase in loans to related parties.

Finance costs

Our finance costs decreased by 5.6% from RMB333.7 million for the nine months ended September 30, 2019 to RMB314.9 million for the nine months ended September 30, 2020, primarily due to a decrease in interest on loans from related parties from RMB60.0 million for the nine months ended September 30, 2019 to nil for the nine months ended September 30, 2020 due to a lower net payable amount to related parties, partially offset by (i) an increase in interest on lease liabilities from RMB273.7 million for the nine months ended September 30, 2019 to RMB300.6 million for the nine months ended September 30, 2020, due to a higher amount of lease liabilities and (ii) an increase in interest expense from borrowings from nil for the nine months ended September 30, 2019 to RMB10.7 million for the nine months ended September 30, 2020.

Fair value change of convertible redeemable preferred shares

We recorded a loss on fair value change of convertible redeemable preferred shares of RMB236.6 million for the nine months ended September 30, 2019 and RMB1.6 billion for the nine months ended September 30, 2020, respectively, primarily due to an increase in the fair value of our Series A Preference Shares, as a result of an increase in our Company’s equity value.

Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal increased by 39.5% from RMB118.5 million for the nine months ended September 30, 2019 to RMB165.3 million for the nine months ended September 30, 2020, primarily due to an increase in the impairment charges recorded on trade receivables from RMB118.5 million for the nine months ended September 30, 2019 to RMB154.5 million for the nine months ended September 30, 2020, primarily due to increase of trade receivables balance from third-parties.

Income tax expense

Our income tax expense decreased by 75.1% from RMB32.6 million for the nine months ended September 30, 2019 to RMB8.1 million for the nine months ended September 30, 2020, primarily due to the reversal of deferred tax liabilities for the nine months ended September 30, 2020.

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Profit/(loss) for the period

As a result of the foregoing, we generated a loss of RMB996.3 million for the nine months ended September 30, 2019 and a loss of RMB11.7 million for the nine months ended September 30, 2020. The loss for the nine months ended September 30, 2020 was primarily due to fair value changes of convertible redeemable preferred shares for the same period.

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

Revenue

Our revenue increased by 31.6% from RMB37.9 billion in 2018 to RMB49.8 billion in 2019. The increase in our total revenue was driven by a 22.5% increase in revenue from our integrated supply chain customers and a 115.2% increase in revenue from other customers.

The increase in revenue from integrated supply chain customers was primarily driven by the growth of number of customers, as well as more revenues from existing customers. The number of our external integrated supply chain customers increased from 32,465 in 2018 to 39,926 in 2019. In addition, we achieved an average revenue per external integrated supply chain customer of RMB234,057 and RMB279,401 in 2018 and 2019, respectively.

Revenue from other customers increased by 115.2% from RMB3.7 billion in 2018 to RMB8.0 billion in 2019, primarily due to increase of parcel volume and tonnage of our express delivery and freight delivery services driven by the increase in the number of other customers.

Cost of revenue

Our cost of revenue increased by 26.2% from RMB36.8 billion in 2018 to RMB46.4 billion in 2019, which was in line with the rapid growth of our revenue during the same period.

Our employee benefit expenses for employees involved in warehouse management, sorting, picking, packaging, shipping and delivery increased by 15.4% from RMB17.1 billion in 2018 to RMB19.7 billion in 2019, primarily due to an increase in the number of employees involved in the provision of our services, which was in line with the continued growth of our business, as well as general wage inflation.

Outsourcing cost includes the costs charged by transportation companies, couriers and other service providers for shipping, dispatching and delivering services, as well as labor outsourcing costs. It increased by 55.4% from RMB10.5 billion in 2018 to RMB16.3 billion in 2019, primarily due to the significant increase in our revenue, which in turn required an increase in various services from suppliers, especially during peak seasons when external services were brought in on an on-demand basis to supplement our own resources. In addition, the significant growth of our express delivery and freight delivery services, for which suppliers are frequently used for the line haul transportation portion, also contributed to the increase in our outsourcing cost.

Rental cost increased by 4.7% from RMB4.4 billion in 2018 to RMB4.7 billion in 2019, primarily due to the expansion of leased warehouses areas, sorting centers and delivery stations in support of the growth of our integrated supply chain services and other logistics services, which was partially offset by the impact of adoption of IFRS 16 from January 1, 2019, pursuant to which some of the rental cost was recognized as interest expenses on lease liabilities. See also “—Adoption of IFRS 9, IFRS 15 and IFRS 16.”

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Depreciation and amortization increased by 4.9% from RMB1.1 billion in 2018 to RMB 1.2 billion in 2019, primarily due to an increase in the number of our logistics facilities, which in turn resulted in a larger amount of capital expenditure incurred for the logistics equipment in these facilities.

Other cost of revenue increased by 25.2% from RMB 3.7 billion in 2018 to RMB 4.6 billion in 2019, primarily due to the increase in cost of packaging and other consumable materials, fuel cost, vehicle use expenses and cost of maintenance service.

Gross profit and gross profit margin

As a result of the foregoing, we recorded (i) a gross profit of RMB1.1 billion and RMB3.4 billion in 2018 and 2019, respectively and (ii) a gross profit margin of 2.9% and 6.9% in 2018 and 2019, respectively. The increase in gross profit margin was primarily due to economies of scale as our revenue grew significantly, driving efficiency gains in most of our cost components, which is partially offset by higher outsourcing cost as we procured more external resources to support our business growth.

Selling and marketing expenses

Our selling and marketing expenses increased by 59.5% from RMB593.8 million in 2018 to RMB946.9 million in 2019. The increase was in line with the growth of our revenues from external customers and was primarily due to the increase in headcount of sales and marketing personnel to promote our service offerings to our customers, especially to expand our external customer base.

Research and development expenses

Our research and development expenses increased by 10.4% from RMB1.5 billion in 2018 to RMB1.7 billion in 2019. The increase was primarily attributable to the increase of research and development headcounts and other research and development related expenses as we further invested in technology and innovation.

General and administrative expenses

Our general and administrative expenses increased by 8.3% from RMB1.7 billion in 2018 to RMB1.9 billion in 2019, primarily attributable to the increase of administrative headcounts, partially offset by decrease of expenses of administrative support services charged by JD Group as a result of the continued progress of our [REDACTED] from JD Group.

Other income, gains/(losses), net

We recorded other gains of RMB28.4 million in 2018 and other losses of RMB528.0 million in 2019. The change was primarily attributable to (i) a fair value loss of RMB469.2 million recorded in 2019 on our equity investments as compared with a fair value loss of RMB13.1 million recorded in 2018 and (ii) an impairment loss of RMB150 million in 2019 on our investment in Aosheng, a joint venture company of ours, partially offset by an increase in government grants in 2019 compared with that in 2018.

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Finance income

Our finance income increased by 18.3% from RMB326.5 million in 2018 to RMB386.1 million in 2019, primarily due to an increase in interest income from bank deposits from RMB169.6 million in 2018 to RMB316.3 million in 2019 due to an increase in average bank deposits during the period, partially offset by a decrease in interest income from loans to related parties from RMB157.0 million in 2018 to RMB69.8 million in 2019, due to decrease in loans to related parties.

Finance costs

Our finance costs increased significantly from RMB63.2 million in 2018 to RMB430.1 million in 2019, primarily due to (i) an increase in interest on lease liabilities from nil in 2018 to RMB370.1 million in 2019 due to application of IFRS 16 starting from January 1, 2019 and (ii) an increase in interest on loans from related parties from RMB48.5 million in 2018 to RMB60.0 million in 2019, due to increase in loans from related parties.

Fair value change of convertible redeemable preferred shares

We recorded a loss on fair value change of convertible redeemable preferred shares of RMB239.1 million in 2018 and RMB315.5 million in 2019. The change was primarily due to an increase in the fair value of our Series A Preference Shares in 2018, as a result of an increase in our Company’s equity value.

Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal, increased significantly from RMB52.3 million in 2018 to RMB137.1 million in 2019, primarily due to an increase in the impairment charges recorded on trade receivables from RMB51.8 million in 2018 to RMB127.5 million in 2019, which was primarily due to substantial increase of trade receivables from external third-party customers in line with our business growth.

Share of results of an associate

We recorded a loss on share of results of an associate of RMB68.6 million for in 2019 as compared nil in 2018, primarily due to the loss of the investment in associates accounted under equity method.

Income tax expense

Our income tax expense increased significantly from RMB0.6 million in 2018 to RMB77.3 million in 2019, primarily due to an increase in current tax expense from RMB0.6 million in 2018 to RMB35.3 million in 2019, and an increase in deferred tax expense from nil in 2018 to RMB42.1 million in 2019.

Profit/(loss) for the year

As a result of the foregoing, we generated a loss of RMB2.8 billion in 2018 and a loss of RMB2.2 billion in 2019.

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DISCUSSION OF CERTAIN KEY ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Current Assets/Liabilities

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

	As of December 31,		As of	As of
	2018	2019	September 30,	November 30,
			2020	2020
	(in thousands of RMB)		(Unaudited)	(Unaudited)
Current assets:				
Inventories	224,010	259,932	312,134	361,247
Trade receivables	1,640,816	3,229,663	4,762,302	5,773,242
Prepayments, other receivables and other assets	963,240	11,461,194	12,806,021	12,999,090
Contract assets	23,249	50,470	50,608	52,473
Financial assets at fair value through profit or loss	—	—	3,541,131	1,232,234
Term deposits	—	—	1,021,515	3,618,010
Restricted cash	—	—	97,811	126,516
Cash and cash equivalents	19,249,997	9,274,203	9,784,872	6,468,084
Total current assets	22,101,312	24,275,462	32,376,394	30,630,896
Current liabilities:				
Trade payables	2,652,948	3,957,416	4,271,741	5,837,617
Accrued expenses and other payables	9,232,110	11,186,020	17,530,335	15,495,024
Borrowings	—	—	611,671	60,000
Contract liabilities	7,170	11,935	75,742	85,428
Advances from customers	4,971	68,222	209,937	769,529
Lease liabilities	—	3,103,550	4,208,143	4,675,450
Payables to interest holders of consolidated investment funds	—	109,239	123,614	123,614
Tax liabilities	556	16,772	27,387	1,323
Total current liabilities	11,897,755	18,453,154	27,058,570	27,047,985
Net current assets	10,203,557	5,822,308	5,317,824	3,582,911

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

Our net current assets decreased from RMB5.8 billion as of December 31, 2019 to RMB5.3 billion as of September 30, 2020.

As of November 30, 2020, we had RMB30.6 billion of current assets and RMB27.0 billion of current liabilities. Our net current assets decreased to RMB3.6 billion as of November 30, 2020.

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Trade receivables

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
			(Unaudited)
Trade receivables from third parties	1,602,005	3,246,423	4,956,971
Trade receivables from related parties ⁽¹⁾	95,512	94,160	83,689
Less: allowance for credit losses	(56,701)	(110,920)	(278,358)
Total	1,640,816	3,229,663	4,762,302

Note:

(1) Trade receivables from related parties do not include trade receivables from JD Group in relation to our provision of supply chain solutions and logistics services, which are included in “Prepayments, other receivables and other assets.”

Our trade receivables from third parties increased significantly from RMB1.6 billion as of December 31, 2018 to RMB3.2 billion as of December 31, 2019 further increased by 52.7% and to RMB5.0 billion as of September 30, 2020. The increases in trade receivables from third parties were primarily due to the significant growth of our business from external customers during the relevant periods.

Our trade receivables from related parties, which do not include trade receivables from JD Group in relation to our provision of supply chain solutions and logistics services, decreased by 11.1% from RMB94.2 million as of December 31, 2019 to RMB83.7 million as of September 30, 2020. Our trade receivables from related parties decreased slightly from RMB95.5 million as of December 31, 2018 to RMB94.2 million as of December 31, 2019. Trade receivables from related parties were immaterial and remained relatively stable during the relevant periods.

Our trading terms with some of our customers are on credit. We generally allow a credit period of 30 days to 180 days. Trade receivables are generally settled in accordance with the terms of the respective contracts. Aging analysis of trade receivables (net of allowance for impairment of trade receivables) based on billing date is as follows:

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
			(Unaudited)
Trade receivables			
Within three months	1,605,095	3,138,218	4,690,006
Three to six months	53,663	104,191	138,866
Six months to twelve months	35,767	57,154	131,644
Over twelve months	2,992	41,020	80,144
	1,697,517	3,340,583	5,040,660
Less: allowance for credit losses	(56,701)	(110,920)	(278,358)
Total	1,640,816	3,229,663	4,762,302

During the Track Record Period, we use non-IFRS trade receivables as an additional financial measure, which is not required by, or presented in accordance with, IFRSs, to measure the size of trade receivables attributable to our business and evaluate how effectively we manage these receivables. We

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define non-IFRS trade receivables as the sum of (i) our trade receivables (which do not include trade receivables from JD Group in relation to our provision of supply chain solutions and logistics services), net of allowance for credit loss, and (ii) trade receivables of JD Group that are attributable to our business. We believe non-IFRS trade receivables are more indicative of our trade receivables position during the Track Record Period given the gradual carve-out process of our Group from JD Group and provide useful information to [REDACTED] and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS trade receivables has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		(Unaudited)
Reconciliation of trade receivables to non-IFRS trade receivables:			
Trade receivables, net of allowance for credit loss	1,640,816	3,229,663	4,762,302
Trade receivables of JD Group attributable to our business	<u>1,704,880</u>	<u>398,814</u>	<u>132,514</u>
Non-IFRS trade receivables	3,345,696	3,628,477	4,894,816

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

	For the Year Ended December 31,		For the Nine Months Ended
	2018	2019	September 30,
			2020
			(Unaudited)
Trade receivables turnover days	36.7	45.7	50.2
Non-IFRS trade receivables turnover days	75.9	65.5	53.5

Our trade receivables do not contain receivables from JD Group. Accordingly, (i) our trade receivables turnover days for a period equals the average of the opening and closing trade receivables balance divided by total revenue (excluding services provided to JD Group) during the relevant period and multiplied by 270 days or 360 days, as applicable; and (ii) non-IFRS trade receivables turnover days for a period equals the average of the opening and closing non-IFRS trade receivables balance divided by total revenue (excluding services provided to JD Group) during the relevant period and multiplied by 270 days or 360 days, as applicable.

Our trade receivables turnover days were 36.7 days in 2018, 45.7 days in 2019, and 50.2 days for the nine months ended September 30, 2020. The increasing trend was due to that our clients gradually changed their contract parties from JD Group to us when renewing their contracts during the carve-out process, which lead to an increase of trade receivables balances, as well as turnover days.

Our non-IFRS trade receivables turnover days were 75.9 days in 2018, 65.5 days in 2019, and 53.5 days for the nine months ended September 30, 2020. The decreasing trend was due to our continued improvement of trade receivables collection management.

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As of November 30, 2020, approximately RMB4,137 million, or 82.1%, of our trade receivables as of September 30, 2020 had been settled.

Prepayments, other receivables and other assets

Our current prepayments, other receivables and other assets primarily consist of amounts due from related parties, prepaid expenses, prepayments to our suppliers, refundable deposits and receivables for capital injection from non-controlling interest. Amounts due from related parties primarily include (i) amounts due from JD Group in exchange for our provision of supply chain solutions and logistics services, which are settled on a monthly basis, and (ii) other non-trade related balances with JD Group. All of the amounts due from related parties will be settled prior to or around the time of [REDACTED].

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
	(Unaudited)		
Current prepayments, other receivables and other assets:			
Amounts due from related parties	92,945	10,606,784	11,069,152
Prepaid expenses	733,501	634,079	1,091,391
Refundable deposits	69,788	92,059	180,472
Receivables for capital injection from non-controlling interests	—	—	150,000
Prepayments to suppliers	13,742	84,387	122,683
Loans to related parties*	—	3,854	42,084
Interest receivables	38,825	13,146	17,424
Others	15,709	37,745	162,973
	964,510	11,472,054	12,836,179
Less: allowance for credit losses	(1,270)	(10,860)	(30,158)
Total	963,240	11,461,194	12,806,021

* As of September 30, 2020, loans to related parties were secured by unlisted equity interest in debtors, of which RMB7.1 million were with interest rate at 12% per annum and RMB35.0 million were interest-free.

Our current prepayments, other receivables and other assets increased by 11.7% from RMB11.5 billion as of December 31, 2019 to RMB12.8 billion as of September 30, 2020, primarily due to an increase in amounts due from related parties and an increase in prepaid expenses. Our current prepayments, other receivables and other assets increased from RMB963.2 million as of December 31, 2018 to RMB11.5 billion as of December 31, 2019, primarily due to an increase in amounts due from related parties.

Financial assets at fair value through profit or loss

Our current financial assets at fair value through profit or loss primarily consist of the wealth management products we purchased to improve returns on our excess liquidity. The wealth management products we purchased were issued by major and reputable commercial banks without guaranteed returns. The expected rates of return for such wealth management products range from 1.8% to 3.6%. We manage and evaluate the performance of investments on a fair value basis in accordance with our risk management and investment strategy. The fair values are based on cash flow

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discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

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

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

	As of December 31,		As of
	2018	2019	September 30,
			2020
			(Unaudited)
			(in thousands of RMB)
Current financial assets at fair value through profit or loss:			
Wealth management products	—	—	3,541,131

Our current financial assets at fair value through profit or loss increased from nil as of December 31, 2018 and 2019 to RMB3.5 billion as of September 30, 2020 due to purchase of wealth management products.

Term deposits

Our term deposits represent bank deposits with original maturities over three months and redeemable on maturity.

The following table sets forth our term deposits as of the dates indicated:

	As of December 31,		As of
	2018	2019	September 30,
			2020
			(Unaudited)
			(in thousands of RMB)
Term deposits	—	—	1,021,515

Our term deposits increased from nil as of December 31, 2018 and 2019 to RMB1.0 billion as of September 30, 2020. We deposited our previously raised proceeds from the Series A Preference Shares financing, which were denominated in USD, with banks. We had no term deposits denominated in other currencies during the Track Record Period.

Trade payables

Substantially all of our trade payables consist of payables to our outsourcing suppliers. The following table sets forth our trade payables as of the dates indicated:

	As of December 31,		As of
	2018	2019	September 30,
			2020
			(Unaudited)
			(in thousands of RMB)
Trade payables	2,652,948	3,957,416	4,271,741

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Our trade payables increased by 7.9% from RMB4.0 billion as of December 31, 2019 to RMB4.3 billion as of September 30, 2020. Our trade payables increased by 49.2% from RMB2.7 billion as of December 31, 2018 to RMB4.0 billion as of December 31, 2019. The increases in trade payables as of the dates presented were primarily due to an increase in the outstanding amounts payable to our outsourcing suppliers as a result of our overall business expansion.

The credit period of our trade payables mainly ranges from 30 days to 120 days. The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
	(Unaudited)		
Trade payables:			
Within three months	2,119,493	3,937,357	3,364,657
Three to six months	529,537	4,884	586,516
Six months to twelve months	3,383	6,911	300,206
Over twelve months	535	8,264	20,362
Total	2,652,948	3,957,416	4,271,741

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

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
	(Unaudited)		
Reconciliation of trade payables to non-IFRS trade payables:			
Trade payables	2,652,948	3,957,416	4,271,741
Trade payables of JD Group attributable to our business	162,866	30,987	7,106
Non-IFRS trade payables	<u>2,815,814</u>	<u>3,988,403</u>	<u>4,278,847</u>

Our non-IFRS trade payables increased by 41.6% from RMB2.8 billion as of December 31, 2018 to RMB4.0 billion as of December 31, 2019, primarily due to our overall business expansion. Our non-IFRS trade payables increased by 7.3% from RMB4.0 billion as of December 31, 2019 to RMB4.3 billion as of September 30, 2020, primarily due to our overall business expansion.

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

	For the Year Ended December 31,		For the Nine Months Ended September 30,
	2018	2019	2020
			(Unaudited)
Trade payables turnover days	49.2	73.0	68.5
Non-IFRS trade payables turnover days	90.4	75.1	68.8

Substantially all of our trade payables consist of payables to our outsourcing partners. Accordingly, (i) our trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by outsourcing cost for the relevant period and multiplied by 270 days or 360 days, as applicable; and (ii) our non-IFRS trade payables turnover days for a period equals the average of the opening and closing non-IFRS trade payables balance divided by outsourcing cost for the relevant period and multiplied by 270 days or 360 days, as applicable.

Our trade payables turnover days increased from 49.2 days in 2018 to 73.0 days in 2019 and decreased to 68.5 days for the nine months ended September 30, 2020. The payable turnover days increased significantly from 2018 to 2019 because a majority of the supplier payables at the beginning of 2018 were carried by JD Group instead of our Group.

Our non-IFRS trade payables turnover days decreased from 90.4 days in 2018 to 75.1 days in 2019 and further decreased to 68.8 days for the nine months ended September 30, 2020 primarily as a result of a higher proportion of labor outsourcing in our outsourcing cost, which typically has a shorter settlement cycle.

As of November 30, 2020, approximately RMB3.5 billion, or 81.3%, of our trade payables as of September 30, 2020 had been settled.

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

Advances from customers

Advances from customers represent our obligation to provide services to a customer for which we have received prepayment from the customer. We require prepayments from certain customers to mitigate potential credit risk. Our advances from customers increased significantly from RMB68.2 million as of December 31, 2019 to RMB209.9 million as of September 30, 2020. Our advances from customers increased significantly from RMB5.0 million as of December 31, 2018 to RMB68.2 million as of December 31, 2019. The increases in advances from customers were a result of our business growth.

Accrued expenses and other payables

Accrued expenses and other payables primarily consist of amounts due to related parties, salary and welfare and accrued expenses.

Amounts due to related parties primarily include amounts due to JD Group, which primarily represent the funds utilized by the [REDACTED] in JD Group on behalf of us since January 1, 2017 or the funds support to our PRC operating entities provided by JD Group.

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As of the Latest Practicable Date, our Group had sufficient financial resources, including proceeds received in the Series A Preference Shares financing (“Series A Financing Proceeds”), to cover the amounts due to related parties. However, substantially all of the Series A Financing Proceeds currently remain offshore while the amounts due to related parties are primarily onshore in the PRC. As advised by our PRC legal advisor, the repatriation of funds are subject to various regulatory approvals, the timing of which is uncertain. Furthermore, in practice, depending on the method of repatriation, there may be certain restrictions required by banks on the use of repatriated funds, among other things, which may make it difficult for us to use the repatriated funds to settle related party balances. Upon the completion of the carve-out process, which will occur before [REDACTED], the amounts due to related parties under “accrued expenses and other payables” will (1) cease to fluctuate with respect to the non-trade portion and (2) not be payable on demand of the relevant related party, (3) be paid down over time, either with internally generated cash onshore or with repatriated Series A Financing Proceeds. We expect such amounts to be fully settled within two years from [REDACTED]. Our Directors believe that the amounts due to related parties do not impact the financial independence of our Group as a whole.

The following table sets forth our accrued expenses and other payables as of the dates indicated:

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
	(Unaudited)		
Accrued expenses and other payables:			
Amounts due to related parties	6,016,874	6,644,788	10,892,047
Salary and welfare payables	1,303,668	1,773,098	2,408,242
Accrued expenses	823,170	1,110,062	1,883,208
Property and equipment payables	98,728	361,260	601,226
Deposits	193,308	369,207	541,229
Packing materials payables	229,465	465,968	397,373
Other tax payables	76,470	181,827	182,876
Amount due to non-controlling shareholder	—	—	101,377
Temporary receipt	305,060	92,004	89,836
Others	185,367	187,806	432,921
Total	9,232,110	11,186,020	17,530,335

Our accrued expenses and other payables increased by 56.7% from RMB11.2 billion as of December 31, 2019 to RMB17.5 billion as of September 30, 2020, primarily due to (i) an increase in amounts due to related parties and (ii) increase in accrued expenses in connection with rental fee payables of short-term lease.

Our accrued expenses and other payables increased by 21.2% from RMB9.2 billion as of December 31, 2018 to RMB11.2 billion as of December 31, 2019, primarily due to an increase in salary and welfare payables.

Lease liabilities

Our current lease liabilities represent the payment obligations on our leases that are payable within one year in relation to properties that we lease primarily for our warehouses, delivery stations, offices, and staff quarters, certain of which were secured by the rental deposits and all of which were unguaranteed.

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Our current lease liabilities increased by 35.6% from RMB3.1 billion as of December 31, 2019 to RMB4.2 billion as of September 30, 2020, primarily due to (i) new lease agreements we entered into with lease terms ranging from 1 to 15 years for the nine months ended September 30, 2020 and (ii) recognition of current lease liabilities of Kuayue Express into our combined financial statements as a result of the acquisition of a controlling interest in Kuayue Express in August 2020. Our lease liabilities increased from nil as of December 31, 2018 to RMB3.1 billion as of December 31, 2019, primarily due to our application of IFRS 16 from January 1, 2019.

Borrowings

Our current borrowings consist of secured, fixed-rate bank loans. We recorded current borrowings of RMB611.7 million as of September 30, 2020. We did not have any current borrowings as of December 31, 2018 and 2019.

Payables to interest holders of consolidated investment funds

Our payables to interest holders of consolidated investment funds mainly represent external investors’ equity investment in our consolidated investment fund Tianjin Huihe Haihe Intelligent Logistics Enterprise Fund Partnership (Limited Partnership), which first took place in May 2019 and increased by 13.2% from RMB109.2 million as of December 31, 2019 to RMB123.6 million as of September 30, 2020, primarily due to additional investment by external investors in June 2020.

Non-Current Assets/Liabilities

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

	As of December 31,		As of September 30,
	2018	2019	2020
	(in thousands of RMB)		
			(Unaudited)
Non-current assets:			
Property and equipment	4,837,775	5,337,907	6,067,048
Right-of-use assets	—	8,619,859	11,517,693
Goodwill	—	—	1,499,142
Intangible assets	12,571	14,242	2,894,174
Interest in an associate	—	287,932	275,703
Interest in a joint venture	150,000	—	—
Financial assets at fair value through profit or loss	1,101,545	1,026,599	1,067,960
Prepayments, other receivables and other assets	240,862	491,117	896,421
Total non-current assets	6,342,753	15,777,656	24,218,141
Non-current liabilities:			
Borrowings	—	—	111,605
Lease liabilities	—	5,573,267	7,432,648
Convertible redeemable preferred shares	17,462,915	18,069,639	19,591,129
Equity instruments with preference rights	—	—	589,353
Long-term payables	—	—	200,000
Deferred tax liabilities	—	42,054	749,041
Total non-current liabilities	17,462,915	23,684,960	28,673,776

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Property and equipment

Our property and equipment primarily consists of logistics equipment, vehicles, electronic equipment, office equipment, buildings, leasehold improvement and construction in progress.

Our property and equipment increased by 13.7% from RMB5.3 billion as of December 31, 2019 to RMB6.1 billion as of September 30, 2020, primarily due to the recognition of property and equipment of Kuayue Express into our combined financial statements as a result of the acquisition of a controlling interest in Kuayue Express in August 2020 and the increase of logistics equipment to support our business expansion. Our property and equipment increased by 10.3% from RMB4.8 billion as of December 31, 2018 to RMB5.3 billion as of December 31, 2019, primarily due to the increase of logistics equipment to support our business expansion.

Except for construction in progress, items of our property and equipment, after taking into account the residual values, are depreciated on a straight-line basis. See note 16 to the Accountants’ Report in Appendix I to this document for a detailed description of the cost basis and depreciation for each item of our property and equipment.

Right-of-use assets

Our right-of-use assets represent carrying amounts of long-term leased properties, including warehouses, delivery stations, offices, and staff quarters for our operations. These leases have a fixed term of 1 to 15 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, we apply the definition of a contract and determine the period for which the contract is enforceable.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their respective estimated useful life and the lease term. In addition, we reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the Track Record Period, there was no such triggering event. See note 17 to the Accountants’ Report in Appendix I to this document for a detailed description of the change of right-of-use assets during the Track Record Period.

Our right-of-use assets increased by 33.6% from RMB8.6 billion as of December 31, 2019 to RMB11.5 billion as of September 30, 2020, primarily due to (i) new lease agreements we entered into with lease terms ranging from 1 to 15 years for the nine months ended September 30, 2020 and (ii) recognition of right-of-use assets of Kuayue Express into our combined financial statements as a result of the acquisition of a controlling interest in Kuayue Express in August 2020.

We did not record any right-of-use assets as of December 31, 2018 and recorded right-of-use assets of RMB8.6 billion as of December 31, 2019, primarily because we started applying IFRS 16 from January 1, 2019.

Goodwill

We record goodwill primarily in connection with acquisitions. Our goodwill increased significantly from nil as of December 31, 2019 to RMB1.5 billion as of September 30, 2020 due to the acquisition of a controlling interest in Kuayue Express in August 2020.

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Other intangible assets

Our other intangible assets primarily consist of intangible assets other than goodwill. Our other intangible assets increased significantly from RMB14.2 million as of December 31, 2019 to RMB2.9 billion as of September 30, 2020 due to the recognition of the other intangible assets arising from the acquisition of a controlling interest in Kuayue Express in August 2020.

Interest in an associate

Interest in an associate represents our share of interest in Xinning Logistics. We acquired 10% of the equity interest and voting power of Xinning Logistics for RMB357.4 million in 2019 and have the right to appoint two out of the six directors of Xinning Logistics under its articles of association. As we are able to exercise significant influence Xinning Logistics, we treat Xinning Logistics as an associate.

We use the equity method to account for our interest in Xinning Logistics based on the financial information of Xinning Logistics.

The cost of our investment in Xinning Logistics is RMB357.4 million. After deducting our share of post-acquisition loss and other comprehensive loss, we recorded interest in an associate of RMB287.9 million as of December 31, 2019 and RMB275.7 million as of September 30, 2020.

Financial assets at fair value through profit or loss

Our non-current financial assets at fair value through profit or loss consist of the fair value of (i) equity securities in listed entities; (ii) equity investments in unlisted entities and (iii) preferred shares investments. See note 3.17 to the Accountants’ Report in Appendix I to this document for a detailed description of the accounting treatment for each type of financial asset.

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

	As of December 31,		As of
	2018	2019	September 30,
	(in thousands of RMB)		2020
			(Unaudited)
Non-current financial assets at fair value through profit or loss:			
Equity securities in listed entities	565,611	367,867	428,987
Equity investments in unlisted entities	1,200	159,960	159,960
Preferred shares investments in unlisted entities	534,734	498,772	479,013
Total	1,101,545	1,026,599	1,067,960

Our non-current financial assets at fair value through profit or loss remained stable as of December 31, 2018 and 2019 and as of September 30, 2020.

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Prepayments, other receivables and other assets

Our non-current prepayments, other receivables and other assets primarily consist of refundable deposits, pallets and long-term prepaid expenses. The following table sets forth our non-current prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,		As of
	2018	2019	September 30,
	(in thousands of RMB)		2020
			(Unaudited)
Non-current prepayments, other receivables and other assets:			
Refundable deposits	102,530	222,262	431,901
Pallets	92,517	156,748	212,817
Long-term prepaid expenses	38,635	98,763	184,980
Prepayments for property and equipment	7,180	11,486	64,896
Others	—	1,858	1,827
Total	240,862	491,117	896,421

Our non-current prepayments, other receivables and other assets increased by 82.5% from RMB491.1 million as of December 31, 2019 to RMB896.4 million as of September 30, 2020, primarily due to an increase in non-current refundable deposits mainly related to lease.

Our non-current prepayments, other receivables and other assets increased significantly from RMB240.9 million as of December 31, 2018 to RMB491.1 million as of December 31, 2019, primarily due to an increase in non-current refundable deposits mainly related to lease.

Convertible redeemable preferred shares

During the Track Record Period, we issued certain convertible redeemable preferred shares to our investors. See “History, Reorganization and Corporate Structure” of this document and note 32 to the Accountants’ Report in Appendix I and note 28 to the Condensed Combined Financial Statements in Appendix IA to this document for details of the convertible redeemable preferred shares. We applied the discounted cash flow method to determine the underlying equity value of our Company and adopted option pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. See note 32 to the Accountants’ Report in Appendix I and note 28 to the Condensed Combined Financial Statements in Appendix IA to this document for the key assumptions used to determine the fair value of the convertible redeemable preferred shares.

Lease liabilities

Our non-current lease liabilities represent the payment obligations on our leases with a term of more than one year in relation to properties that we lease primarily for our warehouses, delivery stations, offices and staff quarters, certain of which were secured by the rental deposits and all of which were unguaranteed.

Our non-current lease liabilities increased by 33.4% from RMB5.6 billion as of December 31, 2019 to RMB7.4 billion as of September 30, 2020, primarily due to (i) new lease agreements we entered into with lease terms ranging from 1 to 15 years for the nine months ended September 30, 2020 and (ii) recognition of lease liabilities of Kuayue Express into our combined financial statements as a result of the acquisition of a controlling interest in Kuayue Express in August 2020. Our non-current

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lease liabilities increased from nil as of December 31, 2018 to RMB5.6 billion as of December 31, 2019, primarily because we started applying IFRS 16 from January 1, 2019.

Long-term payables

Long-term payables primarily consist of borrowings by Kuayue Express from its non-controlling shareholder as of September 30, 2020.

Our long-term payables increased from nil as of December 31, 2019 to RMB200 million as of September 30, 2020, primarily due to the recognition of long-term payables of Kuayue Express into our combined financial statements as a result of the acquisition of a controlling interest in Kuayue Express in August 2020.

Deferred tax liabilities

Our deferred tax liabilities increased significantly from RMB42.1 million as of December 31, 2019 to RMB749.0 million as of September 30, 2020, primarily due to the recognition of deferred tax liabilities resulting from the intangible assets arising from the acquisition of the controlling interest of Kuayue Express in August 2020.

Our deferred tax liabilities increased from nil as of December 31, 2018 to RMB42.1 million as of December 31, 2019, primarily due to the recognition of temporary difference of accelerated depreciation.

Borrowings

Our non-current borrowings consist of secured, variable-rate bank loans. We recorded non-current borrowings of RMB111.6 million as of September 30, 2020 due to the recognition of borrowings of Kuayue Express into our combined financial statements as a result of the acquisition of the controlling interest of Kuayue Express in August 2020. We did not have any non-current borrowings as of December 31, 2018 and 2019.

KEY FINANCIAL RATIOS

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2018	2019	2019	2020
Total revenue growth (%)	48.2	31.6	28.2	43.2
Total gross margin (%) ⁽¹⁾	2.9	6.9	8.5	10.9
Non-IFRS net margin (%) ⁽²⁾	(4.2)	(0.6)	0.7	4.6

Notes:

(1) Total gross margin equals gross profit divided by revenues for the year/period and multiplied by 100%.

(2) Non-IFRS net margin represents non-IFRS profit/(loss) for the year/period as a percentage of total revenue of such year/period. For details of the non-IFRS profit/(loss) of the year/period, see “—NON-IFRS MEASURE: NON-IFRS PROFIT/(LOSS) FOR THE YEAR/PERIOD.”

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we funded our cash requirements principally from cash generated from operating activities and financing through issuances of convertible redeemable preferred shares in private placement transactions. Our cash and cash

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equivalents represents cash and bank balances. We had cash and cash equivalents of RMB19.2 billion, RMB9.3 billion and RMB9.8 billion as of December 31, 2018 and 2019 and September 30, 2020, respectively.

The following table sets forth our cash flows for the year/period indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2018	2019	2019	2020
	(in thousands of RMB)			
			(Unaudited)	(Unaudited)
Net cash generated from operating activities	1,021,769	2,630,294	2,260,084	6,635,354
Net cash used in investing activities	(3,408,482)	(2,609,912)	(2,474,252)	(7,408,940)
Net cash generated from/(used in) financing activities . . .	18,776,658	(9,894,983)	(11,478,380)	1,513,404
Net increase/(decrease) in cash and cash equivalents . . .	16,389,945	(9,874,601)	(11,692,548)	739,818
Net contribution from JD Group	1,342,208	—	—	—
Cash and cash equivalents at the beginning of the year/ period	293,250	19,249,997	19,249,997	9,274,203
Effects of foreign exchange rate changes on cash and cash equivalents	1,224,594	(101,193)	5,861	(229,149)
Cash and cash equivalents at the end of the year/ period	19,249,997	9,274,203	7,563,310	9,784,872

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities and the [REDACTED] received from [REDACTED]. We currently do not have any other plans for material additional external financing.

Net Cash Generated from Operating Activities

For the nine months ended September 30, 2020, net cash generated from operating activities was RMB6.6 billion, primarily attributable to our loss of RMB11.7 million, as adjusted by (i) non-cash and non-operating items, which primarily consist of depreciation of right-of-use assets of RMB2.4 billion, loss on fair value changes of convertible redeemable preferred shares of RMB1.6 billion, depreciation of property and equipment of RMB1.0 billion, and share-based payments of RMB741.8 million and (ii) changes in working capital, which primarily result from an increase in accrued expenses and other payables of RMB3.1 billion, partially offset by an increase in prepayments, other receivables and other assets of RMB1.4 billion and an increase in trade receivables of RMB857.7 million.

In 2019, net cash generated from operating activities was RMB2.6 billion, primarily attributable to our loss of RMB2.2 billion, as adjusted by (i) non-cash and non-operating items, which primarily consist of depreciation of right-of-use assets of RMB2.7 billion, depreciation of property and equipment of RMB1.2 billion, and share-based payments of RMB997.9 million; and (ii) changes in working capital, which primarily result from an increase in prepayments, other receivables and other assets of RMB6.2 billion and an increase in trade receivables of RMB1.7 billion, partially offset by an increase in accrued expenses and other payables of RMB5.0 billion and an increase in trade payables of RMB1.3 billion.

In 2018, net cash generated from operating activities was RMB1.0 billion, primarily attributable to our loss of RMB2.8 billion, as adjusted by (i) non-cash and non-operating items, which primarily consist of depreciation of property and equipment of RMB1.2 billion and share-based

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payments expense of RMB910.4 million; and (ii) changes in working capital, which primarily result from an increase in trade payables of RMB2.4 billion and an increase in accrued expenses and other payables of RMB768.8 million, partially offset by an increase in trade receivables of RMB1.0 billion.

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

Net Cash Used in Investing Activities

For the nine months ended September 30, 2020, net cash used in investing activities was RMB7.4 billion, primarily attributable to payment for financial assets at fair value through profit or loss (wealth management products) of RMB4.1 billion, purchases of property and equipment of RMB1.8 billion, net cash outflow on acquisition of the controlling interest in Kuayue Express of RMB1.5 billion, and placement of term deposits of RMB1.0 billion, partially offset by maturity of financial assets at fair value through profit or loss (wealth management products) of RMB1.2 billion.

In 2019, net cash used in investing activities was RMB2.6 billion, primarily attributable to purchase of property and equipment of RMB1.7 billion, payment for financial assets at fair value through profit or loss (equity investments) of RMB390.3 million, and acquisition of investment in associates of RMB357.4 million.

In 2018, net cash used in investing activities was RMB3.4 billion, primarily attributable to purchase of property and equipment of RMB2.4 billion, and payment for financial assets at fair value through profit or loss (equity investments) of RMB983.8 million.

Net Cash (Used in)/Generated from Financing Activities

For the nine months ended September 30, 2020, net cash generated from financing activities was RMB1.5 billion, primarily attributable to advance from JD Group of RMB3.4 billion, net proceeds from issuance of convertible redeemable preferred shares of RMB443.0 million, and proceeds from borrowings of RMB300.0 million, partially offset by the principal portion of lease payments of RMB2.1 billion and interest paid of RMB297.6 million.

In 2019, net cash used in financing activities was RMB9.9 billion, primarily attributable to payment to JD Group of RMB7.4 billion and principal portion of lease payments of RMB2.3 billion.

In 2018, net cash generated from financing activities was RMB18.8 billion, primarily attributable to net proceeds from issuance of convertible redeemable preferred shares of RMB16.0 billion, and proceeds from issuance of ordinary shares of RMB1.5 billion, and advance from JD Group of RMB1.3 billion.

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Borrowings

As of December 31, 2018 and 2019, we did not have any bank borrowings. As of September 30, 2020, we had current, secured, fixed-rate bank loans of RMB611.7 million and non-current, secured, variable-rate bank loans of RMB111.6 million. All the bank loans were made by Kuayue Express, which had been consolidated into our combined financial statements as a result of the acquisition of a controlling interest in Kuayue Express in August 2020. As of November 30, 2020, we had current, secured, fixed-rate bank loans of RMB60 million.

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Amounts due to Related Parties

As of December 31, 2018, we had amounts due to JD Group, Dada Group, JD Logistics Properties Core Fund, L.P. (“Core Fund”) and other related parties of RMB6.0 billion, RMB146.6 million, nil and nil, respectively. As of December 31, 2019, we had amounts due to JD Group, Dada Group, Core Fund and other related parties of RMB6.5 billion, RMB228.5 million, RMB20.3 million and RMB152.1 million, respectively. As of September 30, 2020, we had amounts due to JD Group, Dada Group, Core Fund and other related parties of RMB10.7 billion, RMB306.7 million, RMB29.5 million and RMB150.4 million, respectively.

Other than amount due to JD Group, amounts due to related parties of RMB146.6 million, RMB230.6 million and RMB302.7 million as of December 31, 2018, December 31, 2019 and September 30, 2020, respectively, were trade in nature; and nil, RMB170.3 million and RMB184.0 million respectively, were non-trade in nature.

The amounts due to JD Group primarily represent the funds utilized by the [REDACTED] in JD Group on behalf of us since January 1, 2017 or the funds support to our PRC operating entities provided by JD Group.

As of November 30, 2020, we had amounts due to related parties of RMB8.1 billion.

Convertible redeemable preferred shares

As of December 31, 2018 and 2019 and September 30, 2020, our convertible redeemable preferred shares had a fair value of RMB17.5 billion, RMB18.1 billion and RMB19.6 billion, respectively. For further information regarding the preferred shares, see note 32 to the Accountants’ Report in Appendix I and note 28 to the Condensed Combined Financial Statements in Appendix IA to this document. Between September 30, 2020 and November 30, 2020, we did not issue or repurchase any preferred shares.

Lease Liabilities

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

	As of December 31,	
	2018	2019
	(in thousands of RMB)	
Current	—	3,103,550
Non-current	—	5,573,267
Total	—	8,676,817

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

	As of December 31,	
	2018	2019
	(in thousands of RMB)	
Within one year	—	3,103,550
One to two years	—	2,121,042
Two to five years	—	3,111,922
Over five years	—	340,303
Total	—	8,676,817
Less: Amount due for settlement within 12 months shown under current liabilities	—	(3,103,550)
Amount due for settlement after 12 months shown under non-current liabilities	—	5,573,267

As of November 30, 2020, we had total lease liabilities of RMB12.6 billion, consisting of current lease liabilities of RMB4.7 billion and non-current lease liabilities of RMB7.9 billion.

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

CONTINGENT LIABILITIES OR GUARANTEES

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

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the year/period indicated:

	For the Year Ended December 31,		For the Nine Months Ended September 30,
	2018	2019	2020
	(in thousands of RMB)		
			(Unaudited)
Payments for equipment	(2,422,619)	(1,746,210)	(1,758,564)
Disposal of equipment	2,342	16,776	11,184
Payments for other intangible assets	(4,373)	(9,651)	(2,732)
Total	(2,424,650)	(1,739,085)	(1,750,112)

Our capital expenditures in 2018, 2019 and nine months ended September 30, 2020 were RMB2.4 billion, RMB1.7 billion and RMB1.8 billion, respectively, primarily attributable to payments for property and equipment.

We expect that our capital expenditures in 2021 will primarily consist of purchase of equipment and intangible assets, and partially offset by disposal of equipment. We intend to fund our future capital expenditures and long-term investments with our existing cash balance, cash generated from operating activities, and [REDACTED] from [REDACTED]. See the section headed “Use of [REDACTED]” for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

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CONTRACTUAL OBLIGATIONS

Capital Commitments

Other than the items displayed below, we had no material capital commitments as of December 31, 2018 and 2019.

	As of December 31,	
	2018	2019
	(in thousands of RMB)	
<i>Contracted for but not provided in the Historical Financial Information</i>		
Purchase of property and equipment	514,041	25,192

Operating Lease Commitments

Our commitments primarily relate to the leases of warehouses, delivery stations, offices and staff quarters under non-cancellable operating lease agreements. Our future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	For the Year Ended December 31,	
	2018	2019
	(in thousands of RMB)	
Within 1 year	2,442,605	3,188,247
In the second to fifth year inclusive	3,573,798	6,104,442
Over 5 years	419,066	483,953
	6,435,469	9,776,642

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

MATERIAL RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in our historical financial information, the following significant transactions and balances are carried out between our Company and our related parties during the Track Record Period.

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

Name of related parties	Relationship
JD.com, Inc.	Ultimate parent company of our Company
Jingdong Technology Group Corporation	Immediate parent company of our Company
JD Group	Controlled by JD.com, Inc.
Tencent Holdings and its subsidiaries (“Tencent Group”)	A shareholder of the ultimate parent company
AiHuiShou Group	An associate of JD Group
Core Fund	An associate of JD Group
Dada Group	An associate of JD Group
JD Digits	Controlled by Mr. Richard Qiangdong Liu (劉強東), the controlling shareholder of JD.com, Inc.

During the Track Record Period, the supply chain solutions and logistics services revenue, advertising revenue, back-office administrative expenses, and shared service expenses attributable to

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the [REDACTED] were carved out from JD Group as all of these transactions and activities were carried out by JD Group. Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, these transactions were recorded in our historical Financial Information based on the actual amounts recognized/incurred by JD Group (other than certain expenses that were not able to specifically identified, which were allocated on the method as disclosed in note 1.2 to the Accountants’ Report in Appendix I to this document) as if they were the revenue and expenses of our Company and therefore, the disclosure of significant transactions with related parties set out below have not included these transactions.

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

		For the Year Ended December 31,		For the Nine Months Ended September 30,	
	Notes	2018	2019	2019	2020
		(in thousands of RMB)			
				(Unaudited)	(Unaudited)
Rendering of services:					
Services provided to JD Group	(i)	26,552,355	30,682,081	21,422,410	28,006,450
Services provided to Tencent Group	(ii)	275,431	170,523	133,641	21,375
Services provided to JD Digits	(iii)	9,534	128,772	81,451	155,757
Services provided to AiHuiShou Group	(ii)	4,759	24,245	8,809	48,450
Receiving of services:					
Services received from JD Group	(iv)	644,578	802,333	541,507	803,283
Services received from Dada Group	(v)	938,627	1,561,772	897,661	1,450,991
Share-based compensation received from JD.com, Inc.	(iv)	509,417	425,803	303,068	146,907
Services received from JD Digits	(vi)	111,140	101,324	77,306	70,730
Lease arrangements:					
Lease and property management services received from JD Group	(viii), (x)	281,561	—	—	—
Interest on lease liabilities for leases with Core Fund	(vii), (ix)	—	147,587	98,991	111,169
Interest on lease liabilities for leases with JD Group	(viii), (x)	—	10,517	7,167	11,883
Receiving or payment of interest:					
Interest income from JD Group	(xi)	156,958	69,824	31,197	70,181
Interest expenses to JD Group	(xi)	48,451	59,968	59,965	—

Rendering of services

- (i) We provides integrated supply chain solutions and logistics services to JD Group in exchange for service fees, including but not limited to warehousing and distribution services, express and freight delivery services, after sales and maintenance services, and other related ancillary services.

We provides advertising services to JD Group in return for the advertising fees.

- (ii) We provide supply chain solutions and logistics services to Tencent Group and AiHuiShou Group.

- (iii) We provide installation and maintenance services, and advertising services to JD Digits.

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Receiving of services

- (iv) JD Group provides back-office administrative support services to us, including but not limited to cloud service, provision of servers, information technology support service, certain human resources services, in addition to certain shared services, including office premises sharing, transportation and canteen facilities for staff, administrative purchases and various support services. We pay JD Group the actual costs incurred during the service process.

JD Group grants RSUs and share options to our eligible employees under JD Group Share Incentive Plan.

- (v) Dada Group primarily provides on-demand delivery services to us.
- (vi) JD Digits primarily provides payment and ancillary services to us.

Lease arrangements

- (vii) During the nine months ended September 30, 2020, we entered into several lease agreements for the use of operational purposes with Core Fund for 4 to 7 years. Right-of-use assets and lease liabilities amounted to RMB2.6 billion (as of September 30, 2019: RMB2.7 billion) and RMB2.8 billion (as of September 30, 2019: RMB2.7 billion) as of September 30, 2020, respectively.
- (viii) During the nine months ended September 30, 2020, we entered into several lease agreements for the use of operational purposes with JD Group for 2 to 6 years. Right-of-use assets and lease liabilities amounted to RMB469.5 million (as of September 30, 2019: RMB214.2 million) and RMB480.1 million (as of September 30, 2019: RMB215.8 million) as of September 30, 2020, respectively.
- (ix) In 2019, we entered into several lease agreements for operational purposes with Core Fund for 4 to 7 years. Right-of-use assets and lease liabilities amounted to RMB3.0 billion and RMB3.1 billion as of December 31, 2019, respectively.
- (x) In 2019, we entered into several lease agreements for operational purposes with JD Group for 2 to 6 years. Right-of-use assets and lease liabilities amounted to RMB261.6 million and RMB266.0 million as of December 31, 2019, respectively.

Receiving or payment of interest

- (xi) To better utilize the excessive cash for higher returns, we participates in the treasury management scheme administrated by JD Group, through transferring excessive cash to JD Group and charges interest accordingly, while JD Group charges us with interest expenses on amount due to JD Group. We are entitled to receive interest income and obligated to make payments of interest expenses with JD Group based on the terms stipulated in the Series A Share Subscription Agreement.

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We had the following significant balances with the major related parties:

	As of December 31,		As of
	2018	2019	September 30,
	(in thousands of RMB)		2020
			(Unaudited)
Due from related parties:			
Amounts due from JD Group	—	10,486,252	10,814,023
Amounts due from JD Digits	72,940	143,584	308,147
Amounts due from Tencent Group	83,121	38,806	23,914
Amounts due from AiHuiShou Group	892	15,536	3,185
Amounts due from Dada Group	23,925	11,579	—
Amounts due from other related parties	7,579	5,187	3,572
Total	188,457	10,700,944	11,152,841
Due to related parties:			
Amounts due to JD Group	6,016,874	6,474,480	10,708,056
Amounts due to Dada Group	146,586	228,456	306,719
Amounts due to Core Fund	—	20,308	29,486
Amounts due to other related parties	—	152,124	150,437
Total	6,163,460	6,875,368	11,194,698

Other than amount due from JD Group, amounts due from related parties of RMB94.2 million and RMB83.7 million as of December 31, 2019 and September 30, 2020, respectively, are trade in nature; and RMB120.5 million and RMB255.1 million, respectively, are non-trade in nature. Amount due from JD Group as of December 31, 2019 and September 30, 2020 primarily includes (i) trade receivables resulting from our supply chain solutions and logistics services provided to JD Group, and (ii) non-trade related balances with JD Group. Other than amount due to JD Group, amounts due to related parties of RMB230.6 million and RMB302.7 million as of December 31, 2019 and September 30, 2020, respectively, are trade in nature; and RMB170.3 million and RMB184.0 million respectively, are non-trade in nature. Amount due to JD Group as of December 31, 2019 and September 30, 2020 primarily includes (i) payables for services received from JD Group, and (ii) the funds utilized by the [REDACTED] since January 1, 2017 and other non-trade related balances as a result of the carve-out process.

Other than amount due from JD Group, amounts due from related parties of RMB95.5 million and RMB94.2 million as of December 31, 2018 and 2019, respectively, are trade in nature; and RMB92.9 million and RMB120.5 million, respectively, are non-trade in nature. Amount due from JD Group as of December 31, 2019 primarily includes (i) trade receivables resulting from our supply chain solutions and logistics services provided to JD Group, and (ii) non-trade related balances with JD Group. Other than amount due to JD Group, amounts due to related parties of RMB146.6 million and RMB230.6 million as of December 31, 2018 and 2019, respectively, are trade in nature; and nil and RMB170.3 million, respectively, are non-trade in nature. Amount due to JD Group as of December 31, 2018 and 2019 primarily includes (i) payables for services received from JD Group, and (ii) the funds utilized by the [REDACTED] since January 1, 2017 and other non-trade related balances as a result of the carve-out process.

All the balances with related parties above are unsecured and either repayable on demand or within one year from the end of reporting period. Other than amounts due from/due to JD Group, balances with related parties are non-interest bearing.

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

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risks (such as foreign exchange risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management. See note 36.2 to the Accountants’ Report in Appendix I to this document for a detailed description of our financial risk management.

Foreign Exchange Risk

We conduct our businesses mainly in RMB, with certain transactions denominated in USD, and, to a lesser extent, other currencies. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of our entities. In addition, we have intra-group balances with several subsidiaries denominated in foreign currency which also expose us to foreign currency risk.

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

Interest Rate Risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose us to cash flow interest rate risk, whereas fixed rate instruments expose us to fair value interest risk. We are exposed to cash flow interest rate risk in relation to variable-rate bank balances and amounts due from/due to JD Group. We are also exposed to fair value interest rate risk in relation to fixed-rate bank balances, lease liabilities and loans from related parties.

The sensitivity analyzes below have been determined based on the exposure to interest rates at the end of each of the year during the Track Record Period. The analysis is prepared assuming the financial instruments outstanding at the end of each of the year during the Track Record Period were outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, our post-tax profit for the years ended December 31, 2018 and 2019 and for the nine months ended September 30, 2020 would increase/decrease by RMB13.0 million, RMB21.7 million and RMB2.8 million, respectively. This is mainly attributable to our exposure to interest rates on variable-rate bank borrowings.

Credit Risk

Credit risk refers to the risk that our counterparties default on their contractual obligations resulting in financial losses to our Company. Our credit risk exposures are primarily attributable to trade and other receivables, bank balances and preferred shares investments in unlisted entities. We do

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not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

Trade receivables and contract assets

In order to minimize the credit risk, our management has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, we use an internal credit scoring system to assess the potential customer’s credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, we perform impairment assessment under ECL model on trade balances individually or based on provision matrix. In this regard, our directors consider that our credit risk is significantly reduced.

We have applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL for these items. We estimate the amount of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

Bank balances

To manage risk arising from bank balances, we only transact with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

The credit risk on bank balances is limited because the counterparties are reputable banks with high credit rating assigned by international credit-rating agencies. We assess 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant.

Other receivables

In order to minimize the credit risk of other receivables and amounts due from related companies with non-trade nature, the management of we have continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. Before granting the loan advances, the management of we have obtained an understanding to the credit background of the debtors and undertaken an internal credit approval process. Our management has taken into account the economic outlook of the industries in which the debtors operate and reviewed the recoverable amount of each amount at the end of the reporting period to ensure that adequate impairment losses were recognized for irrecoverable debts. After assessment, our directors have not identified any items experienced a significant increase in credit risk since initial recognition. In addition, we perform periodic individual assessment on 12m ECL of other receivables based on historical settlement records and past experience.

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Preferred shares investments in unlisted entities

We invest in debt securities. In order to minimize the credit risk of these investments in preferred shares, the management regularly reviews and assesses the financial performance of the unlisted investees. Our management considers that the credit risk is monitored and significantly reduced.

Liquidity Risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows.

The following table details our remaining contractual maturity for its financial liabilities. The table is prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which we can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each of the year during the Track Record Period.

	Weighted average interest rate	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying amount
(in thousands of RMB)							
As of December 31, 2018							
Trade payables		2,652,948	—	—	—	2,652,948	2,652,948
Advances from customers . . .		4,971	—	—	—	4,971	4,971
Financial liabilities included in accrued expenses and other payables		6,843,435	—	—	—	6,843,435	6,843,435
Convertible redeemable preferred shares		—	—	17,223,773	—	17,223,773	17,462,915
		<u>9,501,354</u>	<u>—</u>	<u>17,223,773</u>	<u>—</u>	<u>26,725,127</u>	<u>26,964,269</u>
As of December 31, 2019							
Trade payables		3,957,416	—	—	—	3,957,416	3,957,416
Advances from customers . . .		68,222	—	—	—	68,222	68,222
Lease liabilities	5.67%	3,188,247	2,303,967	3,800,475	483,953	9,776,642	8,676,817
Financial liabilities included in accrued expenses and other payables		7,933,227	—	—	—	7,933,227	7,933,227
Convertible redeemable preferred shares		—	—	17,515,020	—	17,515,020	18,069,639
Payables to interest holders of consolidated investment funds		109,239	—	—	—	109,239	109,239
		<u>15,256,351</u>	<u>2,303,967</u>	<u>21,315,495</u>	<u>483,953</u>	<u>39,359,766</u>	<u>38,814,560</u>

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends shall be paid only out of the profit for the year

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determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and the estimated [REDACTED] from [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present needs and for the next twelve months from the date of this document. We had positive cash flows from operations during the Track Record Period. Our net cash generated from operating activities were RMB1.0 billion, RMB2.6 billion and RMB6.6 billion, respectively, in 2018 and 2019 and for the nine months ended September 30, 2020. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

DISTRIBUTABLE RESERVES

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

[REDACTED]

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

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

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

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The following unaudited pro forma statement of adjusted combined net tangible assets attributable to owners of our Company is prepared based on the unaudited combined tangible assets less liabilities attributable to owners of our Company as of September 30, 2020 as derived from the Condensed Combined Financial Statements, as set out in Appendix IA to [REDACTED], and adjusted as follows:

	Unaudited combined tangible assets less liabilities of the Group attributable to owners of our Company as of September 30, 2020	Estimated [REDACTED] from the [REDACTED]	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company as of September 30, 2020	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company as of September 30, 2020 per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3) HK\$ (Note 4)
Based on an [REDACTED] of [REDACTED] per [REDACTED]		[(3,995,400)]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED]
Based on an [REDACTED] of [REDACTED] per [REDACTED]		[(3,995,400)]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED]

Notes:

- The unaudited combined tangible assets less liabilities of the Group attributable to owners of our Company as of September 30, 2020 is derived from the Condensed Combined Financial Statements of the Group set out in Appendix IA to this [REDACTED], which is based on the unaudited combined net liabilities of the Group attributable to the owners of our Company as of September 30, 2020 of RMB[(1,342,989,000)] with adjustments for intangible assets and goodwill of the Group attributable to owners of our Company as of September 30, 2020 of RMB[1,749,928,000] and RMB[902,483,000] respectively.
[REDACTED]
- The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB[0.8343] as disclosed in the Exchange Rate Conversion section of the [REDACTED]. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company as of September 30, 2020 to reflect any operating result or other transactions of the Group entered into subsequent to September 30, 2020. In particular, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company as shown on the table above have not been adjusted to illustrate the effect of the conversion of Series A Preference Shares into Shares upon the completion of [REDACTED] (the “Conversion”), as detailed below.
As of September 30, 2020, the carrying amount of Series A Preference Shares of the Group was RMB[19,591,129,000] and recognized as financial liabilities. The Series A Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon (1) the completion of [REDACTED] (2) with respect to the Series A Preference Shares, in the event that Series A Preference Shares shareholders holding at least 50% of the Series A Preference Shares in issue elect to convert the Series A Preference Shares, and based on initial conversion ratio of 1:1, and shall be subject to adjustment based on adjustments of the conversion price. Had [REDACTED] and the Conversion been assumed to take place as of September 30, 2020, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company would have increased from approximately [REDACTED] to approximately [REDACTED] based on an [REDACTED] of [REDACTED] per [REDACTED], or from approximately [REDACTED] to approximately [REDACTED] based on an [REDACTED] of [REDACTED]. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company per [REDACTED] would have increased to [REDACTED] and [REDACTED], based on the [REDACTED] of [REDACTED] per [REDACTED] and [REDACTED] per [REDACTED], respectively. The number of Shares used in the calculation would have increased from [REDACTED] Shares to [REDACTED] Shares after assuming the conversion of Series A Preference Shares of the Group. For the purpose of

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calculating the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company per Share, the translation of Hong Kong dollars into Renminbi or Renminbi into Hong Kong dollars was made at the exchange rate of HK\$1.00 to RMB[0.8343] as disclosed in the Exchange Rate Conversion section of [REDACTED]. No representation is made that Hong Kong dollars amounts have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

NO MATERIAL ADVERSE CHANGE

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

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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

[REDACTED]

FUTURE PLANS

See “Business—Our Strategies” in this [REDACTED] for a detailed description of our future plans.

[REDACTED]

Assuming an [REDACTED] of [REDACTED] per Share (being the mid-point of the [REDACTED] of between [REDACTED] and [REDACTED] per Share), we estimate that we will receive [REDACTED] of approximately [REDACTED] million from [REDACTED] after deducting the [REDACTED] and other estimated expenses paid and payable by us in connection with [REDACTED] and assuming that [REDACTED] is not exercised. In line with our strategies, we intend to use our [REDACTED] from [REDACTED] for the purposes and in the amounts set forth below:

- Approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to be used for the upgrade and expansion of our logistics networks. Specifically, we expect to invest in the following networks in order to continue to maintain our competitive advantages:
 - i. Warehouse network: (a) increase the number of smart warehouses in our network, including additional Asia No. 1 smart mega warehouses in suitable locations. While we typically lease our warehouses, significant investments are required for the installation of logistics equipment including robotic picking and packaging, storage, goods-to-person systems and equipment, among others; (b) broaden our warehouse network and extend penetration with smaller scale warehouses; and (c) expand into lower tier cities and potentially rural areas in order to facilitate the increasing e-commerce traffic and demand for supply chain services into those regions.
 - ii. Line-haul network: (a) strengthen our line-haul network by adding the number of routes and enhance the efficiency of existing routes by purchasing our own transportation resources and selectively evaluating and upgrading our outsourcing partners. We also plan to invest in and expand our air cargo network by increasing the number of destinations and flight frequencies, either through charter flights or charter cabin, and (b) in addition, we plan to increase the number of automated sorting centers and upgrade existing sorting centers with our latest automation equipment and technologies, which will further increase the efficiency of our line-haul network.
 - iii. Cold-chain network: As Chinese consumers increasingly switch to online channels for certain products such as pharmaceutical products and fresh produce, there is increasing demand for high-quality and customized cold-chain solutions. As such, we plan to invest in upgrading our existing cold chain network through (a) adding more temperature-controlled warehouses and sorting centers in order to increase the capacity and broaden the coverage of our existing network; and (b) adding more specialized delivery vehicles for cold-chain transportation.
 - iv. Cross-border network: In order to benefit from for the increasing cross-border flow of e-commerce traffic, we plan to (a) increase additional bonded warehouses in China to facilitate inbound flow, as demands from Chinese consumers for foreign products continue to remain robust, (b) grow the number of overseas warehouses in key growth region to facilitate Chinese merchants selling directly to overseas consumers, and (c) partnerships with foreign local logistics players so as to provide end-to-end solutions for our customers.

[REDACTED]

- v. Bulky item logistics network: (a) grow the number of delivery and installation stations in order to increase coverage and density of the network; and (b) train our delivery and installation personnel to improve their skills and provide them with technical support in order to strengthen our service capabilities.
- vi. Last-mile delivery network: (a) prudently invest in new delivery stations in order to broaden the coverage of the network while striking a fine balance between user experiences and operational efficiency; and (b) enhance automation level of our delivery stations and equip the delivery personnel with more smart devices and software applications.

[REDACTED]

We plan to invest in the expansion and upgrade of our logistics networks primarily on an organic basis but may also pursue opportunistic acquisitions which we believe are complementary to our existing logistics network.

- Approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to develop advanced technologies to be used in our supply chain solutions and logistics services:
 - i. Invest in automation technologies, which we believe are critical to our long-term competitiveness. Such technologies include (i) hardware improvements as well as software and algorithms which power our automation equipment and devices, and (ii) research and development of use cases of our automation technologies, which will allow us to broaden the application of automation and reduce the extent of human involvement.
 - ii. Invest in our data analytic and algorithm capabilities which are at the core of our intelligent decision-making capabilities, which in turn is a key differentiator between our Group and our competitors. Enhanced data analytic and algorithmic capabilities will allow us not only to support our customers’ logistics operations but also to drive their consumer experience and potentially financial performance by increasing inventory turnover and sales volume.
 - iii. Invest in other fundamental technologies including 5G, cloud computing, IoT technologies which we expect to drive our long-term service innovation.
- Approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to be used for expanding the breadth and depth of our solutions, as well as for penetrating existing customers and attracting potential customers:
 - i. Industry solutions: Invest in (a) further enhancing and customizing our existing industry solutions so as to address more industry-specific pain points; (b) modularization of our solutions so as to be able to provide customized solutions to other customers in the same industry with minimum lead time and cost; and (c) expanding our integrated solutions to more industry verticals.
 - ii. Sales and marketing: We plan to invest in sales and marketing personnel whose primary responsibilities include engaging existing and potential corporate customers in order to understand their logistics needs and provide suitable solutions from our services offerings.
- Approximately [REDACTED]% (approximately [REDACTED]) of the [REDACTED] is expected to be used for general corporate purposes and working capital needs.

In the event that the [REDACTED] is set at the [REDACTED] or the [REDACTED] of the indicative [REDACTED], the [REDACTED] of [REDACTED] will increase or decrease by approximately [REDACTED], respectively. If we make an [REDACTED] or [REDACTED] to set the final [REDACTED] to be above or below the mid-point of the [REDACTED], we will increase or decrease the allocation of the [REDACTED] to the above purposes on a pro rata basis.

The additional [REDACTED] that we would receive if [REDACTED] were exercised in full would be (i) [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the [REDACTED]), (ii) [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the [REDACTED]) and (iii) [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the [REDACTED]).

[REDACTED]

To the extent that the [REDACTED] from [REDACTED] (including the [REDACTED] from the exercise of [REDACTED]) are either more or less than expected, we may adjust our allocation of the [REDACTED] for the above purposes on a pro rata basis.

To the extent that the [REDACTED] of [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

[REDACTED]

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APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report set out on pages I-1 to I-87, received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this [REDACTED].



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JD LOGISTICS, INC., MERRILL LYNCH (ASIA PACIFIC) LIMITED, GOLDMAN SACHS (ASIA) L.L.C. AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of JD Logistics, Inc. (the “Company”), its subsidiaries and consolidated affiliate entities (together, the “Group”) set out on pages I-3 to I-87, which comprises the combined statements of financial position of the Group as of December 31, 2018 and 2019, the statements of financial position of the Company as of December 31, 2018 and 2019, and the combined statements of profit or loss, the combined statements of comprehensive income/(loss), the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the two years ended December 31, 2019, and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to I-87 forms an integral part of this report, which has been prepared for inclusion in [REDACTED] of the Company dated [date] ([REDACTED]) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

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

Reporting accountants’ responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting

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ACCOUNTANTS’ REPORT

accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s financial position as of December 31, 2018 and 2019, of the Company’s financial position as of December 31, 2018 and 2019 and of the Group’s financial performance and cash flows for each of the two years ended December 31, 2019 in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information.

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

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-3 as were considered necessary.

Dividends

We refer to Note 28 to the Historical Financial Information which states that no dividend was declared or paid by the Company or its subsidiaries or its consolidated affiliated entities in respect of each of the two years ended December 31, 2019.

[Deloitte Touche Tohmatsu]
Certified Public Accountants
Hong Kong
[Date]

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ACCOUNTANTS’ REPORT

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

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

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Group and the financial statements of the [REDACTED] as defined in Note 1.2 to the Historical Financial Information for each of the two years ended December 31, 2019 (collectively the “Underlying Financial Statements”).

The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (the “IASB”) and were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

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

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended December 31,	
		2018	2019
		RMB’000	RMB’000
Revenue	6	37,873,445	49,847,639
Cost of revenue		(36,793,265)	(46,415,425)
Gross profit		1,080,180	3,432,214
Selling and marketing expenses		(593,809)	(946,853)
Research and development expenses		(1,519,528)	(1,677,949)
General and administrative expenses		(1,731,098)	(1,874,391)
Other income, gains/(losses), net	7	28,441	(527,977)
Finance income	8	326,519	386,140
Finance costs	9	(63,224)	(430,105)
Fair value changes of convertible redeemable preferred shares	32	(239,142)	(315,477)
Impairment losses under expected credit loss model, net of reversal	10	(52,330)	(137,131)
Share of results of an associate		—	(68,627)
Loss before income tax	12	(2,763,991)	(2,160,156)
Income tax expense	11	(556)	(77,330)
Loss for the year		<u>(2,764,547)</u>	<u>(2,237,486)</u>
Loss for the year attributable to:			
Owners of the Company		(2,764,547)	(2,233,900)
Non-controlling interests		—	(3,586)
		<u>(2,764,547)</u>	<u>(2,237,486)</u>

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Loss for the year	<u>(2,764,547)</u>	<u>(2,237,486)</u>
Other comprehensive income/(loss)		
<i>Item that will not be reclassified to profit or loss:</i>		
Exchange differences on translation from functional currency to presentation currency	<u>(77,557)</u>	<u>(30,645)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	59,624	73,346
Share of other comprehensive loss of an associate, net of related income tax	<u>—</u>	<u>(791)</u>
	59,624	72,555
Other comprehensive (loss)/income for the year	<u>(17,933)</u>	<u>41,910</u>
Total comprehensive loss for the year	<u>(2,782,480)</u>	<u>(2,195,576)</u>
Total comprehensive loss for the year attributable to:		
Owners of the Company	(2,782,480)	(2,191,990)
Non-controlling interests	<u>—</u>	<u>(3,586)</u>
	<u>(2,782,480)</u>	<u>(2,195,576)</u>

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31,	
		2018	2019
		RMB’000	RMB’000
ASSETS			
Non-current assets			
Property and equipment	16	4,837,775	5,337,907
Right-of-use assets	17	—	8,619,859
Intangible assets	18	12,571	14,242
Interest in an associate	19	—	287,932
Interest in a joint venture	20	150,000	—
Financial assets at fair value through profit or loss	21	1,101,545	1,026,599
Prepayments, other receivables and other assets	23	240,862	491,117
Total non-current assets		6,342,753	15,777,656
Current assets			
Inventories		224,010	259,932
Trade receivables	22	1,640,816	3,229,663
Contract assets		23,249	50,470
Prepayments, other receivables and other assets	23	963,240	11,461,194
Cash and cash equivalents	24	19,249,997	9,274,203
Total current assets		22,101,312	24,275,462
Total assets		28,444,065	40,053,118
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	610	610
Reserves		1,178,058	2,215,313
Accumulated losses		(2,095,273)	(4,333,365)
Equity attributable to owners of the Company		(916,605)	(2,117,442)
Non-controlling interests		—	32,446
Total equity		(916,605)	(2,084,996)
Liabilities			
Non-current liabilities			
Lease liabilities	31	—	5,573,267
Convertible redeemable preferred shares	32	17,462,915	18,069,639
Deferred tax liabilities	33	—	42,054
Total non-current liabilities		17,462,915	23,684,960
Current liabilities			
Trade payables	29	2,652,948	3,957,416
Contract liabilities		7,170	11,935
Accrued expenses and other payables	30	9,232,110	11,186,020
Advances from customers		4,971	68,222
Lease liabilities	31	—	3,103,550
Payables to interest holders of consolidated investment funds		—	109,239
Tax liabilities		556	16,772
Total current liabilities		11,897,755	18,453,154
Total liabilities		29,360,670	42,138,114
Total equity and liabilities		28,444,065	40,053,118

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ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As of December 31,	
	Notes	2018	2019
		RMB'000	RMB'000
ASSETS			
Non-current asset			
Investments in subsidiaries		1,000,000	1,000,000
Total non-current asset		1,000,000	1,000,000
Current assets			
Prepayments, other receivables and other assets	23	18,567,917	19,213,603
Cash and cash equivalents	24	80	3,039
Total current assets		18,567,997	19,216,642
Total assets		19,567,997	20,216,642
EQUITY AND LIABILITY			
Capital and reserves			
Share capital	25	610	610
Reserves	26	2,523,699	3,120,573
Accumulated losses		(419,227)	(974,180)
Total equity		2,105,082	2,147,003
Liability			
Non-current liability			
Convertible redeemable preferred shares	32	17,462,915	18,069,639
Total non-current liability		17,462,915	18,069,639
Total liability		17,462,915	18,069,639
Total equity and liability		19,567,997	20,216,642

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CHANGES IN EQUITY

Notes	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Contribution reserve*	Other reserves**	Accumulated losses	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2018	306	—	3,075,960	1,637,696	(771,578)	3,942,384	—	3,942,384
Loss for the year	—	—	—	—	(2,764,547)	(2,764,547)	—	(2,764,547)
Other comprehensive loss for the year	—	—	—	(17,933)	—	(17,933)	—	(17,933)
Total comprehensive loss for the year ..	—	—	—	(17,933)	(2,764,547)	(2,782,480)	—	(2,782,480)
Issuance of ordinary shares 25	304	1,499,694	—	—	—	1,499,998	—	1,499,998
Share-based payments 27	—	—	—	910,385	—	910,385	—	910,385
Net (return to)/contribution from JD Group***	—	—	(98,644)	—	1,440,852	1,342,208	—	1,342,208
Effect arising from Series A Preference Shares financing****	—	—	(5,829,100)	—	—	(5,829,100)	—	(5,829,100)
As of December 31, 2018	610	1,499,694	(2,851,784)	2,530,148	(2,095,273)	(916,605)	—	(916,605)
IFRS 16 adjustment	—	—	—	—	(3,413)	(3,413)	—	(3,413)
As of January 1, 2019	610	1,499,694	(2,851,784)	2,530,148	(2,098,686)	(920,018)	—	(920,018)
Loss for the year	—	—	—	—	(2,233,900)	(2,233,900)	(3,586)	(2,237,486)
Other comprehensive income for the year	—	—	—	41,910	—	41,910	—	41,910
Total comprehensive income/(loss) for the year	—	—	—	41,910	(2,233,900)	(2,191,990)	(3,586)	(2,195,576)
Share-based payments 27	—	—	—	997,912	—	997,912	—	997,912
Repurchase of share options	—	—	—	(3,346)	—	(3,346)	—	(3,346)
Appropriation to statutory reserves . . .	—	—	—	779	(779)	—	—	—
Capital injection from non-controlling shareholders	—	—	—	—	—	—	36,032	36,032
As of December 31, 2019	610	1,499,694	(2,851,784)	3,567,403	(4,333,365)	(2,117,442)	32,446	(2,084,996)

* Contribution reserve consists of the profits or losses generated/funds utilized by the [REDACTED] as defined in Note 1.2 in JD Group prior to the Agreement Effective Date of Series A Preference Shares financing.

** Other reserves consist of share-based payment reserve from the deemed contribution from JD.com, Inc. and granting of share options under the Company’s share award scheme, exchange differences on foreign currency translation recognized in other comprehensive income/(loss), and statutory reserve required by relevant laws of the People’s Republic of China (the “PRC”) applicable to the Company’s PRC subsidiaries and consolidated affiliated entities.

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

**** The effect arising from Series A Preference Shares financing represents the profits generated/funds utilized by the [REDACTED] as defined in Note 1.2 in JD Group and was recognized as the amounts due from/due to related parties after the Agreement Effective Date of Series A Preference Shares financing.

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CASH FLOWS

As detailed and defined in Note 1.2, during each of the two years ended December 31, 2019, the [REDACTED] Business was carried out by the PRC Operating Entities and Remaining JD Group. No separate bank accounts were maintained by the [REDACTED] (as defined in Note 1.2). The treasury and cash disbursement functions of the [REDACTED] were centrally administrated under JD Group. The net cash flows generated by the [REDACTED] were kept in the bank accounts of JD Group. Prior to the Agreement Effective Date of the Series A Preference Shares financing as set out in Note 1.2, the Group was not able to receive and retain the profits arising from the [REDACTED]. Accordingly, the profits generated or funds utilized by JD Group were presented as movements in the equity while there were no cash and cash equivalents balances for the [REDACTED] and there were no cash received/paid directly by the Group in relation to the operation of the [REDACTED].

After the Agreement Effective Date of the Series A Preference Shares financing, the Group was eligible to receive and retain the profits or obligated to repay the losses arising from the [REDACTED] accumulated in JD Group since January 1, 2017. Accordingly, the profits generated or funds utilized by the [REDACTED] in JD Group on behalf of the Group since January 1, 2017 were recognized as the amounts due from/to related parties without any cash flow from/to the [REDACTED].

For the purpose of presenting a complete set of financial information of the Group, the following comprises the information of cash inflow/outflow of the Group and cash inflow/outflow of the [REDACTED] which was received/paid via JD Group prior to completion of the [REDACTED].

	Note	Year ended December 31,	
		2018	2019
		RMB'000	RMB'000
Operating activities			
Cash generated from operations	37 (a)	891,033	2,307,360
Interest received		130,736	341,995
Income tax paid		—	(19,061)
Net cash generated from operating activities		1,021,769	2,630,294
Investing activities			
Payment for financial assets at fair value through profit or loss		(983,832)	(390,268)
Proceeds from disposal of financial assets at fair value through profit or loss		—	1,200
Acquisition of investment in an associate		—	(357,350)
Loan to a related party		—	(3,854)
Purchases of property and equipment		(2,422,619)	(1,746,210)
Proceeds from disposal of property and equipment		2,342	16,776
Purchases of intangible assets		(4,373)	(9,651)
Payments for right-of-use assets		—	(34,697)
Payments for rental deposits		—	(85,858)
Net cash used in investing activities		(3,408,482)	(2,609,912)

APPENDIX I

ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF CASH FLOWS—continued

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Financing activities		
Proceeds from issuance of ordinary shares	1,499,998	—
Repurchase of share options	—	(2,661)
Net proceeds from issuance of convertible redeemable preferred shares	15,958,791	—
Principal portion of lease payments	—	(2,268,543)
Interest paid	—	(345,649)
Advance from/(payment to) JD Group	1,317,869	(7,429,912)
Cash injection by interest holders of consolidated investment funds	—	115,750
Capital injection from non-controlling shareholders	—	36,032
Net cash generated from/(used in) financing activities	18,776,658	(9,894,983)
Net increase/(decrease) in cash and cash equivalents	16,389,945	(9,874,601)
Net contribution from JD Group	1,342,208	—
Cash and cash equivalents at the beginning of the year	293,250	19,249,997
Effects of foreign exchange rate changes on cash and cash equivalents	1,224,594	(101,193)
Cash and cash equivalents at the end of the year	19,249,997	9,274,203

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

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

1.1 General information

The Company, formerly known as Jingdong Express Group Corporation, was incorporated in the Cayman Islands in January 2012 as an exempted company registered under the laws of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are stated in the section headed “Corporate Information” of the [REDACTED]. The Company acting as an investment holding company and its subsidiaries and consolidated affiliated entities, as set out in Note 38 (collectively, the “Group”), engage in the business of providing integrated supply chain solutions and logistics services to customers across a wide range of industries (collectively, the “[REDACTED] Business”) through its leading logistics network in the PRC. The Group’s principal operations and geographic markets are in the PRC.

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

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

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3, which conforms with IFRSs issued by the IASB and the conventions applicable for the Reorganization and [REDACTED] (details are set out below).

In January 2012, the Company was incorporated in the Cayman Islands by Jingdong Technology Group Corporation.

In August 2012, Beijing Jingbangda Trade Co., Ltd. (“Beijing Jingbangda”) was incorporated in the PRC as a wholly foreign-owned subsidiary of the Company through an intermediate holding company.

Prior to the Reorganization and the [REDACTED] as defined below, the [REDACTED] Business was carried out by the Group’s subsidiaries in the PRC, and certain subsidiaries and consolidated affiliated entities of JD Group (collectively, the “Remaining JD Group”, and the portion of the [REDACTED] Business carried out by the Remaining JD Group is referred to as “[REDACTED]”). Subsequent to the completion of the Reorganization, the [REDACTED] Business was carried out by the Group’s subsidiaries and consolidated affiliated entities in the PRC (collectively, the “PRC Operating Entities”) and the Remaining JD Group.

Reorganization

The Group underwent a reorganization (the “Reorganization”) which primarily involved the following:

In May 2017, Xi’an Jingxundi Supply Chain Technology Co., Ltd. (“Xi’an Jingxundi”) was incorporated in the PRC as a wholly foreign-owned subsidiary of the Company through an intermediate holding company.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

- 1. General information, reorganization and basis of preparation and presentation of the Historical Financial Information—continued**
- 1.2 History, reorganization and basis of preparation and presentation of the Historical Financial Information—continued**

In June 2017, Xi’an Jingdong Xincheng Information Technology Co., Ltd. (“Xi’an Jingdong Xincheng”) was incorporated in the PRC. The paid-in capital of Xi’an Jingdong Xincheng was funded by the Company, and the equity interests are held by certain individuals (“Nominee Shareholders”). Xi’an Jingxundi, Xi’an Jingdong Xincheng and its Nominee Shareholders entered into a series of agreements, which enable Xi’an Jingxundi to obtain control over Xi’an Jingdong Xincheng and its subsidiaries. See the section headed “Contractual Arrangements” below for further details.

Subsequent to the incorporation of Xi’an Jingdong Xincheng, all the equity interests of Beijing Jingbangda were transferred to Xi’an Jingdong Xincheng at a cash consideration of RMB980,000,000. Upon the completion of the transfer, Beijing Jingbangda became a subsidiary of Xi’an Jingdong Xincheng. As both Xi’an Jingdong Xincheng and Beijing Jingbangda were under the common control of the Group, the transfers of Beijing Jingbangda have been accounted for as business combination involving entities under common control using the principle of merger accounting.

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

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

Series A Preference Shares

In February 2018, the Company entered into a subscription agreement for the series A preference shares (the “Series A Preference Shares”) financing with certain third-party investors (the “Series A Share Subscription Agreement”), which became effective on February 14, 2018 (the “Agreement Effective Date”), details are set out in Note 32. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between JD Group and the Group were established and became effective since January 1, 2018 (the “Pricing Policies Effective Date”). Such arrangements of the related party transactions affected the Historical Financial Information as below.

Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, expenses incurred by JD Group that are impracticable to be specifically identified to the [REDACTED] Business are determined on the following basis: (i) items included in selling and marketing expenses, research and development expenses, and general and administrative expenses that are impracticable to be specifically identified were allocated from the JD Group’s respective expenses on the basis of the combination of revenues, the headcount of employees, and total operating expenses; (ii) income tax expense was calculated based on the tax rate of the entities that the [REDACTED] Business were spun off from, as if the [REDACTED] Business was a separate tax reporting entity.

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

The Company believes that the method of the allocation and the recognition of the above expense items forms a reasonable basis of presenting the operating results of the [REDACTED] Business on a stand-alone basis for each of the two years ended December 31, 2019. Other than those items mentioned above, all other items of assets and liabilities, income and expenses of the [REDACTED] Business are specifically identified.

Contractual Arrangements

In June 2017, to comply with the relevant laws and regulations in the PRC which prohibit or restrict foreign ownership of the companies where the PRC operating licenses are required, Xi’an Jingxundi entered into a series of contractual arrangements (the “Contractual Arrangements”) with Xi’an Jingdong Xincheng and its Nominee Shareholders, including loan agreement, exclusive option agreement, share pledge agreement, exclusive business cooperation agreement, shareholders’ right entrustment agreement and powers of attorney. These Contractual Arrangements can be extended at Xi’an Jingxundi’s option prior to the expiration date.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

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

The Contractual Arrangements enable Xi’an Jingxundi to control Xi’an Jingdong Xincheng by:

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

2. Application of new and amendments to IFRSs

For the purpose of preparing and presenting the Historical Financial Information for each of the two years ended December 31, 2019, the Group has consistently applied the accounting policies which conform with the International Accounting Standards (“IASs”), the IFRSs, amendments to IFRSs and the related interpretations issued by the IASB throughout each of the two years ended December 31, 2019, including IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*, except that the Group adopted IFRS 16 *Leases* on January 1, 2019.

IFRS 16 Leases

IFRS 16 superseded IAS 17 *Leases* and the related interpretations. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity as of January 1, 2019. Financial information for the year ended December 31, 2018 has not been restated and continues to be reported under IAS 17.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Application of new and amendments to IFRSs—continued

Further details of the nature and effect of the changes to accounting policies and the transition options applied are set out below:

Definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and to direct the use of the identified asset. The election to use the transitional practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices, unless such allocation cannot be made reliably.

As a lessee

As of January 1, 2019, the Group recognized additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the applicable discount rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening accumulated losses and financial information for the year ended December 31, 2018 has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Application of new and amendments to IFRSs—continued

The table below explains the difference between operating lease commitments disclosed at December 31, 2018 by applying IAS 17 and lease liabilities recognized at January 1, 2019 by applying IFRS 16:

	As of January 1, 2019
	RMB’000
Operating lease commitments disclosed as of December 31, 2018	6,435,469
Lease liabilities discounted at applicable discount rates and recognized upon application of IFRS 16 as of January 1, 2019	5,895,781
Analyzed as:	
Current	2,382,821
Non-current	3,512,960
	5,895,781

When recognizing the lease liabilities for leases previously classified as operating leases, the weighted average discount rate applied by the relevant group entities at the date of initial application was 4.75%.

The following table summarizes the impacts of the adoption of IFRS 16 on the Group’s combined statements of financial position. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported as of December 31, 2018 RMB’000	Impact of initial application of IFRS 16 RMB’000	Carrying amounts under IFRS 16 as of January 1, 2019 RMB’000
Non-current assets				
Right-of-use assets		—	5,926,087	5,926,087
Prepayments, other receivables and other assets	(a)	240,862	(11,197)	229,665
Current assets				
Prepayments, other receivables and other assets	(a)	963,240	(260,288)	702,952
Capital and reserves				
Accumulated losses		(2,095,273)	(3,413)	(2,098,686)
Non-current liabilities				
Lease liabilities		—	3,512,960	3,512,960
Current liabilities				
Lease liabilities		—	2,382,821	2,382,821
Accrued expenses and other payables	(b)	9,232,110	(237,766)	8,994,344

Note a: Before the application of IFRS 16, the Group considered refundable rental deposits paid included in prepayments, other receivables and other assets as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to right-of-use assets to reflect the discounting effect at transition.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Application of new and amendments to IFRSs—continued

Note b: The amount relates to accrued lease liabilities under accrued expenses and other payables as of January 1, 2019 and was reclassified to lease liabilities.

For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening combined statement of financial position as of January 1, 2019 as disclosed above.

New and amended standards not yet adopted by the Group

New standards and amendments to existing standards that have been issued but not yet effective for the financial year beginning January 1, 2020 and not been early adopted by the Group during each of the two years ended December 31, 2019 are as follows:

Standards/Amendments	Content	Effective for annual periods beginning on or after
Amendments to IFRS 16	COVID-19—Related Rental Concessions	June 1, 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform—Phase 2	January 1, 2021
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37	Onerous Contracts—Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
IFRS 17	Insurance Contracts and related Amendments	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group expects that the new standards and amendments listed above are unlikely to have any material impact on the Group’s combined financial statements in the future.

3. Summary of significant accounting policies

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

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

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

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

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

The principal accounting policies are set out below.

3.1 Basis of combination

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

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

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

When the Group is an investor of an investment fund in which the Group also acts as a fund manager, the Group will determine whether it is a principal or an agent for the purpose of assessing whether the Group controls the relevant investment fund. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**3. Summary of significant accounting policies—continued****3.1 Basis of combination—continued**

the investee when it exercises its decision-making authority. In determining whether the Group is an agent to the investment fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreements; and
- the decision maker’s exposure to variability of returns from other interests that it holds in the investee.

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

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

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

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

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

3.2 Investments in subsidiaries

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

3.3 Investments in associates and joint ventures

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.3 Investments in associates and joint ventures—continued

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

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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.3 Investments in associates and joint ventures—continued

In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

3.4 Revenue from contracts with customers

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

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

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.4 Revenue from contracts with customers—continued

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group’s performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.4 Revenue from contracts with customers—continued

or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Recognition of revenue from specific major source of revenue

The Group provides integrated supply chain solutions and logistics services through its complementary networks, including warehouse network, line-haul transportation network, last-mile delivery network, bulky item logistics network, cold-chain logistics network and cross-border logistics network, to satisfy customers’ supply chain needs for standard goods and parcels, along with specialized goods, such as bulky items, heavy load parcels, fresh produce and pharmaceutical products. Revenue is primarily generated from provision of warehousing and distribution services, express and freight delivery services, and to a lesser extent, other services, to corporate and individual customers. Corporate customers are primarily billed on a monthly basis and make payments according to their granted credit terms.

Warehousing and distribution services

The Group provides warehousing and distribution services, primarily including warehousing services, distribution and delivery services and value added logistics services.

Warehousing services are comprised of multiple service options, including (i) pick-up of incoming goods; (ii) storage, consolidation and palletization of goods at transfer center, and delivery to the appropriate warehouse; (iii) inspection of goods upon arrival at the warehouse and completion of the subsequent scheduled storage operations; (iv) product storage in multi-location warehouses based on end-consumer’s demands; (v) retrieval of products from storage upon customer request; (vi) building customized pallets; (vii) product packing and labelling; (viii) kitting and repacking, which involves assembling custom product packages for delivery to retailers and consumers; (ix) order assembly and load consolidation; and (x) omni-channel inventory management system that includes customer interface management tools. These service options are interrelated and integrated to provide a combined output, and therefore are jointly considered as a single performance obligation. The Group recognizes revenue from warehousing services over time as customers receive the benefits of the Group’s performance as it occurs.

The Group recognizes distribution and delivery services over time as customers receive the benefits of the Group’s services as the goods are shipped from origin to destination. In addition, the Group also provides value added logistics services such as after-sales reverse logistics services, cash on delivery services and customized packaging services.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.4 Revenue from contracts with customers—continued

Express and freight delivery services

The Group provides express and freight delivery services to both corporate and individual customers. Express deliveries are provided for standard parcels, while freight delivery services are provided for heavy load parcels. Express and freight delivery services mainly include parcel pickup, parcel sorting, line-haul transportation and last-mile delivery. Each order for delivery of parcels from the point of receiving the parcels from senders all the way through to the point when the parcels are delivered to end recipients, is considered as a performance obligation. The Group recognizes revenue from express and freight delivery services over time since customers receive the benefits of the Group’s services as the parcels are delivered from one location to another.

Other services

The Group also provides other valued-added services to customers, such as installment, after sales and maintenance, logistics technology services and advertising services. Revenue is recognized over time or upon completion of the services.

3.5 Cost of revenue

Cost of revenue consists primarily of (i) employee benefit expenses for employees involved in warehouse management, sorting, picking, packaging, shipping and delivery, (ii) outsourcing cost, (iii) rental cost of warehouse and delivery stations, (iv) depreciation and amortization of logistics and electronic equipment, and (v) other cost of revenue such as the cost of packaging materials.

3.6 Research and development expenses

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

3.7 Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.7 Leases—continued

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

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

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

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

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

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.7 Leases—continued

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

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

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

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.7 Leases—continued

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

Lease modifications

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

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

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Definition of a lease (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee (prior to January 1, 2019)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

3.8 Foreign currencies

The Group’s reporting currency is RMB. The functional currency of the Company is USD as its key activities and transactions are denominated in USD. The functional currency of the Group’s

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**3. Summary of significant accounting policies—continued****3.8 Foreign currencies—continued**

subsidiaries incorporated in Cayman Islands, British Virgin Islands and Hong Kong is USD. The Group’s PRC subsidiaries and consolidated affiliated entities determined their functional currency to be RMB.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (“foreign currencies”) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

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

3.9 Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under “Other income, gains/(losses), net”.

3.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. For properties under development for which revenue is recognized over time, the Group ceases to capitalize borrowing costs as soon as the properties are ready for the Group’s intended sale.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**3. Summary of significant accounting policies—continued****3.10 Borrowing costs—continued**

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalization rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.11 Employee benefits***Retirement benefit costs***

Payments to state-managed defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

3.12 Share-based payments

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

In addition, the Group operates a share incentive plan, under which it receives services from employees and non-employees as consideration for share options of the Company (the “JD Logistics Share Incentive Plan”). The fair value of the services received in exchange for the grant of options is recognized as an expense on the combined statements of profit or loss with a corresponding increase in equity.

Equity-settled share-based payments transactions

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.12 Share-based payments—continued

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

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

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

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

At each reporting period end, the Group revises the estimates of the number of options and RSUs that are expected to ultimately vest. The Group recognizes the impact of the revision to original estimates, if any, in the combined statements of profit or loss, with a corresponding adjustment to equity.

3.13 Taxation

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

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.13 Taxation—continued

extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

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

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

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

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

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

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

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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**3. Summary of significant accounting policies—continued****3.13 Taxation—continued**

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.14 Property and equipment

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

Property and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group’s accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

3.15 Intangible assets

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.16 Impairment on property and equipment, right-of-use assets and intangible assets—continued

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

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

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

3.17 Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade and note receivables arising from contracts with customers which are initially measured in accordance with

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.17 Financial instruments—continued

IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

3.17.1 Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL.

(a) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost and debt instruments / receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.17 Financial instruments—continued

3.17.1 Financial assets—continued

credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(b) Financial assets at FVTPL

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

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

Impairment of financial assets

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

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

The Group always recognizes lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

(a) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.17 Financial instruments—continued

3.17.1 Financial assets—continued

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

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

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

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

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

(b) Definition of default

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

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

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**3. Summary of significant accounting policies—continued****3.17 Financial instruments—continued****3.17.1 Financial assets—continued****(c) Credit-impaired financial assets**

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

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

(d) Write-off policy

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

(e) Measurement and recognition of ECL

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

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

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

- nature of financial instruments;

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.17 Financial instruments—continued

3.17.1 Financial assets—continued

- past-due status;
- nature, size and industry of debtors; and
- external credit ratings where available.

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

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

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

(f) Derecognition of financial assets

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

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

3.17.2 Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.17 Financial instruments—continued

3.17.2 Financial liabilities and equity—continued

Financial liabilities

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

Financial liabilities at amortized cost

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Convertible redeemable preferred shares

Series A Preference Shares issued by the Company are contingently redeemable by the holders under certain events. This instrument can be converted into ordinary shares of the Company at the option of the holders of Series A Preference Shares or automatically converted under certain events. The details of Series A Preference Shares are set out in Note 32.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.17 Financial instruments—continued

3.17.2 Financial liabilities and equity—continued

The convertible redeemable preferred shares are initially recognized at fair value. The Group does not account for the embedded derivatives separately from the host contract and designates the entire convertible redeemable preferred shares as financial liabilities at FVTPL with fair value change recognized in “fair value changes of convertible redeemable preferred shares” in profit or loss. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

Derecognition of financial liabilities

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

Payables to interest holders of consolidated investment funds

A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a ‘puttable instrument’) is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

Payables to interest holders of consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment funds after deducting the consolidated investment funds’ other liabilities. The holders have the right to put their attributable shares to the fund for cash with no cause.

3.17.3 Derivative financial instruments

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

Embedded derivatives

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.17 Financial instruments—continued

3.17.3 Derivative financial instruments—continued

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

3.17.4 Offsetting a financial asset and a financial liability

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

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognized in the combined financial statements.

Consolidation of affiliated entities

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. Critical accounting judgments and key sources of estimation uncertainty—continued

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation of the fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about expected volatility, discount for lack of marketability (“DLOM”) and risk-free rate associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 36.

Estimation of the fair value of the convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions and key inputs such as the timing of the liquidation, redemption or [REDACTED] event as well as the probability of the various scenarios were based on the Group’s best estimates. Further details are included in Note 32.

Provision of ECL for trade receivables and contract assets

Credit-impaired trade receivables and contract assets are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables and contract assets which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group’s historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information including forecast of gross domestic product ratio, forecast of consumer price index and other relevant factors are considered. The provision of ECL is sensitive to changes in estimates.

5. Segment information

The Group’s chief operating decision maker, who has been identified as the Chief Executive Officer (the “CEO”), reviews the combined results when making decisions about allocating resources and assessing performance of the Group as a whole and no other discrete financial information is provided to the CEO. Hence, the Group has only one reportable segment. As the Group’s non-current assets are all located in the PRC and most of all the Group’s revenue are derived from the PRC, no geographical information is presented. During each of the two years ended December 31, 2019, other than the Group’s largest customer as disclosed in Note 34, no other single customer contributed over 10% of the total revenue of the Group.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. Revenue

Given the central role of inventory management in the Group’s integrated supply chain solutions and logistics services, customers of the Group are categorized based on whether such customers have utilized the Group’s warehouse or inventory management related services, namely warehousing and distribution services. Customers are reviewed by the Group on a regular basis, and customers who have utilized the Group’s warehousing and distribution services in the recent past are classified as the Group’s integrated supply chain customers.

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
<i>Type of customer:</i>		
Integrated supply chain customers	34,151,014	41,837,437
Other customers	3,722,431	8,010,202
Total	<u>37,873,445</u>	<u>49,847,639</u>
<i>Timing of revenue recognition:</i>		
Overtime	36,975,587	47,711,435
A point in time	897,858	2,136,204
Total	<u>37,873,445</u>	<u>49,847,639</u>

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

7. Other income, gains/(losses), net

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Government grants	39,476	104,486
Impairment of interest in a joint venture	—	(150,000)
Fair value changes of financial assets at fair value through profit or loss	(13,064)	(469,241)
(Losses)/gains on disposal of property and equipment	(12,546)	4,610
Investment losses attributable to interest holders of consolidated investment funds ...	—	6,511
Others	14,575	(24,343)
Total	<u>28,441</u>	<u>(527,977)</u>

The government grants were mainly incentives provided by local government authorities in the PRC. There were no unfulfilled conditions or contingencies relating to these government grants as of December 31, 2018 and 2019.

8. Finance income

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Interest income from bank deposits	169,561	316,316
Interest income from related parties (Note 34)	156,958	69,824
Total	<u>326,519</u>	<u>386,140</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Finance costs

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Interest expense to related parties (Note 34)	48,451	59,968
Interest expense on lease liabilities	—	370,137
Others	14,773	—
Total	<u>63,224</u>	<u>430,105</u>

10. Impairment losses under expected credit loss model, net of reversal

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Impairment losses recognized, net of reversal, on:		
—trade receivables	51,848	127,452
—other receivables	482	9,679
Total	<u>52,330</u>	<u>137,131</u>

Details of impairment assessment are set out in Note 36.2.

11. Income tax expense

The income tax expense of the Group during each of the two years ended December 31, 2019 is analyzed as follows:

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Current tax	556	35,276
Deferred tax (Note 33)	—	42,054
Total	<u>556</u>	<u>77,330</u>

Cayman Islands

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

British Virgin Islands

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

Hong Kong

The Company’s subsidiaries domiciled in Hong Kong are subject to a two-tiered income tax rate for taxable income earned in Hong Kong effectively since April 1, 2018. The first 2 million Hong

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

Kong dollars of profits earned by the company are subject to be taxed at an income tax rate of 8.25%, while the remaining profits will continue to be taxed at the existing tax rate, 16.5%. To avoid abuse of the two-tiered tax regime, each group of connected entities can nominate only one entity to benefit from the two-tiered tax rate. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

PRC

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

Certain enterprises can benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the catalog of encouraged industries in western regions (initially effective through the end of 2010 and further extended to 2030) (“Western Regions Catalog”), subject to certain general restrictions described in the EIT Law and the related regulations. During each of the two years ended December 31, 2019, several entities of the Group are qualified as enterprises within the Western Regions Catalog and enjoyed 15% preferential income tax rate.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The State Taxation Administration of the PRC announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020.

Withholding tax on undistributed dividends

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

According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the FIE satisfies the criteria for “beneficial owner” under Circular No. 9, which was issued by the State Administration of Taxation in February 2018, and the foreign investor owns directly at least 25% of the shares of the FIE). The Company has not declared or paid, or planned to declare, any dividend to its shareholders from the profits generated during each of the two years ended December 31, 2019. Therefore, the Company has not recorded any withholding tax on any profits generated by the PRC Operation Entities.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

The income tax expense can be reconciled to the loss before income tax per the combined statements of profit or loss as follows:

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Loss before income tax	(2,763,991)	(2,160,156)
Tax at PRC statutory income tax rate of 25%	(690,998)	(540,039)
Tax effect of income not taxable for tax purpose	(27,713)	(33,935)
Tax effect of expenses that are not deductible for tax purpose	65,661	159,830
Tax effect of super deduction for research and development expenses	(29,343)	(102,808)
Effect of different tax rate of subsidiaries operating in other jurisdictions	(19,742)	(17,022)
Tax effect of tax-exempt entities	203,927	275,781
Tax effect of preferential tax treatments	(1,166)	(4,956)
Tax effect of utilization of tax losses and deductible temporary differences previously not recognized	(51,657)	(376,479)
Tax effect of tax losses and deductible temporary differences not recognized	551,587	716,958
Total income tax expense	556	77,330

12. Loss before income tax

Loss before income tax has been arrived at after charging:

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Depreciation of property and equipment	1,154,605	1,243,149
Amortization of intangible assets	3,805	4,712
Shipping charges	9,933,314	15,011,409
Packing materials	1,147,499	1,237,504
Vehicle expense	1,128,885	1,209,265
Auditors’ remuneration	—	2,800

13. Employee benefit expenses

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Salaries and bonuses	13,074,152	15,136,182
Welfare, medical and other benefits	5,851,156	6,823,508
Share-based payments	748,991	835,096
Total	19,674,299	22,794,786

The employee benefit expenses include the remuneration of directors and the CEO during each of the two years ended December 31, 2019.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Employee benefit expenses—continued

Directors’ and the CEO’s remuneration for each of the two years ended December 31, 2019, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

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

	For the year ended December 31, 2018				
	Salaries and bonuses	Share-based payments	Pension cost – defined contribution plans	Welfare, medical and other benefits	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive director and CEO:					
Zhenhui Wang ¹	1,926	131,834	53	315	134,128
Non-executive directors:					
Richard Qiangdong Liu ²	—	—	—	—	—
Sidney Xuande Huang ³	—	2,222	—	—	2,222
Nani Wang ⁴	—	—	—	—	—
Haoyu Shen ⁵	—	—	—	—	—
Shilin Shi ⁶	—	—	—	—	—
	<u>1,926</u>	<u>134,056</u>	<u>53</u>	<u>315</u>	<u>136,350</u>
For the year ended December 31, 2019					
	Salaries and bonuses	Share-based payments	Pension cost – defined contribution plans	Welfare, medical and other benefits	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive director and CEO:					
Zhenhui Wang ¹	2,101	118,840	50	324	121,315
Non-executive directors:					
Richard Qiangdong Liu ²	—	—	—	—	—
Sidney Xuande Huang ³	—	1,896	—	—	1,896
Jianwen Liao ⁷	—	1,896	—	—	1,896
Haoyu Shen ⁵	—	—	—	—	—
Shilin Shi ⁶	—	—	—	—	—
	<u>2,101</u>	<u>122,632</u>	<u>50</u>	<u>324</u>	<u>125,107</u>

Notes:

1. Served as the Group’s CEO since April 2017, and appointed as executive director since March 2018. Resigned in December 2020.
2. Appointed as non-executive director since March 2018, and resigned in December 2019. Re-appointed as non-executive director since October 2020.
3. Appointed as non-executive director since March 2018, and resigned in September 2020.
4. Appointed as non-executive director since January 2018, and resigned in March 2018.
5. Appointed as non-executive director since March 2018, and resigned in January 2021.
6. Appointed as non-executive director since March 2018, and resigned in January 2021.
7. Appointed as non-executive director since December 2019, and resigned in January 2021.

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Employee benefit expenses—continued

(b) Benefits and interests of directors

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

(c) Directors’ termination benefits

No director’s termination benefit subsisted at the end of each reporting period or at any time during each of the two years ended December 31, 2019.

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

No consideration provided to third parties for making available director’s services subsisted at the end of each reporting period or at any time during each of the two years ended December 31, 2019.

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

No loans, quasi-loans and other dealings in favor of directors, their controlled bodies corporate and connected entities subsisted at the end of each reporting period or at any time during each of the two years ended December 31, 2019.

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

No significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of each reporting period or at any time during each of the two years ended December 31, 2019.

14. Five highest paid employees

The five highest paid employees include one director whose remuneration is set out in Note 13 during each of the two years ended December 31, 2019. The emoluments payable to the remaining four individuals, who are neither a director nor chief executive of the Company, during each of the two years ended December 31, 2019, are as follows:

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Salaries and bonuses	5,924	6,809
Share-based payments	53,448	38,214
Pension cost—defined contribution plans	213	200
Welfare, medical and other benefits	264	300
Total	<u>59,849</u>	<u>45,523</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. Five highest paid employees—continued

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Year ended December 31,	
	2018	2019
	No. of employees	No. of employees
Emolument bands (in HKD)		
HKD9,000,001 to HKD12,000,000	—	2
HKD12,000,001 to HKD15,000,000	1	1
HKD15,000,001 to HKD18,000,000	2	1
HKD21,000,001 to HKD24,000,000	1	—
Total	4	4

During each of the two years ended December 31, 2019, no emoluments were paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of office. None of the directors, the CEO and employees waived or agreed to waive any emoluments during each of the two years ended December 31, 2019.

15. Loss per share

Loss per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the [REDACTED] and the combined basis of presentation of Historical Financial Information of the Group as disclosed in Note 1.2.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. Property and equipment

	Buildings	Logistics equipment	Vehicles	Leasehold improvement	Electronic equipment	Office equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Cost								
As of January 1, 2018	—	2,675,636	1,129,790	623,082	399,701	25,859	330,569	5,184,637
Additions	—	861,361	176,077	329,848	140,436	11,553	1,226,401	2,745,676
Transfer from construction in progress	—	361,975	7,460	—	—	—	(369,435)	—
Disposals	—	(54,709)	(114,730)	—	(21,684)	(109)	—	(191,232)
As of December 31, 2018	—	3,844,263	1,198,597	952,930	518,453	37,303	1,187,535	7,739,081
Additions	16,778	558,891	59,238	205,696	184,657	11,715	728,184	1,765,159
Transfer from construction in progress	—	1,572,554	8,346	—	624	—	(1,581,524)	—
Disposals	—	(78,259)	(48,159)	—	(57,908)	(507)	—	(184,833)
As of December 31, 2019	16,778	5,897,449	1,218,022	1,158,626	645,826	48,511	334,195	9,319,407
Depreciation								
As of January 1, 2018	—	814,131	588,828	274,331	209,481	8,549	—	1,895,320
Provided for the year	—	579,185	214,246	210,260	146,192	4,722	—	1,154,605
Disposals	—	(30,906)	(99,336)	—	(18,347)	(30)	—	(148,619)
As of December 31, 2018	—	1,362,410	703,738	484,591	337,326	13,241	—	2,901,306
Provided for the year	493	651,331	201,135	242,634	139,558	7,998	—	1,243,149
Disposals	—	(62,875)	(42,122)	—	(57,498)	(460)	—	(162,955)
As of December 31, 2019	493	1,950,866	862,751	727,225	419,386	20,779	—	3,981,500
Carrying values								
As of December 31, 2018	—	2,481,853	494,859	468,339	181,127	24,062	1,187,535	4,837,775
As of December 31, 2019	16,285	3,946,583	355,271	431,401	226,440	27,732	334,195	5,337,907

The above items of property and equipment, except for construction in progress, after taking into account the residual values, are depreciated on a straight-line basis at the following rates per annum:

Electronic equipment	20% to 33.33%
Office equipment	20%
Vehicles	20% to 33.33%
Logistics equipment	10% to 20%
Buildings	2.5%
Leasehold improvement	Over the shorter of the expected life of leasehold improvements or the lease term

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. Right-of-use assets

	RMB’000
As of January 1, 2019	
Carrying amount	<u>5,926,087</u>
As of December 31, 2019	
Carrying amount	<u>8,619,859</u>
For the year ended December 31, 2019	
Depreciation charge	<u>2,685,562</u>
Expense relating to short-term leases	<u>1,361,306</u>
Total cash outflow for leases	<u>3,679,337</u>
Additions to right-of-use assets	<u>5,379,334</u>

The Group leases various warehouses, delivery stations and pickup stations, offices, and staff quarters for its operations. Lease contracts are entered into for fixed term of 1 to 12 years but may have extension and termination options. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group regularly entered into short-term leases for warehouses, delivery stations and pickup stations, offices, and staff quarters. As of December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During each of the two years ended December 31, 2019, there is no such triggering event.

Lease liabilities of RMB8,676,817,000 are recognized with related right-of-use assets of RMB8,619,859,000 as of December 31, 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessors. Leased assets may not be used as security for borrowing purposes.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. Intangible assets

	Software	Domain names and trademarks	License and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
As of January 1, 2018	12,407	1,340	210	13,957
Additions	2,233	1,160	5,339	8,732
As of December 31, 2018	14,640	2,500	5,549	22,689
Additions	90	95	6,198	6,383
As of December 31, 2019	14,730	2,595	11,747	29,072
Amortization				
As of January 1, 2018	6,302	—	11	6,313
Provided for the year	2,025	430	1,350	3,805
As of December 31, 2018	8,327	430	1,361	10,118
Provided for the year	1,485	504	2,723	4,712
As of December 31, 2019	9,812	934	4,084	14,830
Carrying values				
As of December 31, 2018	6,313	2,070	4,188	12,571
As of December 31, 2019	4,918	1,661	7,663	14,242

The above intangible assets have finite useful lives. Such intangible assets are amortized on a straight-line basis over the following periods:

Software	3-5 years
Domain names and trademarks	10 years
License and others	3-10 years

19. Interest in an associate

	As of December 31, 2019
	RMB'000
Cost of listed investment in an associate	357,350
Share of post-acquisition loss and other comprehensive loss	(69,418)
	287,932
Fair value of listed investment in an associate	410,952

In June 2019, the Group entered into a series of agreements with Jiangsu Xinning Modern Logistics Co., Ltd. (“Xinning Logistics”) and its shareholders, pursuant to which the Group acquired 10% of equity interest in Xinning Logistics.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19. Interest in an associate—continued

Details of the associate of the Group as of December 31, 2018 and 2019 are as follows:

<u>Entity</u>	<u>Place of incorporation and principal place of operation</u>	<u>Principal activities</u>	<u>Percentage of equity interest</u>		<u>Percentage of voting rights</u>	
			<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>
Xinning Logistics	PRC	Warehouse Logistics	—	10%	—	10%

The Group is able to exercise significant influence over Xinning Logistics because it has the power to appoint two out of the six directors of Xinning Logistics under the articles of association of Xinning Logistics.

The associate of the Group has been accounted for by using the equity method based on the financial information of the associate prepared under the accounting policies consistent with the Group.

As the associate of the Group is not individually material to the combined financial statements, no additional financial information of the associate is disclosed.

Reconciliation to the carrying amount of the interest in the associate recognized in the combined financial statements is presented as follows:

	<u>As of December 31, 2019</u>
	<u>RMB’000</u>
Equity attributable to owners of Xinning Logistics	807,978
Proportion of the Group’s ownership interest in Xinning Logistics	10%
The Group’s share of net assets of Xinning Logistics	80,798
Adjustments:	
—Goodwill	134,382
—Intangible assets	79,658
—Property and equipment	4,613
—Investments accounted for using the equity method	9,548
—Deferred tax liabilities	(21,067)
Carrying amount of the Group’s interest in Xinning Logistics	<u>287,932</u>

20. Interest in a joint venture

	<u>As of December 31,</u>	
	<u>2018</u>	<u>2019</u>
	<u>RMB’000</u>	<u>RMB’000</u>
Cost of investment in an unlisted entity	150,000	150,000
Impairment provision	—	(150,000)
	<u>150,000</u>	<u>—</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Interest in a joint venture—continued

In May 2018, the Group subscribed 51% of equity interest in Suqian Jingdong Aosheng Corporation Management Co., Ltd. (“Aosheng”).

Details of the joint venture of the Group as of December 31, 2018 and 2019 are as follows:

Entity	Place of incorporation and principal place of operation	Principal activities	Percentage of equity interest		Percentage of voting rights	
			2018	2019	2018	2019
Aosheng	PRC	Management and consulting	51%	51%	51%	51%

Although the Group has more than 50% voting rights in Aosheng, pursuant to the articles of association of Aosheng, the board resolutions of Aosheng need the unanimous consent of the directors appointed by each shareholder. Accordingly, investment in Aosheng is accounted for as interest in a joint venture.

The joint venture of the Group has been accounted for by using the equity method based on the financial information of the joint venture prepared under the accounting policies consistent with the Group. Aosheng has not engaged in any business operations since its incorporation. For the year ended December 31, 2019, an impairment loss of RMB150,000,000 was recognized for the investment in Aosheng, since the recoverable amount was lower than the carrying value of the investment.

21. Financial assets at fair value through profit or loss

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Equity securities in listed entities	565,611	367,867
Preferred shares investments in unlisted entities	534,734	498,772
Equity investments in unlisted entities	1,200	159,960
	<u>1,101,545</u>	<u>1,026,599</u>

Equity securities in listed entities

The fair values of equity securities in listed entities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs.

Preferred shares investments in unlisted entities

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. The major assumptions used in the valuation for investment in private companies refer to Note 36.3.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

21. Financial assets at fair value through profit or loss—continued

Equity investments in unlisted entities

These investments represent equity investments in unlisted entities, in the form of ordinary shares without significant influence. The major assumptions used in the valuation for investment in private companies refer to Note 36.3.

22. Trade receivables

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Trade receivables from third parties	1,602,005	3,246,423
Trade receivables from related parties* (Note 34)	95,512	94,160
Less: allowance for credit losses	(56,701)	(110,920)
	<u>1,640,816</u>	<u>3,229,663</u>

* Trade receivables from related parties do not include trade receivables from JD Group in relation to the provision of integrated supply chain solutions and logistics services by the Group.

As of January 1, 2018, trade receivables amounted to RMB669,655,000.

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

The Group allows a credit period of 30 to 180 days to its trade customers. The following is an aging analysis of trade receivables presented based on the billing date.

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Within 3 months	1,605,095	3,138,218
3 to 6 months	53,663	104,191
6 to 12 months	35,767	57,154
Over 12 months	2,992	41,020
	<u>1,697,517</u>	<u>3,340,583</u>
Less: allowance for credit losses	(56,701)	(110,920)
	<u>1,640,816</u>	<u>3,229,663</u>

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

As of December 31, 2018 and 2019, included in the Group’s trade receivables balance are debtors with aggregate carrying amount of RMB206,852,000 and RMB261,322,000, respectively,

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22. Trade receivables—continued

which are past due but not impaired. The Group has not provided an impairment loss as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables are set out in Note 36.2.

23. Prepayments, other receivables and other assets

The Group

	As of December 31,	
	2018	2019
	RMB'000	RMB'000
Non-current:		
Refundable deposits	102,530	222,262
Pallets	92,517	156,748
Long-term prepaid expenses	38,635	98,763
Prepayments for property and equipment	7,180	11,486
Others	—	1,858
	<u>240,862</u>	<u>491,117</u>
Current:		
Amounts due from related parties (Note 34)	92,945	10,606,784
Prepaid expenses	733,501	634,079
Refundable deposits	69,788	92,059
Prepayments to suppliers	13,742	84,387
Interest receivables	38,825	13,146
Loan to a related party	—	3,854
Others	15,709	37,745
	<u>964,510</u>	<u>11,472,054</u>
Less: allowance for credit losses	<u>(1,270)</u>	<u>(10,860)</u>
	<u>963,240</u>	<u>11,461,194</u>

The Company

	As of December 31,	
	2018	2019
	RMB'000	RMB'000
Current:		
Amounts due from fellow subsidiaries ¹	18,517,665	19,190,958
Amounts due from related parties	50,202	22,621
Others	50	24
	<u>18,567,917</u>	<u>19,213,603</u>

Note:

1. Amounts due from fellow subsidiaries were non-trade in nature, unsecured, interest free, repayable on demand, and fully eliminated upon combination.

Details of impairment assessment of other receivables are set out in Note 36.2.

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. Cash and cash equivalents

The Group

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Cash and bank balances	19,249,997	9,274,203

The Company

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Cash and bank balances	80	3,039

25. Share capital

The Company

Authorized

	Number of ordinary shares	Nominal value of ordinary shares	Number of preference shares	Nominal value of preference shares
		USD		USD
As of January 1, 2018	1,000,000	1,000,000	—	—
Split of shares ¹	999,000,000	—	—	—
Split of shares ³	39,000,000,000	—	—	—
Reclassification and re-designation upon issuance of the Series A Preference Shares ³	(1,037,200,000)	(25,930)	1,037,200,000	25,930
As of December 31, 2018 and December 31, 2019	38,962,800,000	974,070	1,037,200,000	25,930

Issued and fully paid

The Company was incorporated in the Cayman Islands as an exempted company registered under the laws of the Cayman Islands in January 2012. Upon incorporation of the Company, one share was issued at par value of USD1.00. On the same day, additional 49,999 shares were issued at the same par value.

	Number of ordinary shares	Nominal value of ordinary shares	Nominal value of ordinary shares
		USD	RMB
As of January 1, 2018	50,000	50,000	306,000
Split of shares ¹	49,950,000	—	—
Issuance of ordinary shares ²	48,100,000	48,100	304,000
Split of shares ³	3,825,900,000	—	—
As of December 31, 2018 and December 31, 2019	3,924,000,000	98,100	610,000

Notes:

- In February 2018, each authorized and issued share at par value of USD1.00 was subdivided into 1,000 shares, such that the share capital of the Company was USD50,000 divided into 50,000,000 ordinary shares of a nominal or par value of USD0.001 each.

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Share capital—continued

2. In February 2018, the Company allotted and issued 48,100,000 ordinary shares of par value of USD0.001 each, at a consideration of RMB1,499,998,000, whereas RMB304,000 was accounted for as share capital and RMB1,499,694,000 was accounted for as share premium.
3. In March 2018, the Company underwent another 1:40 share split to each authorized and issued shares, such that the share capital of the Company was USD98,100 divided into 3,924,000,000 ordinary shares of a nominal or par value of USD0.000025 each. In addition, the Company re-designated and reclassified 1,037,200,000 ordinary shares in its authorized share capital into Series A Preference Shares with details set out in Note 32.

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Presented as	610	610

26. Reserves

	Reserves of the Company
	RMB’000
As of January 1, 2018	207
Share-based payments	532,802
Share premium	1,499,694
Currency translation differences	490,996
As of December 31, 2018	2,523,699
Share-based payments	690,949
Repurchase of share options	(3,346)
Currency translation differences	(90,729)
As of December 31, 2019	3,120,573

27. Share-based payments

During each of the two years ended December 31, 2019, the employees of the Group are eligible for JD Group Share Incentive Plan, which includes share options and RSUs. In addition, share options were granted to eligible employees and non-employees pursuant to the JD Logistics Share Incentive Plan.

The table below sets forth share-based payments for RSUs and share options during each of the two years ended December 31, 2019:

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Share options	435,684	598,938
RSUs	474,701	398,974
Total	910,385	997,912

JD Group Share Incentive Plan

The shared-based awards to the Group’s employees are granted under JD Group Share Incentive Plan as historically the Group did not have its own share incentive plan. The Historical Financial Information includes allocation of the expenses recorded at JD Group based on the Group’s employees participating under JD Group Share Incentive Plan.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

The Group accounted for JD Group Share Incentive Plan by measuring the services received from the grantees in accordance with the requirement applicable to equity-settled share-based payment transactions in accordance with IFRS 2, and recognized a corresponding increase in equity as a deemed contribution from JD Group.

The RSUs and share options are generally service-based and scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of JD Group Share Incentive Plan, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

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

Share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2018	1,299,456	8.24	
Exercised	(90,744)	3.96	
Forfeited	(1,000)	3.96	
Transferred*	(5,000)	3.96	
Outstanding as of December 31, 2018	<u>1,202,712</u>	8.59	5.9
Exercised	(164,114)	8.40	
Forfeited	(74,130)	12.75	
Transferred*	(112,466)	11.49	
Outstanding as of December 31, 2019	<u>852,002</u>	7.88	4.7

* The transfer represents the addition or deduction of share options that were previously granted to employees who transferred into or out of the [REDACTED] Business during each of the two years ended December 31, 2019.

The number of exercisable share options as of December 31, 2018 and 2019 was 777,890 and 688,666, respectively.

The fair value of share options was estimated using the binominal option-pricing model. Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

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

RSUs

	Number of RSUs	Weighted-average grant-date fair value
		USD
Outstanding as of January 1, 2018	19,889,806	13.65
Granted	1,899,870	19.18
Vested	(3,047,322)	12.75
Forfeited	(2,998,776)	13.74
Transferred*	(279,810)	13.90
Outstanding as of December 31, 2018	15,463,768	14.49
Granted	1,435,570	14.10
Vested	(2,922,242)	14.43
Forfeited	(1,888,678)	15.09
Transferred*	(724,396)	7.77
Outstanding as of December 31, 2019	11,364,022	14.78

* The transfer represents the addition or deduction of RSUs that were previously granted to employees who transferred into or out of the [REDACTED] Business during each of the two years ended December 31, 2019.

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

JD Logistics Share Incentive Plan

The Group granted share-based awards to eligible employees and non-employees pursuant to the JD Logistics Share Incentive Plan, which governs the terms of the awards. On March 31, 2018, the Company adopted the JD Logistics Share Incentive Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of the Group.

As of December 31, 2018 and 2019, the Group had reserved 304,934,947 and 291,856,615 ordinary shares, respectively, available to be granted as share-based awards under the JD Logistics Share Incentive Plan.

The share options are generally scheduled to be vested over six years. One-sixth of the awards shall be vested upon the first anniversary dates of the grants or the end of the calendar year, and the remaining of the awards shall be vested on straight line basis at the anniversary years or the end of the remaining calendar year.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

Share options

(a) Service-based share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2018	—	—	
Granted	144,244,000	0.01	
Forfeited	(3,138,947)	0.01	
Outstanding as of December 31, 2018	141,105,053	0.01	9.4
Granted	68,022,500	0.01	
Repurchased	(1,363,273)	0.01	
Forfeited	(14,168,495)	0.01	
Outstanding as of December 31, 2019	193,595,785	0.01	8.7

The number of exercisable share options as of December 31, 2018 and 2019 was nil and 21,904,313, respectively.

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The estimated fair value of each option grant is estimated on the date of grant using the binominal option-pricing model with the following assumptions:

	Year ended December 31,	
	2018	2019
Expected volatility	43.0%	43.0%
Risk-free interest rate (per annum)	3.4%	3.2%
Expected dividend yield	—	—
Expected term (in years)	10	10
Fair value of the underlying shares on the date of option grants (USD)	1.56	1.68

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The weighted average grant date fair value of options granted for the years ended December 31, 2018 and 2019 were USD1.55 and USD1.67 per share, respectively.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

(b) Performance-based share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2019	—	—	
Granted	15,454,000	0.01	
Forfeited	(690,000)	0.01	
Outstanding as of December 31, 2019	<u>14,764,000</u>	0.01	9.3

The number of exercisable share options as of December 31, 2018 and 2019 was nil. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on performance conditions, with the impact of the revision to original estimates, if any, in profit or loss, along with a corresponding adjustment to equity.

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The estimated fair value of each option grant is estimated on the date of grant using the binominal option-pricing model with the following assumptions:

	Year ended December 31, 2019
Expected volatility	43.0%
Risk-free interest rate (per annum)	3.2%
Expected dividend yield	—
Expected term (in years)	10
Fair value of the underlying shares on the date of option grants (USD)	1.68

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The weighted average grant date fair value of options granted for the year ended December 31, 2019 was USD1.67 per share.

(c) Market-based share options

The 43,600,000 share options awarded to the CEO in April 2018 are subject to service condition and market condition and vest only if the market condition determined by the board of directors of the Company has been satisfied.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

A summary of activities of the market-based share options for the years ended December 31, 2018 and 2019 is presented as follows:

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2018	—	—	
Granted	43,600,000	0.01	
Outstanding as of December 31, 2018	43,600,000	0.01	9.2
Outstanding as of December 31, 2019	43,600,000	0.01	8.2

The number of exercisable share options as of December 31, 2018 and 2019 was nil.

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The estimated fair value of each option grant is estimated on the date of grant using the binominal option-pricing model with the following assumptions:

	Year ended December 31, 2018
Expected volatility	43.0%
Risk-free interest rate (per annum)	3.4%
Expected dividend yield	—
Expected term (in years)	10
Fair value of the underlying shares on the date of option grants (USD)	0.47 to 1.25

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The weighted average grant date fair value of options granted for the year ended December 31, 2018 was USD0.85 per share.

Other Share-based Compensation Allocation

The share-based payments of JD Group’s employees in the headquarters, including service-based RSUs and share options, were allocated to the Group based on corresponding drivers, amounting to RMB161,394,000 and RMB162,816,000 for the years ended December 31, 2018 and 2019, respectively, which were treated as deemed contribution from JD Group and recorded in reserves.

28. Dividends

No dividends had been paid or declared by the Company or its subsidiaries or its consolidated affiliated entities for each of the two years ended December 31, 2019.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Trade payables

The following is an aging analysis of trade payables presented based on the recognition date:

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Within 3 months	2,119,493	3,937,357
3 to 6 months	529,537	4,884
6 to 12 months	3,383	6,911
Over 12 months	535	8,264
	<u>2,652,948</u>	<u>3,957,416</u>

The credit period of trade payables is mainly ranging from 30 to 120 days.

30. Accrued expenses and other payables

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Amounts due to related parties (Note 34)	6,016,874	6,644,788
Salary and welfare payables	1,303,668	1,773,098
Accrued expenses	823,170	1,110,062
Deposits	193,308	369,207
Packing materials payables	229,465	465,968
Property and equipment payables	98,728	361,260
Other tax payables	76,470	181,827
Temporary receipts	305,060	92,004
Others	185,367	187,806
	<u>9,232,110</u>	<u>11,186,020</u>

31. Lease liabilities

	As of December 31, 2019
	RMB’000
Lease liabilities payable:	
Within one year	3,103,550
Within a period of more than one year but not exceeding two years	2,121,042
Within a period of more than two years but not exceeding five years	3,111,922
Within a period of more than five years	340,303
	<u>8,676,817</u>
Less: Amount due for settlement within 12 months shown under current liabilities	(3,103,550)
Amount due for settlement after 12 months shown under non-current liabilities	<u>5,573,267</u>

The weighted average discount rate applied by the Group was 5.67% for the year ended December 31, 2019.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Convertible redeemable preferred shares

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
<i>Financial liability at FVTPL</i>		
Series A Preference Shares	17,462,915	18,069,639

Series A Preference Shares

In February 2018, the Group entered into definitive agreements with third-party investors to raise financing, with the total amount of USD2,510,000,000 (equivalent to RMB15,973,564,000) by issuance of 1,004,000,000 Series A Preference Shares, representing approximately 19% of the ownership of the Company on a fully diluted basis. The Series A Preference Shares are contingently redeemable by the holders 5 years from the issuance date in the event that a qualified [REDACTED] (the “Qualified [REDACTED]”) has not occurred and the Series A Preference Shares have not been converted. The Qualified [REDACTED] is defined as [REDACTED] that (i) has been approved by the board of directors of the Company, or (ii) with the [REDACTED] that values the Company at no less than USD20,000,000,000 on a fully diluted basis immediately following the completion of such [REDACTED]. The rights, preferences and privileges of the Series A Preference Shares are as follows:

Dividend Rights

As regards to dividends, the Series A Preference Shares shall rank pari passu with the ordinary shares and the holders of the Series A Preference Shares shall be entitled to the same amount of dividends as the holders of the ordinary shares on an as converted basis as if they were a single class. No dividend or distribution shall be payable except out of any funds legally available.

Voting Rights

The holder of each ordinary share issued and outstanding should have one vote in respect of each ordinary share held and the holder of each Series A Preference Share shall carry such number of votes as is equal to the number of votes of ordinary shares then issuable upon the conversion of such Series A Preference Shares. The holders of the Series A Preference Shares and the holders of ordinary shares shall vote together and not as a separate class.

Liquidation Preferences

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, all assets and funds of the Company legally available for distribution (after satisfaction of all creditors’ claims and claims that may be preferred by law) shall be distributed ratably among the holders according to their relative number of ordinary shares held by such holders (all the Series A Preference Shares as if they had been converted into ordinary shares immediately prior to such liquidation, dissolution or winding up of the Company).

Redemption Rights

From and after the fifth anniversary of the Series A Preference Shares’ original issuance date, and prior to the consummation of a Qualified [REDACTED], each holder of the Series A Preference Shares shall have the rights at any time to require and demand the Company to redeem all or any portion of the Series A Preference Shares held by such holder.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Convertible redeemable preferred shares—continued

The initial redemption price payable on each Series A Preference Share is the total of:

- (i) any dividend relating to each Series A Preference Share which has been declared by the Company but unpaid, to be calculated up to and including the date of the redemption; plus
- (ii) the Series A Preference Shares purchase price, that is USD2.50 per share, subject to appropriate adjustments in the event of any share dividend, share combination or similar recapitalization events.

Conversion Rights

Each Series A Preference Share shall be convertible, at the option of the holder of the Series A Preference Shares, at any time after the date of issuance of such Series A Preference Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preference Shares purchase price by the conversion price then applicable to such Series A Preference Shares. The conversion price of each Series A Preference Share is the same as its original issuance price if no adjustments to conversion price have occurred. As of December 31, 2019, each Series A Preference Share is convertible into one ordinary share.

Each Series A Preference Share shall automatically be converted into ordinary shares (i) upon the consummation of a Qualified [REDACTED]; or (ii) in the event that the holders of the Series A Preference Shares holding at least 50% of the Series A Preference Shares in issue elect to convert the Series A Preference Shares.

The movements of the Series A Preference Shares issued by the Company are set out as below:

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Carrying amount at the beginning of the year	—	17,462,915
Issuance of Series A Preference Shares	15,973,564	—
Change in fair value	239,142	315,477
Currency translation differences	1,250,209	291,247
Carrying amount at the end of the year	17,462,915	18,069,639

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

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Discount rate	18%	17%
Risk-free interest rate	1.97% to 3.72%	1.71% to 3.71%
DLOM	25%	25%
Expected volatility	45%	38%

Discount rate was estimated by weighted average cost of capital as of each valuation date. The Group estimated the risk-free interest rate based on the yield of government bond with maturity

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Convertible redeemable preferred shares—continued

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

33. Deferred tax liabilities

The movements in deferred tax liabilities during each of the two years ended December 31, 2019 are as follows:

	Accelerated depreciation	Changes in fair value of financial instruments	Total
	RMB’000	RMB’000	RMB’000
As of January 1, 2018 and December 31, 2018	—	—	—
Charge to profit or loss	41,488	566	42,054
As of December 31, 2019	41,488	566	42,054

Deferred tax assets have not been recognized in respect of the following items:

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
Tax losses	3,251,304	3,962,956
Deductible temporary differences	110,153	760,417
	3,361,457	4,723,373

Due to the unpredictability of future profit streams, no deferred tax assets had been recognized for these unused tax losses and deductible temporary differences. As of December 31, 2018, these unrecognized tax losses will expire during the period from 2019 to 2023. As of December 31, 2019, these unrecognized tax losses will expire during the period from 2020 to 2024.

34. Related party transactions

Other than as disclosed elsewhere in the Historical Financial Information, the following significant transactions and balances were carried out between the Group and its related parties during each of the two years ended December 31, 2019. In the opinion of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Related party transactions—continued

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during each of the two years ended December 31, 2019.

<u>Name of related parties</u>	<u>Relationship</u>
JD.com, Inc.	Ultimate parent company of the Company
Jingdong Technology Group Corporation	Immediate parent company of the Company
JD Group	Controlled by JD.com, Inc.
Tencent Holdings Limited and its subsidiaries (“Tencent Group”)	A shareholder of the ultimate parent company
AiHuiShou International Co. Ltd. and its subsidiaries (“AiHuiShou Group”)	An associate of JD Group
JD Logistics Properties Core Fund, L.P. (“Core Fund”)	An associate of JD Group
Dada Nexus Limited and its subsidiaries (“Dada Group”)	An associate of JD Group
Jingdong Digits Technology Holding Co., Ltd. and its subsidiaries (“JD Digits”)	Controlled by Mr. Richard Qiangdong Liu, the controlling shareholder of JD.com, Inc.

(b) Significant transactions with related parties

During each of the two years ended December 31, 2019, the supply chain solutions and logistics services revenue, advertising revenue, back-office administrative expenses, and shared service expenses attributable to the [REDACTED] were carved out from the JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, these transactions have been recorded in the Historical Financial Information based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were the revenue and expenses of the Group.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Related party transactions—continued

(b) Significant transactions with related parties—continued

After the Pricing Policies Effective Date of the Series A Preference Shares financing, based on the terms stipulated in the Series A Share Subscription Agreement, terms and pricing policies of these transactions entered into by JD Group for the Group or between JD Group and the Group were established. Details of these transactions recorded with such terms and pricing policies since that date during each of the two years ended December 31, 2019 are separately shown as follows:

		Year ended December 31,	
	Notes	2018	2019
		RMB'000	RMB'000
Rendering of services:			
Services provided to JD Group	(i)	26,552,355	30,682,081
Services provided to Tencent Group	(ii)	275,431	170,523
Services provided to JD Digits	(iii)	9,534	128,772
Services provided to AiHuiShou Group	(ii)	4,759	24,245
Receiving of services:			
Services received from JD Group	(iv)	644,578	802,333
Services received from Dada Group	(v)	938,627	1,561,772
Share-based compensation received from JD.com, Inc.	(iv)	509,417	425,803
Services received from JD Digits	(vi)	111,140	101,324
Lease arrangements:			
Lease and property management services received from JD Group	(viii)	281,561	—
Interest on lease liabilities for leases with Core Fund	(vii)	—	147,587
Interest on lease liabilities for leases with JD Group	(viii)	—	10,517
Receiving or payment of interest:			
Interest income from JD Group	(ix)	156,958	69,824
Interest expenses to JD Group	(ix)	48,451	59,968

Rendering of services:

- (i) The Group provides integrated supply chain solutions and logistics services to JD Group in exchange for service fees, including but not limited to warehousing and distribution services, express and freight delivery services, after sales and maintenance services, and other related ancillary services.

The Group provides advertising services to JD Group in return for the advertising fees.

- (ii) The Group is primarily engaged in providing supply chain solutions and logistics services to Tencent Group and AiHuiShou Group.
- (iii) The Group is primarily engaged in providing installation and maintenance services, and advertising services to JD Digits.

Receiving of services:

- (iv) JD Group provides back-office administrative support services to the Group, including but not limited to cloud service, provision of servers, information technology support service, certain human resources services, in addition to certain shared services, including office premises sharing, transportation and canteen facilities for staff, administrative purchases and various support services. The Group pays JD Group the actual costs incurred during the service process.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Related party transactions—continued

(b) Significant transactions with related parties—continued

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

(v) Dada Group primarily provides on-demand delivery services to the Group.

(vi) JD Digits primarily provides payment and ancillary services to the Group.

Lease arrangements:

(vii) During the year ended December 31, 2019, the Group entered into several lease agreements for operational purposes with Core Fund for 4 to 7 years. Right-of-use assets and lease liabilities amounted to RMB3,040,868,000 and RMB3,100,714,000 as of December 31, 2019, respectively.

(viii) The Group leases warehouses from JD Group for operational purposes.

During the year ended December 31, 2019, the Group entered into several lease agreements with JD Group for 2 to 6 years. Right-of-use assets and lease liabilities amounted to RMB261,617,000 and RMB266,010,000 as of December 31, 2019, respectively.

Receiving or payment of interest:

(ix) To better utilize the excessive cash for higher returns, the Group participates in the treasury management scheme administrated by JD Group, through transferring excessive cash to JD Group and charges interest accordingly, while JD Group charges the Group with interest expenses on amount due to JD Group. The Group is entitled to receive interest income and obligated to make payments of interest expenses with JD Group based on the terms stipulated in the Series A Share Subscription Agreement.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Related party transactions—continued

(c) Significant year end balances with related parties

The Group had the following significant balances with related parties:

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
<i>Due from related parties:</i>		
Amount due from JD Group	—	10,486,252
Amount due from JD Digits	72,940	143,584
Amount due from Tencent Group	83,121	38,806
Amount due from AiHuiShou Group	892	15,536
Amount due from Dada Group	23,925	11,579
Amounts due from other related parties	7,579	5,187
	<u>188,457</u>	<u>10,700,944</u>
<i>Due to related parties:</i>		
Amount due to JD Group	6,016,874	6,474,480
Amount due to Dada Group	146,586	228,456
Amount due to Core Fund	—	20,308
Amounts due to other related parties	—	152,124
	<u>6,163,460</u>	<u>6,875,368</u>

Other than amount due from JD Group, amounts due from related parties of RMB95,512,000 and RMB94,160,000 as of December 31, 2018 and 2019, respectively, were trade in nature; and RMB92,945,000 and RMB120,532,000 respectively, were non-trade in nature. Amount due from JD Group as of December 31, 2019 primarily includes (i) trade receivables resulting from the Group’s integrated supply chain solutions and logistics services provided to JD Group, and (ii) non-trade related balances with JD Group.

Other than amount due to JD Group, amounts due to related parties of RMB146,586,000 and RMB230,580,000 as of December 31, 2018 and 2019, respectively, were trade in nature; and nil and RMB170,308,000 respectively, were non-trade in nature. Amount due to JD Group as of December 31, 2018 and 2019 primarily includes (i) payables for services received from JD Group, and (ii) the funds utilized by the [REDACTED] since January 1, 2017 and other non-trade related balances as a result of the carve-out process.

Amounts due from/due to related parties are unsecured and either repayable on demand or due within one year from the end of the reporting period. Other than amount due from/due to JD Group, balances with related parties are non-interest bearing.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Related party transactions—continued

(d) Key management personnel compensation

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

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Salaries and bonuses	1,926	3,793
Share-based payments	134,056	127,469
Pension costs—defined contribution plans	53	100
Welfare, medical and other benefits	315	602
	<u>136,350</u>	<u>131,964</u>

35. Commitments

Capital commitments

	As of December 31,	
	2018	2019
	RMB’000	RMB’000
<i>Contracted for but not provided in the Historical Financial Information</i>		
Purchase of property and equipment	<u>514,041</u>	<u>25,192</u>

Operating lease commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of warehouses, delivery stations and pickup stations, offices, and staff quarters, with lease terms between 1 and 12 years, which fall due as follows:

	As of December 31, 2018
	RMB’000
Within one year	2,442,605
In the second to fifth year, inclusive	3,573,798
Over five years	<u>419,066</u>
	<u>6,435,469</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments

36.1 Financial instruments by categories

The Group

	Notes	As of December 31,	
		2018	2019
		RMB’000	RMB’000
Financial assets			
Financial assets at fair value:			
Financial assets at FVTPL	21	1,101,545	1,026,599
Financial assets at amortized cost		21,194,901	23,441,971
Financial liabilities			
Financial liabilities at fair value:			
Convertible redeemable preferred shares	32	17,462,915	18,069,639
Payables to interest holders of consolidated investment funds		—	109,239
Financial liabilities at amortized cost		9,501,354	11,958,865

The Company

	Note	As of December 31,	
		2018	2019
		RMB’000	RMB’000
Financial assets			
Financial assets at amortized cost		18,567,997	19,216,642
Financial liabilities			
Financial liabilities at fair value:			
Convertible redeemable preferred shares	32	17,462,915	18,069,639

36.2 Financial risk management

The Group’s major financial instruments include financial assets at FVTPL, trade and other receivables, cash and cash equivalents, trade and other payables, advances from customers, convertible redeemable preferred shares, payables to interest holders of consolidated investment funds, and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) *Market risk*

Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, and, to a lesser extent, other currencies. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of the Group’s entities. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currency which also expose the Group to foreign currency risk.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.2 Financial risk management—continued

(a) Market risk—continued

During each of the two years ended December 31, 2019, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant. The directors of the Company consider that any reasonable changes in foreign exchange rates of other currencies against the two major functional currencies would not result in a significant change in the Group’s results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries’ functional currency are considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed rate instruments expose the Group to fair value interest risk.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and amounts due from/due to JD Group. The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank balances, lease liabilities and loans from related parties.

Sensitivity analysis

The sensitivity analyzes below have been determined based on the exposure to interest rates at the end of each of the two years ended December 31, 2019. The analysis is prepared assuming the financial instruments outstanding at the end of each of the two years ended December 31, 2019 were outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group’s post-tax loss for the years ended December 31, 2018 and 2019 would decrease/increase by RMB12,983,000 and RMB21,679,000, respectively.

Other price risk

The Group is exposed to price risk through its investments in listed equity security investments measured at FVTPL and convertible redeemable preferred shares. The price risk of these financial assets may arise due to changes in market price. The change may be caused by factors relating to the financial instrument itself or the issuer, and it may also be caused by market factors. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group has designated a team to monitor the price risk and will consider hedging the risk exposure should the need arises.

Sensitivity analysis

The sensitivity analyzes have been determined based on the exposure to equity price risk at the end of each of the two years ended December 31, 2019.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.2 Financial risk management—continued

(a) Market risk—continued

If the prices of the respective listed financial instruments had increased/decreased by 5% with all other variables held constant, the post-tax loss for the years ended December 31, 2018 and 2019 would decrease/increase by RMB21,210,000 and RMB13,795,000, respectively.

Fair value of convertible redeemable preferred shares is affected by changes in the Company’s equity value. If the Company’s equity value had increased/decreased by 5% with all other variables held constant, the post-tax loss for the years ended December 31, 2018 and 2019 would increase/decrease by RMB873,146,000 and RMB903,482,000, respectively.

(b) Credit risk and impairment assessment

Credit risk refers to the risk that the Group’s counterparties default on their contractual obligations resulting in financial losses to the Group. The Group’s credit risk exposures are primarily attributable to trade and other receivables, bank balances and preferred shares investments in unlisted entities. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets. The carrying amounts of each class of the above financial assets represent the Group’s maximum exposure to credit risk in relation to financial assets.

Trade receivables and contract assets

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer’s credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

The Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL for these items. The Group estimates the amount of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

Bank balances

To manage risk arising from bank balances, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.2 Financial risk management—continued

(b) Credit risk and impairment assessment—continued

The credit risk on bank balances is limited because the counterparties are reputable banks with high credit rating assigned by international credit-rating agencies. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant.

Other receivables

In order to minimize the credit risk of other receivables and amounts due from related companies with non-trade nature, the management of the Group continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. Before granting the loan advances, the management of the Group has obtained an understanding to the credit background of the debtors and undertaken an internal credit approval process. The management of the Group has taken into account the economic outlook of the industries in which the debtors operate and reviewed the recoverable amount of each amount at the end of the reporting period to ensure that adequate impairment losses were recognized for irrecoverable debts. After assessment, the directors of the Company have not identified any items experienced a significant increase in credit risk since initial recognition. In addition, the Group performs periodic individual assessment on 12m ECL of other receivables based on historical settlement records and past experience.

Preferred shares investments in unlisted entities

The Group invests in debt securities. In order to minimize the credit risk of these investments in preferred shares, the management regularly reviews and assesses the financial performance of the unlisted investees. The management of the Company considers that the credit risk is monitored and significantly reduced.

The Group’s internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables and contract assets
Performing	The counterparty has a low risk of default and does not have any past-due amounts or debtor repays after due dates but usually settle in full	Lifetime ECL—not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL—credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The following table provides information about the exposure to credit risk for trade receivables which were assessed on a collective basis by using provision matrix within lifetime ECL (not credit-

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.2 Financial risk management—continued

(b) Credit risk and impairment assessment—continued

impaired). Credit-impaired with gross carrying amounts of RMB16,765,000 and RMB43,891,000 respectively as of December 31, 2018 and 2019, were assessed individually.

	As of December 31, 2018		As of December 31, 2019	
	Average loss rate	Trade receivables	Average loss rate	Trade receivables
		RMB’000		RMB’000
Within 3 months	0.9%	1,508,610	0.5%	3,031,403
3 to 6 months	15.0%	45,166	10.0%	96,714
6 to 12 months	63.0%	27,500	51.8%	41,261
Over 12 months	100.0%	2,992	100.0%	20,841
	2.5%	1,584,268	2.1%	3,190,219

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort.

As of December 31, 2018 and 2019, the Group provided RMB39,936,000 and RMB67,029,000 accumulated impairment allowance for trade receivables, respectively, based on the provision matrix. Accumulated impairment allowance of RMB16,765,000 and RMB43,891,000, were made on credit-impaired debtors as of December 31, 2018 and 2019, respectively.

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

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB’000	RMB’000	RMB’000
As of January 1, 2018	3,774	1,079	4,853
Impairment losses recognized, net of reversal	33,170	18,678	51,848
As of December 31, 2018	36,944	19,757	56,701
Impairment losses recognized, net of reversal	9,244	118,208	127,452
Write-offs	—	(73,233)	(73,233)
As of December 31, 2019	46,188	64,732	110,920

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action against the debtors to recover the amount due.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, on which the Group

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.2 Financial risk management—continued

(b) Credit risk and impairment assessment—continued

recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(c) Liquidity risk

As of December 31, 2018 and 2019, the Group was in a net liability position of RMB916,605,000 and RMB2,084,996,000, respectively. The net liability position primarily arises from the convertible redeemable preferred shares classified as non-current liabilities amounting RMB17,462,915,000 and RMB18,069,639,000 as of December 31, 2018 and 2019, respectively. The convertible redeemable preferred shares can be automatically converted into ordinary shares of the Company upon the [REDACTED]. details of which are set out in Note 32. Under any circumstances, no significant cash flow impact is expected in the next twelve months from the date of the report for the convertible redeemable preferred shares.

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.2 Financial risk management—continued

(c) Liquidity risk—continued

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each of the two years ended December 31, 2019.

	Weighted average interest rate	The Group					Carrying amount
		On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As of December 31, 2018							
Trade payables		2,652,948	—	—	—	2,652,948	2,652,948
Advances from customers		4,971	—	—	—	4,971	4,971
Financial liabilities included in accrued expenses and other payables		6,843,435	—	—	—	6,843,435	6,843,435
Convertible redeemable preferred shares		—	—	17,223,773	—	17,223,773	17,462,915
		9,501,354	—	17,223,773	—	26,725,127	26,964,269
As of December 31, 2019							
Trade payables		3,957,416	—	—	—	3,957,416	3,957,416
Advances from customers		68,222	—	—	—	68,222	68,222
Lease liabilities	5.67%	3,188,247	2,303,967	3,800,475	483,953	9,776,642	8,676,817
Financial liabilities included in accrued expenses and other payables		7,933,227	—	—	—	7,933,227	7,933,227
Convertible redeemable preferred shares		—	—	17,515,020	—	17,515,020	18,069,639
Payables to interest holders of consolidated investment funds		109,239	—	—	—	109,239	109,239
		15,256,351	2,303,967	21,315,495	483,953	39,359,766	38,814,560

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

(d) Capital risk management

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

The Group monitors capital (including share capital and other reserves, convertible redeemable preferred shares on an as if converted basis) by regularly reviewing the capital structure. As a part of this review, the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends to pay to shareholders, capital to return to

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.2 Financial risk management—continued

(d) Capital risk management—continued

shareholders, new shares to issue, shares of the Company to repurchase and debts to raise/repay. In the opinion of the directors of the Company, the Group’s capital risk is low.

36.3 Fair value measurement of financial instruments

(a) Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis

The table below analyzes the Group’s financial instruments carried at fair value as of December 31, 2018 and 2019, by level of the inputs to valuation techniques used to measure fair value.

Fair value hierarchy as of December 31, 2018

	Level 1 RMB’000	Level 2 RMB’000	Level 3 RMB’000	Total RMB’000
Financial assets at FVTPL				
Equity securities in listed entities	565,611	—	—	565,611
Equity investments in unlisted entities	—	1,200	—	1,200
Preferred shares investments in unlisted entities	—	316,553	218,181	534,734
	<u>565,611</u>	<u>317,753</u>	<u>218,181</u>	<u>1,101,545</u>
Financial liabilities				
Convertible redeemable preferred shares	—	—	17,462,915	17,462,915

Fair value hierarchy as of December 31, 2019

	Level 1 RMB’000	Level 2 RMB’000	Level 3 RMB’000	Total RMB’000
Financial assets at FVTPL				
Equity securities in listed entities	367,867	—	—	367,867
Equity investments in unlisted entities	—	—	159,960	159,960
Preferred shares investments in unlisted entities	—	223,911	274,861	498,772
	<u>367,867</u>	<u>223,911</u>	<u>434,821</u>	<u>1,026,599</u>
Financial liabilities				
Convertible redeemable preferred shares	—	—	18,069,639	18,069,639
Payables to interest holders of consolidated investment funds . .	—	—	109,239	109,239
	<u>—</u>	<u>—</u>	<u>18,178,878</u>	<u>18,178,878</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.3 Fair value measurement of financial instruments—continued

(a) Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis—continued

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used). The determination of the fair value for convertible redeemable preferred shares is set out in Note 32.

Financial assets/financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	As of December 31, 2018	As of December 31, 2019			
	RMB’000	RMB’000			
Equity securities in listed entities	565,611	367,867	Level 1	Quoted bid prices in an active market	N/A
Equity investments in unlisted entities	1,200	—	Level 2	Recent transaction price	N/A
Equity investments in unlisted entities	—	159,960	Level 3	A combination of observable and unobservable inputs	Discount for lack of marketability; market multiples
Preferred shares investments in unlisted entities	316,553	223,911	Level 2	Recent transaction price	N/A
Preferred shares investments in unlisted entities	218,181	274,861	Level 3	A combination of observable and unobservable inputs	Discount for lack of marketability; market multiples
Payables to interest holders of consolidated investment funds	—	109,239	Level 3	Net assets value of the investment funds	Net assets value of the investment funds

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at each reporting end. During each of the two years ended December 31, 2019, there were no transfers among different levels of fair values measurement.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Financial instruments—continued

36.3 Fair value measurement of financial instruments—continued

(b) *Reconciliation of Level 3 fair value measurements*

	Financial assets at FVTPL	Convertible redeemable preferred shares	Payables to interest holders of consolidated investment funds
	RMB’000	RMB’000	RMB’000
As of January 1, 2018	123,333	—	—
Changes in fair value	39,118	239,142	—
Currency translation differences	7,878	1,250,209	—
Purchased	47,852	—	—
Issued	—	15,973,564	—
As of December 31, 2018	218,181	17,462,915	—
Changes in fair value	54,731	315,477	(6,511)
Currency translation differences	4,212	291,247	—
Capital contribution	—	—	115,750
Purchased	157,697	—	—
As of December 31, 2019	434,821	18,069,639	109,239

(c) *Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis*

For the financial assets and financial liabilities that are not measured at fair value on a recurring basis, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the combined financial statements approximate their fair values.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. Note to combined statements of cash flows

(a) Reconciliation of loss for the year to net cash inflow generated from operating activities:

	Year ended December 31,	
	2018	2019
	RMB’000	RMB’000
Loss for the year	(2,764,547)	(2,237,486)
Adjustments for:		
Income tax	556	77,330
Finance costs	63,224	430,105
Finance income	(326,519)	(386,140)
Share of results of an associate	—	68,627
Depreciation of property and equipment	1,154,605	1,243,149
Depreciation of right-of-use assets	—	2,685,562
Amortization of intangible assets	3,805	4,712
Impairment loss, net of reversal		
— financial assets under expected credit loss model	52,330	137,131
— interest in a joint venture	—	150,000
Share-based payments	910,385	997,912
Losses/(gains) on disposal of property and equipment	12,546	(4,610)
Fair value changes of financial assets at FVTPL	13,064	469,241
Investment losses attributable to interest holders of consolidated investment funds	—	(6,511)
Fair value changes of convertible redeemable preferred shares	239,142	315,477
Foreign exchange losses, net	240	21,641
Operating cash flows before movements in working capital	(641,169)	3,966,140
Increase in inventories	(178,244)	(41,854)
Increase in trade receivables	(1,023,008)	(1,716,299)
Increase in prepayments, other receivables and other assets	(455,991)	(6,223,643)
Increase in contract assets	(23,249)	(27,221)
Increase in trade payables	2,438,188	1,304,468
Increase in contract liabilities	7,170	4,765
Increase in accrued expenses and other payables	768,789	4,977,753
(Decrease)/increase in advances from customers	(1,453)	63,251
Cash generated from operations	891,033	2,307,360

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

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. Note to combined statements of cash flows—continued

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s combined statements of cash flows as cash flows from financing activities.

	Payables to interest holders of consolidated investment funds	Lease liabilities	Net amount (due from)/ due to JD Group	Convertible redeemable preferred shares	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As of January 1, 2018	—	—	7,714	—	7,714
Financing cash flows	—	—	1,317,869	15,958,791	17,276,660
Fair value adjustments	—	—	—	239,142	239,142
Exchange adjustments	—	—	—	1,250,209	1,250,209
Finance costs recognized	—	—	—	14,773	14,773
Interest income	—	—	(156,958)	—	(156,958)
Interest expenses	—	—	48,451	—	48,451
Net settlement for operating activities	—	—	(1,519,440)	—	(1,519,440)
Net settlement for investing activities	—	—	490,138	—	490,138
Effect arising from Series A Preference Shares financing	—	—	5,829,100	—	5,829,100
As of December 31, 2018	—	—	6,016,874	17,462,915	23,479,789
Adjustments upon application of IFRS 16	—	5,895,781	—	—	5,895,781
As of January 1, 2019	—	5,895,781	6,016,874	17,462,915	29,375,570
Financing cash flows	115,750	(2,614,192)	(7,429,912)	—	(9,928,354)
Investment losses attributable to interest holders of consolidated investment funds	(6,511)	—	—	—	(6,511)
New leases entered	—	5,339,145	—	—	5,339,145
Fair value adjustments	—	—	—	315,477	315,477
Exchange adjustments	—	—	(408,276)	291,247	(117,029)
Interest income	—	—	(69,824)	—	(69,824)
Interest expenses	—	370,137	59,968	—	430,105
Net settlement for operating activities	—	—	(2,243,949)	—	(2,243,949)
Net settlement for investing activities	—	—	(250,707)	—	(250,707)
Net settlement for lease payments	—	(314,054)	314,054	—	—
As of December 31, 2019	109,239	8,676,817	(4,011,772)	18,069,639	22,843,923

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

38. Particulars of principal subsidiaries and consolidated affiliated entities

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

			Proportion ownership interest attributable by the Company			
Name of subsidiaries**	Place of incorporation/ registration/operations	Paid up issued/ registered capital	December 31,		As of the date of this report	Principal activities
			2018	2019		
JD Logistics Holding Limited	Hong Kong, China	HKD1,000,000	100%	100%	[100%]	International supply chain business
Jingdong Express International Limited	British Virgin Islands (“BVI”)	USD1	100%	100%	[100%]	Investment holding
Xi’an Jingdong Xuncheng Logistics Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	[100%]	Freight transportation service
Xi’an Jingxundi	Mainland China	RMB980,000,000	100%	100%	[100%]	Technology and consulting services
Beijing Jinghong Logistics Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	[100%]	Freight transportation service

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

Name of consolidated affiliated entities*/**	Place of incorporation/ registration/operations	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company			Principal activities
			December 31,		As of the date of this report	
			2018	2019		
Beijing Jingbangda	Mainland China	RMB1,000,000,000	100%	100%	[100%]	Logistics services business
Guangdong Jingbangda Supply Chain Technology Co., Ltd.	Mainland China	RMB100,000,000	100%	100%	[100%]	Courier and warehousing service
Shanghai Xunzan Supply Chain Technology Co., Ltd.	Mainland China	RMB100,000,000	100%	100%	[100%]	Courier and warehousing service
Beijing Jingxundi Technology Co., Ltd.	Mainland China	RMB1,000,000	100%	100%	[100%]	Courier and warehousing service
Beijing Yuanyi Freight Forwarder Co., Ltd.	Mainland China	RMB8,000,000	100%	100%	[100%]	Freight forwarder business
Xi'an Jingdong Xincheng	Mainland China	RMB1,000,000	100%	100%	[100%]	Technology and consulting services
Shaanxi Jingdong Xincheng Supply Chain Technology Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	[100%]	Courier and warehousing service
Liaoning Jingbangda Supply Chain Technology Co., Ltd.	Mainland China	RMB20,000,000	100%	100%	[100%]	Courier and warehousing service
Sichuan Jingbangda Logistics Technology Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	[100%]	Courier and warehousing service

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

Name of consolidated affiliated entities ^{*/**}	Place of incorporation/ registration/operations	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company			Principal activities
			December 31, 2018	2019	As of the date of this report	
Hubei Jingbangda Supply Chain Technology Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	[100%]	Courier and warehousing service
Beijing Jingdong Qianshi Technology Co., Ltd.	Mainland China	RMB100,000,000	100%	100%	[100%]	Technology and consulting services
Jiangsu Jingdong Cargo Airlines Co., Ltd.	Mainland China	RMB600,000,000	—	75%	[75%]	Air cargo business
Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd.	Mainland China	RMB5,000,000	—	100%	[100%]	Courier service
Suqian Jingdong Tonglian Logistics Co., Ltd.	Mainland China	RMB10,000,000	—	100%	[100%]	Internet freight transportation

* As described in Note 1.2, the Company does not have directly or indirectly legal ownership in equity of these affiliated entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the equity holders of these affiliated entities, the Company and its legal owned subsidiaries have power over these affiliated entities, have rights to variable returns from its involvement with these affiliated entities and have the ability to affect those returns through their power over these affiliated entities and are considered to have control over these affiliated entities. Consequently, the Company regards these affiliated entities as its indirect subsidiaries.

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

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

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

No audited statutory financial statements have been prepared for the subsidiaries and consolidated affiliated entities incorporated in the PRC and BVI listed above, since there is no statutory audit requirement. No audited statutory financial statements of JD Logistics Holding Limited for the years ended December 31, 2018 and 2019 have been prepared, since the statutory audits for the corresponding years have not been completed.

None of the subsidiaries and consolidated affiliated entities had issued any debt securities during each of the two years ended December 31, 2019.

39. Contingencies

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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Events after the reporting period

(a) Acquisition

Subsequent to December 31, 2019, the Group completed its negotiations with the shareholders of Kuayue-Express Group Co., LTD. (“Kuayue Express”) for the acquisition of 55.1% of equity interest of Kuayue Express on a fully diluted basis. The acquisition has been accounted for as an acquisition of business using the acquisition method. The transaction was completed on August 17, 2020 and the acquisition consideration of RMB2,965,856,000 was partially satisfied in cash amounting to RMB2,850,000,000, along with the remaining consideration satisfied by issuance of the Company’s ordinary shares.

(b) COVID-19 impact

The global outbreak of the COVID-19 and the subsequent quarantine measures imposed by the governments of various countries as well as the travel restrictions in early 2020 have had a negative impact on the operations of the Group, as it worsens the trading environment globally which affects logistic business of the Group. The Group has assessed the impact of the outbreak of COVID-19 on its operation and taken the necessary measures to limit and minimize the impact to a lower level. The Group will keep continuous attention on the global situation on the trading environment as well as the logistics industry and make timely responses and measures in the future. Based on the latest assessment on the impact of COVID-19 to the operations and financial results of the Group, the management of the Company does not expect significant financial impact of COVID-19.

41. Subsequent financial statements

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to December 31, 2019.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

The following is the text of a report set out on pages IA-1 to IA-44 received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in [REDACTED].



REPORT ON REVIEW OF CONDENSED COMBINED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF JD LOGISTICS, INC.

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed combined financial statements of JD Logistics, Inc. (the “Company”), its subsidiaries and consolidated affiliate entities (together, the “Group”) set out on pages IA-3 to IA-44, which comprise the condensed combined statement of financial position as of September 30, 2020 and the related condensed combined statement of profit or loss, condensed combined statement of comprehensive income/(loss), condensed combined statement of changes in equity and condensed combined statement of cash flows for the nine-month period then ended, and certain explanatory notes. The condensed combined financial statements have been prepared by the directors of the Company solely for the purpose of [REDACTED] of the shares of the Company on The Stock Exchange of Hong Kong Limited. As a result, the condensed combined financial statements may not be suitable for another purpose. The directors of the Company are responsible for the preparation and presentation of these condensed combined financial statements in accordance with the basis of preparation and the accounting policies set out in Notes 1.2 and 3 to the condensed combined financial statements. Our responsibility is to express a conclusion on these condensed combined financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed combined financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed combined financial statements are not prepared, in all material respects, in accordance with the basis of preparation and presentation and the accounting policies set out in Notes 1.2 and 3 to the condensed combined financial statements.

[Deloitte Touche Tohmatsu]
Certified Public Accountants
Hong Kong
[Date]

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF PROFIT OR LOSS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

	Notes	Nine months ended September 30,	
		2020	2019
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	5	49,507,217	34,575,812
Cost of revenue		(44,088,570)	(31,632,343)
Gross profit		5,418,647	2,943,469
Selling and marketing expenses		(1,087,013)	(643,976)
Research and development expenses		(1,442,335)	(1,242,163)
General and administrative expenses		(1,454,077)	(1,429,459)
Other income, gains/(losses), net	6	407,201	(198,613)
Finance income	7	202,773	299,662
Finance costs	8	(314,882)	(333,702)
Fair value changes of convertible redeemable preferred shares		(1,556,464)	(236,608)
Impairment losses under expected credit loss model, net of reversal	9	(165,318)	(118,487)
Share of results of an associate		(12,130)	(3,834)
Loss before income tax	11	(3,598)	(963,711)
Income tax expense	10	(8,116)	(32,587)
Loss for the period		(11,714)	(996,298)
(Loss)/profit for the period attributable to:			
Owners of the Company		(71,226)	(996,299)
Non-controlling interests		59,512	1
		(11,714)	(996,298)

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

**CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Loss for the period	<u>(11,714)</u>	<u>(996,298)</u>
Other comprehensive income/(loss)		
<i>Item that will not be reclassified to profit or loss:</i>		
Exchange differences on translation from functional currency to presentation currency	<u>56,696</u>	<u>309,824</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(64,266)	73,223
Share of other comprehensive (loss)/income of an associate, net of related income tax	<u>(99)</u>	<u>12</u>
	(64,365)	73,235
Other comprehensive (loss)/income for the period	<u>(7,669)</u>	<u>383,059</u>
Total comprehensive loss for the period	<u>(19,383)</u>	<u>(613,239)</u>
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	(78,895)	(613,240)
Non-controlling interests	<u>59,512</u>	<u>1</u>
	<u>(19,383)</u>	<u>(613,239)</u>

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2020

	Notes	As of September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment	14	6,067,048	5,337,907
Right-of-use assets	15	11,517,693	8,619,859
Goodwill	32	1,499,142	—
Other intangible assets	16	2,894,174	14,242
Interest in an associate	17	275,703	287,932
Financial assets at fair value through profit or loss	18	1,067,960	1,026,599
Prepayments, other receivables and other assets	20	896,421	491,117
Total non-current assets		24,218,141	15,777,656
Current assets			
Inventories		312,134	259,932
Trade receivables	19	4,762,302	3,229,663
Contract assets		50,608	50,470
Prepayments, other receivables and other assets	20	12,806,021	11,461,194
Financial assets at fair value through profit or loss	18	3,541,131	—
Term deposits		1,021,515	—
Restricted cash		97,811	—
Cash and cash equivalents		9,784,872	9,274,203
Total current assets		32,376,394	24,275,462
Total assets		56,594,535	40,053,118
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	611	610
Reserves		3,060,991	2,215,313
Accumulated losses		(4,404,591)	(4,333,365)
Equity attributable to owners of the Company		(1,342,989)	(2,117,442)
Non-controlling interests	22	2,205,178	32,446
Total equity		862,189	(2,084,996)

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION—continued

AS OF SEPTEMBER 30, 2020

	Notes	As of September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Borrowings	27	111,605	—
Lease liabilities		7,432,648	5,573,267
Long-term payables		200,000	—
Convertible redeemable preferred shares	28	19,591,129	18,069,639
Equity instruments with preference rights	29	589,353	—
Deferred tax liabilities	30	749,041	42,054
Total non-current liabilities		28,673,776	23,684,960
Current liabilities			
Trade payables	25	4,271,741	3,957,416
Contract liabilities		75,742	11,935
Accrued expenses and other payables	26	17,530,335	11,186,020
Advances from customers		209,937	68,222
Borrowings	27	611,671	—
Lease liabilities		4,208,143	3,103,550
Payables to interest holders of consolidated investment funds		123,614	109,239
Tax liabilities		27,387	16,772
Total current liabilities		27,058,570	18,453,154
Total liabilities		55,732,346	42,138,114
Total equity and liabilities		56,594,535	40,053,118

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

	Note	Attributable to owners of the Company							Non-controlling interests	Total equity
		Share capital	Share premium	Contribution reserve*	Other reserves**	Accumulated losses	Sub-total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
As of January 1, 2020 (Audited)										
	610	1,499,694	(2,851,784)	3,567,403	(4,333,365)	(2,117,442)	32,446	(2,084,996)		
(Loss)/profit for the period	—	—	—	—	(71,226)	(71,226)	59,512	(11,714)		
Other comprehensive loss for the period	—	—	—	(7,669)	—	(7,669)	—	(7,669)		
Total comprehensive (loss)/income for the period	—	—	—	(7,669)	(71,226)	(78,895)	59,512	(19,383)		
Share-based payments	23	—	—	—	738,536	—	738,536	3,223	741,759	
Repurchase of share options		—	—	—	(1,740)	—	(1,740)	—	(1,740)	
Additional non-controlling interests arising on partial disposal of a subsidiary		—	—	—	695	—	695	149,305	150,000	
Acquisition of a non-wholly owned subsidiary	1	115,856	—	—	—	—	115,857	1,960,692	2,076,549	
As of September 30, 2020 (Unaudited)										
	611	1,615,550	(2,851,784)	4,297,225	(4,404,591)	(1,342,989)	2,205,178	862,189		
As of January 1, 2019 (Audited)										
(Loss)/profit for the period	—	—	—	—	(996,299)	(996,299)	1	(996,298)		
Other comprehensive income for the period	—	—	—	383,059	—	383,059	—	383,059		
Total comprehensive loss for the period	—	—	—	383,059	(996,299)	(613,240)	1	(613,239)		
Share-based payments	23	—	—	—	721,132	—	721,132	—	721,132	
Capital injection from non-controlling shareholders		—	—	—	—	—	—	36,032	36,032	
As of September 30, 2019 (Unaudited)										
	610	1,499,694	(2,851,784)	3,634,339	(3,094,985)	(812,126)	36,033	(776,093)		

* Contribution reserve consists of the profits or losses generated/funds utilized by the [REDACTED] as defined in Note 1.2 in JD Group prior to the Agreement Effective Date of Series A Preference Shares financing.

** Other reserves consist of share-based payment reserve from the deemed contribution from JD.com, Inc. and granting of share options under the Company's share award scheme, exchange differences on foreign currency translation recognized in other comprehensive income/(loss), and statutory reserve required by relevant laws of the People's Republic of China (the "PRC") applicable to the Company's PRC subsidiaries and consolidated affiliated entities.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

As detailed and defined in Note 1.2, during the nine months ended September 30, 2019 and 2020, the [REDACTED] Business was carried out by the PRC Operating Entities and Remaining JD Group. No separate bank accounts were maintained by the [REDACTED] (as defined in Note 1.2). The treasury and cash disbursement functions of the [REDACTED] were centrally administrated under JD Group. The net cash flows generated by the [REDACTED] were kept in the bank accounts of JD Group. Prior to the Agreement Effective Date of the Series A Preference Shares financing as set out in Note 1.2, the Group was not able to receive and retain the profits arising from the [REDACTED]. Accordingly, the profits generated or funds utilized by JD Group were presented as movements in the equity while there were no cash and cash equivalents balances for the [REDACTED] and there were no cash received/paid directly by the Group in relation to the operation of the [REDACTED].

After the Agreement Effective Date of the Series A Preference Shares financing, the Group was eligible to receive and retain the profits or obligated to repay the losses arising from the [REDACTED] accumulated in JD Group since January 1, 2017. Accordingly, the profits generated or funds utilized by the [REDACTED] in JD Group on behalf of the Group since January 1, 2017 were recognized as the amounts due from/to related parties without any cash flow from/to the [REDACTED].

For the purpose of presenting a complete set of financial information of the Group, the following comprises the information of cash inflow/outflow of the Group and cash inflow/outflow of the [REDACTED] which was received/paid via JD Group prior to completion of the [REDACTED].

	Note	Nine months ended September 30,	
		2020	2019
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Operating activities			
Cash generated from operations	34	6,525,442	2,001,603
Interest received		128,314	277,111
Income tax paid		(18,402)	(18,630)
Net cash generated from operating activities		6,635,354	2,260,084

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

CONDENSED COMBINED STATEMENT OF CASH FLOWS—continued

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Investing activities		
Withdrawal of restricted cash	788	—
Placement of restricted cash	(1,032)	—
Placement of term deposits	(1,021,515)	—
Payment for financial assets at fair value through profit or loss	(4,087,520)	(352,268)
Maturity of financial assets at fair value through profit or loss	1,172,275	—
Proceeds from disposal of financial assets at fair value through profit or loss	14,375	—
Acquisition of investment in an associate	—	(357,350)
Loans to related parties	(38,230)	—
Net cash outflow on acquisition of a non-wholly owned subsidiary	(1,474,290)	—
Purchases of property and equipment	(1,758,564)	(1,679,857)
Proceeds from disposal of property and equipment	11,184	14,642
Purchases of intangible assets	(2,732)	(10,316)
Payments for right-of-use assets	(15,599)	(38,632)
Payments for rental deposits	(208,080)	(50,471)
Net cash used in investing activities	(7,408,940)	(2,474,252)
Financing activities		
Proceeds from issuance of ordinary shares	1	—
Proceeds from borrowings	300,000	—
Repayment of borrowings	(262,832)	—
Repurchase of share options	(1,699)	—
Net proceeds from issuance of convertible redeemable preferred shares	443,039	—
Principal portion of lease payments	(2,074,504)	(1,605,233)
Interest paid	(297,629)	(253,310)
Advance from/(payment to) JD Group	3,392,028	(9,771,619)
Cash injection by interest holders of consolidated investment funds	15,000	115,750
Capital injection from non-controlling shareholders	—	36,032
Net cash generated from/(used in) financing activities	1,513,404	(11,478,380)
Net increase/(decrease) in cash and cash equivalents	739,818	(11,692,548)
Cash and cash equivalents at the beginning of the period	9,274,203	19,249,997
Effects of foreign exchange rate changes on cash and cash equivalents	(229,149)	5,861
Cash and cash equivalents at the end of the period	9,784,872	7,563,310

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

1. General information and basis of preparation and presentation of the condensed combined financial statements

1.1 General information

JD Logistics, Inc. (the “Company”), formerly known as Jingdong Express Group Corporation, was incorporated in the Cayman Islands in January 2012 as an exempted company registered under the laws of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are stated in the section headed “Corporate Information” of [REDACTED]. The Company acting as an investment holding company and its subsidiaries and consolidated affiliated entities (collectively, the “Group”), engage in the business of providing integrated supply chain solutions and logistics services to customers across a wide range of industries (collectively, the “[REDACTED] Business”) through its leading logistics network in the PRC. The Group’s principal operations and geographic markets are in the PRC.

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

1.2 History, reorganization and basis of preparation and presentation of the condensed combined financial statements

The condensed combined financial statements were prepared by combining the condensed consolidated financial statements of the Group and the condensed financial information of the [REDACTED] as defined below for the nine months ended September 30, 2020, prepared in conformity with IAS 34 *Interim Financial Reporting* and the conventions applicable for the Reorganization and [REDACTED] (details are set out below). The condensed combined financial statements should be read in conjunction with the historical financial information of the Group included in the accountants’ report as set out in Appendix I to the [REDACTED].

The condensed combined financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

In January 2012, the Company was incorporated in the Cayman Islands by Jingdong Technology Group Corporation.

In August 2012, Beijing Jingbangda Trade Co., Ltd. (“Beijing Jingbangda”) was incorporated in the PRC as a wholly foreign-owned subsidiary of the Company through an intermediate holding company.

Prior to the Reorganization and the [REDACTED] as defined below, the [REDACTED] Business was carried out by the Group’s subsidiaries in the PRC, and certain subsidiaries and consolidated affiliated entities of JD Group (collectively, the “Remaining JD Group”, and the portion of the [REDACTED] Business carried out by the Remaining JD Group is referred to as “[REDACTED]”). Subsequent to the completion of the Reorganization, the [REDACTED] Business was carried out by the Group’s subsidiaries and consolidated affiliated entities in the PRC (collectively, the “PRC Operating Entities”) and the Remaining JD Group.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

- 1. General information and basis of preparation and presentation of the condensed combined financial statements—continued**
- 1.2 History, reorganization and basis of preparation and presentation of the condensed combined financial statements—continued**

Reorganization

The Group underwent a reorganization (the “Reorganization”) which primarily involved the following:

In May 2017, Xi’an Jingxundi Supply Chain Technology Co., Ltd. (“Xi’an Jingxundi”) was incorporated in the PRC as a wholly foreign-owned subsidiary of the Company through an intermediate holding company.

In June 2017, Xi’an Jingdong Xincheng Information Technology Co., Ltd. (“Xi’an Jingdong Xincheng”) was incorporated in the PRC. The paid-in capital of Xi’an Jingdong Xincheng was funded by the Company, and the equity interests are held by certain individuals (“Nominee Shareholders”). Xi’an Jingxundi, Xi’an Jingdong Xincheng and its Nominee Shareholders entered into a series of agreements, which enable Xi’an Jingxundi to obtain control over Xi’an Jingdong Xincheng and its subsidiaries. See the section headed “Contractual Arrangements” below for further details.

Subsequent to the incorporation of Xi’an Jingdong Xincheng, all the equity interests of Beijing Jingbangda were transferred to Xi’an Jingdong Xincheng at a cash consideration of RMB980,000,000. Upon the completion of the transfer, Beijing Jingbangda became a subsidiary of Xi’an Jingdong Xincheng. As both Xi’an Jingdong Xincheng and Beijing Jingbangda were under the common control of the Group, the transfers of Beijing Jingbangda have been accounted for as business combination involving entities under common control using the principle of merger accounting.

[REDACTED]

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

- 1. General information and basis of preparation and presentation of the condensed combined financial statements—continued**
- 1.2 History, reorganization and basis of preparation and presentation of the condensed combined financial statements—continued**

[REDACTED]

Series A Preference Shares

In February 2018, the Company entered into a subscription agreement for the series A preference shares (the “Series A Preference Shares”) financing with certain third-party investors (the “Series A Share Subscription Agreement”), which became effective on February 14, 2018 (the “Agreement Effective Date”), details are set out in Note 28. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between JD Group and the Group were established and became effective since January 1, 2018 (the “Pricing Policies Effective Date”). Such arrangements of the related party transactions affected the condensed combined financial statements as below.

Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, expenses incurred by JD Group that are impracticable to be specifically identified to the **[REDACTED]** Business are determined on the following basis: (i) items included in selling and marketing expenses, research and development expenses, and general and administrative expenses that are impracticable to be specifically identified were allocated from the JD Group’s respective expenses on the basis of the combination of revenues, the headcount of employees, and total operating expenses; (ii) income tax expense was calculated based on the tax rate of the entities that the **[REDACTED]** Business were spun off from, as if the **[REDACTED]** Business was a separate tax reporting entity.

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

The Company believes that the method of the allocation and the recognition of the above expense items forms a reasonable basis of presenting the operating results of the **[REDACTED]** Business on a stand-alone basis for the current period. Other than those items mentioned above, all other items of assets and liabilities, income and expenses of the **[REDACTED]** Business are specifically identified.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

1. General information and basis of preparation and presentation of the condensed combined financial statements—continued

1.2 History, reorganization and basis of preparation and presentation of the condensed combined financial statements—continued

Contractual Arrangements

In June 2017, to comply with the relevant laws and regulations in the PRC which prohibit or restrict foreign ownership of the companies where the PRC operating licenses are required, Xi'an Jingxundi entered into a series of contractual arrangements (the “Contractual Arrangements”) with Xi'an Jingdong Xincheng and its Nominee Shareholders, including loan agreement, exclusive option agreement, share pledge agreement, exclusive business cooperation agreement, shareholders' right entrustment agreement and powers of attorney. These Contractual Arrangements can be extended at Xi'an Jingxundi's option prior to the expiration date.

The Contractual Arrangements enable Xi'an Jingxundi to control Xi'an Jingdong Xincheng by:

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

2. Application of new and amendments to IFRSs

For the purpose of preparing and presenting the condensed combined financial statements for the nine months ended September 30, 2020, the Group has consistently applied accounting policies in compliance with IFRSs, which are effective for the accounting periods beginning on January 1, 2020, along with the Amendments to References to the Conceptual Framework in IFRS Standards. In addition, the Group has early applied the Amendment to IFRS 16 “Covid-19-Related Rent Concessions” from January 1, 2020.

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed combined financial statements.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

3. Summary of significant accounting policies

The condensed combined financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to IFRSs and application of certain accounting policies which became relevant to the Group as detailed in Notes 3.1 to 3.4, the accounting policies and methods of computation used in the condensed combined financial statements for the nine months ended September 30, 2020 are the same as those followed in the preparation of the historical financial information of the Group included in the accountants’ report as set out in Appendix I to [REDACTED].

3.1 Business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee’s Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16 *Leases*) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

3. Summary of significant accounting policies—continued

3.1 Business combinations—continued

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation are initially measured at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

3. Summary of significant accounting policies—continued

3.2 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

3.3 Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

3. Summary of significant accounting policies—continued

3.4 Equity instruments with preference rights

The equity instruments with preference rights issued by Kuayue-Express Group Co., Ltd. (“Kuayue Express”) are contingently redeemable by the holders under certain events. The details of equity instruments with preference rights issued by Kuayue Express are set out in Note 29.

The equity instruments with preference rights issued by Kuayue Express are separated into liability and equity components based on the terms of the contract. On issuance of the equity instruments with preference rights, the fair value of the liability component is determined using a market rate for an equivalent instrument without preference features. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on redemption. The remainder of the proceeds is allocated to the equity. The carrying amount of the equity component is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the equity instruments with preference rights issued by Kuayue Express, based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

4. Segment information

The Group’s chief operating decision maker, who has been identified as the Chief Executive Officer (the “CEO”), reviews the combined results when making decisions about allocating resources and assessing performance of the Group as a whole and no other discrete financial information is provided to the CEO. Hence, the Group has only one reportable segment.

5. Revenue

Given the central role of inventory management in the Group’s integrated supply chain solutions and logistics services, customers of the Group are categorized based on whether such customers have utilized the Group’s warehouse or inventory management related services, namely warehousing and distribution services. Customers are reviewed by the Group on a regular basis, and customers who have utilized the Group’s warehousing and distribution services in the recent past are classified as the Group’s integrated supply chain customers.

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Type of customer:		
Integrated supply chain customers	39,141,104	29,253,062
Other customers	10,366,113	5,322,750
Total	<u>49,507,217</u>	<u>34,575,812</u>
Timing of revenue recognition:		
Overtime	47,165,859	33,058,272
A point in time	2,341,358	1,517,540
Total	<u>49,507,217</u>	<u>34,575,812</u>

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

6. Other income, gains/(losses), net

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Government grants	297,652	80,878
Impairment of interest in a joint venture	—	(150,000)
Fair value changes of financial assets at fair value through profit or loss	50,967	(130,333)
Gains on disposal of property and equipment	1,550	4,295
Investment losses attributable to interest holders of consolidated investment funds	625	176
Others	56,407	(3,629)
Total	<u>407,201</u>	<u>(198,613)</u>

The government grants were mainly incentives provided by local government authorities in the PRC. There were no unfulfilled conditions or contingencies relating to these government grants as of September 30, 2019 and 2020.

7. Finance income

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Interest income from bank deposits	132,592	268,465
Interest income from related parties (Note 31)	70,181	31,197
Total	<u>202,773</u>	<u>299,662</u>

8. Finance costs

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Interest expense on lease liabilities	300,610	273,737
Interest expense to related parties (Note 31)	—	59,965
Interest expense from borrowings	10,693	—
Others	3,579	—
Total	<u>314,882</u>	<u>333,702</u>

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

9. Impairment losses under expected credit loss model, net of reversal

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Impairment losses recognized, net of reversal, on:		
—trade receivables	154,533	118,487
—other receivables	10,785	—
Total	165,318	118,487

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed combined financial statements for the nine months ended September 30, 2020 are the same as those followed in the preparation of the historical financial information of the Group included in the accountants’ report as set out in Appendix I to [REDACTED].

10. Income tax expense

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

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Current tax	29,017	32,021
Deferred tax (Note 30)	(20,901)	566
Total	8,116	32,587

11. Loss before income tax

Loss before income tax has been arrived at after charging:

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Depreciation of right-of-use assets	2,385,481	1,993,298
Depreciation of property and equipment	1,047,275	892,683
Amortization of other intangible assets	44,371	3,123
Shipping charges	14,169,164	9,821,624
Packing materials	1,296,735	852,081
Vehicle expenses	1,006,876	864,609

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

12. Employee benefit expenses

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Salaries and bonuses	14,826,119	10,795,441
Welfare, medical and other benefits	5,214,456	4,556,874
Share-based payments	688,853	603,490
Total	<u>20,729,428</u>	<u>15,955,805</u>

13. Loss per share

Loss per share information is not presented as its inclusion, for the purpose of these condensed combined financial statements, is not considered meaningful due to the [REDACTED] and the combined basis of presentation of condensed combined financial statements of the Group as disclosed in Note 1.2.

14. Property and equipment

During the nine months ended September 30, 2020, additions to property and equipment amounted to RMB1,767,390,000 (for the nine months ended September 30, 2019: RMB1,433,588,000), including the effect arising from acquisition of a subsidiary, details of which are set out in Note 32.

15. Right-of-use assets

During the nine months ended September 30, 2020, the Group entered into several new lease agreements with lease terms ranged from 1 to 15 years. The total addition to right-of-use assets for the current period was RMB5,283,315,000 (for the nine months ended September 30, 2019: RMB4,502,642,000), and the total addition to lease liabilities for the current period was RMB5,239,855,000 (for the nine months ended September 30, 2019: RMB4,466,201,000), including the effect arising from acquisition of a subsidiary, details of which are set out in Note 32.

16. Other intangible assets

During the nine months ended September 30, 2020, additions to other intangible assets amounted to RMB2,933,243,000 (for the nine months ended September 30, 2019: RMB6,354,000), including effect arising from acquisition of a subsidiary, details of which are set out in Note 32.

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

17. Interest in an associate

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Cost of listed investment in an associate	357,350	357,350
Share of post-acquisition loss and other comprehensive (loss)/income	(81,647)	(69,418)
	<u>275,703</u>	<u>287,932</u>
Fair value of listed investment in an associate	340,822	410,952

18. Financial assets at fair value through profit or loss

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Non-current:		
Equity securities in listed entities	428,987	367,867
Preferred shares investments in unlisted entities	479,013	498,772
Equity investments in unlisted entities	159,960	159,960
	<u>1,067,960</u>	<u>1,026,599</u>
Current:		
Wealth management products	3,541,131	—

Equity securities in listed entities

The fair values of equity securities in listed entities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs.

Preferred shares investments in unlisted entities

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. The major assumptions used in the valuation for investment in private companies refer to Note 33.

Equity investments in unlisted entities

These investments represent equity investments in unlisted entities, in the form of ordinary shares without significant influence. The major assumptions used in the valuation for investment in private companies refer to Note 33.

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CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

18. Financial assets at fair value through profit or loss—continued

Wealth management products

Wealth management products purchased by the Group are issued by major and reputable commercial banks without guaranteed returns. The expected rates of return for such wealth management products range from 1.8% to 3.6%. The Group managed and evaluated the performance of investments on a fair value basis in accordance with the Group’s risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

19. Trade receivables

	As of September 30, 2020	As of December 31, 2019
	RMB’000 (Unaudited)	RMB’000 (Audited)
Trade receivables from third parties	4,956,971	3,246,423
Trade receivables from related parties* (Note 31)	83,689	94,160
Less: allowance for credit losses	(278,358)	(110,920)
	<u>4,762,302</u>	<u>3,229,663</u>

* Trade receivables from related parties do not include trade receivables from JD Group in relation to the provision of integrated supply chain solutions and logistics services by the Group.

The Group allows a credit period of 30 to 180 days to its trade customers. The following is an aging analysis of trade receivables presented based on the billing date.

	As of September 30, 2020	As of December 31, 2019
	RMB’000 (Unaudited)	RMB’000 (Audited)
Within 3 months	4,690,006	3,138,218
3 to 6 months	138,866	104,191
6 to 12 months	131,644	57,154
Over 12 months	80,144	41,020
	<u>5,040,660</u>	<u>3,340,583</u>
Less: allowance for credit losses	(278,358)	(110,920)
	<u>4,762,302</u>	<u>3,229,663</u>

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

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

20. Prepayments, other receivables and other assets

	As of September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
<i>Non-current:</i>		
Refundable deposits	431,901	222,262
Pallets	212,817	156,748
Long-term prepaid expenses	184,980	98,763
Prepayments for property and equipment	64,896	11,486
Others	1,827	1,858
	<u>896,421</u>	<u>491,117</u>
<i>Current:</i>		
Amounts due from related parties (Note 31)	11,069,152	10,606,784
Prepaid expenses	1,091,391	634,079
Refundable deposits	180,472	92,059
Receivables for capital injection from non-controlling interests	150,000	—
Prepayments to suppliers	122,683	84,387
Loans to related parties*	42,084	3,854
Interest receivables	17,424	13,146
Others	162,973	37,745
	<u>12,836,179</u>	<u>11,472,054</u>
Less: allowance for credit losses	(30,158)	(10,860)
	<u>12,806,021</u>	<u>11,461,194</u>

* As of September 30, 2020, loans to related parties were secured by unlisted equity interest in debtors, of which RMB7,084,000 were with interest rate at 12% per annum and RMB35,000,000 were interest-free.

21. Share capital

The Company

Authorized

	Number of ordinary shares	Nominal value of ordinary shares USD	Number of preference shares	Nominal value of preference shares USD
As of January 1, 2019, December 31, 2019 and September 30, 2020	38,962,800,000	974,070	1,037,200,000	25,930

Issued and fully paid

	Number of ordinary shares	Nominal value of ordinary shares USD	Nominal value of preference shares RMB
As of January 1, 2019, September 30, 2019, and January 1, 2020	3,924,000,000	98,100	610,000
Issuance of ordinary shares ¹	8,467,879	212	1,000
As of September 30, 2020	<u>3,932,467,879</u>	<u>98,312</u>	<u>611,000</u>

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

21. Share capital—continued

1. In August 2020, the Company issued 8,467,879 ordinary shares as part of the consideration for acquisition of Kuayue Express. Details are set out in Note 32.

	As of September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Presented as	611	610

22. Non-controlling interests

	Share of net assets of subsidiaries RMB'000	Share options reserve of subsidiaries RMB'000	Total RMB'000
As of January 1, 2019 (Audited)	—	—	—
Share of profit for the period	1	—	1
Capital injection from non-controlling shareholders	36,032	—	36,032
As of September 30, 2019 (Unaudited)	36,033	—	36,033
As of January 1, 2020 (Audited)	32,446	—	32,446
Share of profit for the period	59,512	—	59,512
Acquisition of a non-wholly owned subsidiary (Note 32)	1,960,692	—	1,960,692
Additional non-controlling interests arising on partial disposal of a subsidiary	149,305	—	149,305
Share options of subsidiaries	—	3,223	3,223
As of September 30, 2020 (Unaudited)	2,201,955	3,223	2,205,178

23. Share-based payments

Employees of the Group are eligible for JD Group Share Incentive Plan, which includes share options and restricted share units (“RSUs”). In addition, share options were granted to eligible employees and non-employees pursuant to the JD Logistics Share Incentive Plan. Furthermore, eligible employees of Kuayue Express are eligible to Kuayue Express Share Incentive Plan.

The table below sets forth share-based payments for RSUs and share options during the nine months ended September 30, 2019 and 2020:

	Nine months ended September 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Share options	602,995	437,869
RSUs	138,764	283,263
Total	741,759	721,132

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CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

23. Share-based payments—continued

JD Group Share Incentive Plan

The shared-based awards to the Group’s employees are granted under JD Group Share Incentive Plan as historically the Group did not have its own share incentive plan. The condensed combined financial statements for the nine months ended September 30, 2020 include allocation of the expenses recorded at JD Group based on the Group’s employees participating under JD Group Share Incentive Plan.

The Group accounted for JD Group Share Incentive Plan by measuring the services received from the grantees in accordance with the requirement applicable to equity-settled share-based payment transactions in accordance with IFRS 2, and recognized a corresponding increase in equity as a deemed contribution from JD Group.

The RSUs and share options are generally service-based and scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of JD Group Share Incentive Plan, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

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

Share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2020	852,002	7.88	4.7
Exercised	(571,736)	6.89	
Transferred*	58,500	2.24	
Outstanding as of September 30, 2020	<u>338,766</u>	7.80	4.0

* The transfer represents the addition or deduction of share options that were previously granted to employees who transferred into or out of the [REDACTED] Business during the current period.

The number of exercisable share options as of September 30, 2020 was 195,430.

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

23. Share-based payments—continued

RSUs

	<u>Number of RSUs</u>	<u>Weighted-average grant-date fair value</u>
		USD
Outstanding as of January 1, 2020	11,364,022	14.78
Granted	485,428	25.16
Vested	(2,362,910)	14.70
Forfeited	(690,722)	15.07
Transferred*	(282,740)	13.82
Outstanding as of September 30, 2020	<u>8,513,078</u>	15.41

* The transfer represents the addition or deduction of RSUs that were previously granted to employees who transferred into or out of the [REDACTED] Business during the current period.

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

JD Logistics Share Incentive Plan

The Group granted share-based awards to eligible employees and non-employees pursuant to the JD Logistics Share Incentive Plan, which governs the terms of the awards. On March 31, 2018, the Company adopted the JD Logistics Share Incentive Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of the Group.

As of December 31, 2019 and September 30, 2020, the Group had reserved 291,856,615 and 192,788,926 ordinary shares, respectively, available to be granted as share-based awards under the JD Logistics Share Incentive Plan.

The share options are generally scheduled to be vested over six years. One-sixth of the awards shall be vested upon the first anniversary dates of the grants or the end of the calendar year, and the remaining of the awards shall be vested on straight line basis at the anniversary years or the end of the remaining calendar year.

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

23. Share-based payments—continued

Share options

(a) Service-based share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2020	193,595,785	0.01	8.7
Granted	119,116,400	0.01	
Repurchased	(161,323)	0.01	
Forfeited	(8,984,054)	0.01	
Outstanding as of September 30, 2020	<u>303,566,808</u>	0.01	8.5

The number of exercisable share options as of September 30, 2020 was 46,546,027.

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The estimated fair value of each option grant is estimated on the date of grant using the Binominal option-pricing model with the following assumptions:

Expected volatility	42.0% to 43.0%
Risk-free interest rate (per annum)	1.3% to 3.2%
Expected dividend yield	—
Expected term (in years)	10
Fair value of the underlying shares on the date of option grants (USD)	1.68 to 1.7

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The weighted average grant date fair value of options granted for the nine months ended September 30, 2020 was USD1.69 per share.

(b) Performance-based share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2020	14,764,000	0.01	9.3
Forfeited	(10,903,334)	0.01	
Outstanding as of September 30, 2020	<u>3,860,666</u>	0.01	8.5

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

23. Share-based payments—continued

The number of exercisable share options as of September 30, 2020 was 625,653.

(c) Market-based share options

The 43,600,000 share options awarded to the CEO in April 2018 are subject to service condition and market condition and vest only if the market condition determined by the board of directors of the Company has been satisfied.

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2020	43,600,000	0.01	8.2
Outstanding as of September 30, 2020	<u>43,600,000</u>	<u>0.01</u>	<u>7.5</u>

The number of exercisable share options as of September 30, 2020 was nil.

Other Share-based Compensation Allocation

The share-based payments of JD Group’s employees in the headquarters, including service-based RSUs and share options, were allocated to the Group based on corresponding drivers, amounting to RMB52,906,000 for the nine months ended September 30, 2020 (RMB117,642,000 for the nine months ended September 30, 2019), which were treated as deemed contribution from JD Group and recorded in reserves.

Kuayue Express Share Incentive Plan

In October 2019, Kuayue Express granted share-based awards to eligible employees to attract and retain the best available personnel, provide additional incentives to employees and directors and promote the success of Kuayue Express (“Kuayue Express Share Incentive Plan”). The Kuayue Express Share Incentive Plan consists of service-based share options, which are generally scheduled to be vested over 1 to 3 years.

As of September 30, 2020, Kuayue Express has granted accumulative 10,417,390 options of Kuayue Express to its employees. For the nine months ended September 30, 2020, total share-based payments of RMB3,223,000 was recognized in the Group’s condensed combined statement of profit or loss for the share options granted under the Kuayue Express Share Incentive Plan.

24. Dividends

No dividends had been paid or declared by the Company or its subsidiaries or its consolidated affiliated entities during the current period.

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

25. Trade payables

The following is an aging analysis of trade payables presented based on the recognition date:

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 3 months	3,364,657	3,937,357
3 to 6 months	586,516	4,884
6 to 12 months	300,206	6,911
Over 12 months	20,362	8,264
	<u>4,271,741</u>	<u>3,957,416</u>

The credit period of trade payables is mainly ranging from 30 to 120 days.

26. Accrued expenses and other payables

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Amounts due to related parties (Note 31)	10,892,047	6,644,788
Salary and welfare payables	2,408,242	1,773,098
Accrued expenses	1,883,208	1,110,062
Deposits	541,229	369,207
Packing materials payables	397,373	465,968
Property and equipment payables	601,226	361,260
Other tax payables	182,876	181,827
Amount due to non-controlling shareholder*	101,377	—
Temporary receipt	89,836	92,004
Others	432,921	187,806
	<u>17,530,335</u>	<u>11,186,020</u>

* Amount due to non-controlling shareholder of RMB101,377,000 and long-term payables of RMB200,000,000 were originated from the loan provided by non-controlling shareholder of Kuayue Express. Long-term payables had a term of three years.

27. Borrowings

	As of September 30, 2020
	RMB'000 (Unaudited)
Non-current:	
Bank loans—secured	111,605
Current:	
Bank loans—secured	611,671
	<u>723,276</u>

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

27. Borrowings—continued

As of September 30, 2020, the Group’s borrowings had been secured by the pledge of the Group’s property and equipment with carrying amount of RMB16,433,000, the pledge of capital assets of certain non-controlling shareholders of Kuayue Express, and guarantees from certain non-controlling shareholders of Kuayue Express.

Based on scheduled repayment dates set out in the loan agreements, the carrying amounts of the above borrowings are repayable as follows:

	As of September 30, 2020 RMB’000 (Unaudited)
Bank loans repayable:	
Within one year	611,671
Within a period of more than one year but not exceeding two years	7,500
Within a period of more than two years but not exceeding five years	99,190
Within a period of more than five years	4,915
	<u>723,276</u>

As of September 30, 2020, the interest rates of the Group’s borrowings range from 4.05% to 5.70% per annum.

The exposure of the Group’s borrowings are as follows:

	As of September 30, 2020 RMB’000 (Unaudited)
Fixed-rate borrowings	611,671
Variable-rate borrowings	111,605
	<u>723,276</u>

28. Convertible redeemable preferred shares

	As of September 30, 2020 RMB’000 (Unaudited)	As of December 31, 2019 RMB’000 (Audited)
Financial liability at FVTPL		
Series A Preference Shares	<u>19,591,129</u>	<u>18,069,639</u>

Series A Preference Shares

In February 2018, the Group entered into definitive agreements with third-party investors to raise financing, with the total amount of USD2,510,000,000 (equivalent to RMB15,973,564,000) by

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28. Convertible redeemable preferred shares—continued

issuance of 1,004,000,000 Series A Preference Shares, representing approximately 19% of the ownership of the Company on a fully diluted basis. The Series A Preference Shares are contingently redeemable by the holders 5 years from the issuance date in the event that a [REDACTED] (the “Qualified [REDACTED]”) has not occurred and the Series A Preference Shares have not been converted. The Qualified [REDACTED] is defined as [REDACTED] that (i) has been approved by the board of directors of the Company, or (ii) with [REDACTED] that values the Company at no less than USD20,000,000,000 on a fully diluted basis immediately following the completion of such [REDACTED].

In August 2020, the Company issued 22,867,347 Series A Preference Shares to third-party investors in exchange for USD64,029,000 (equivalent to RMB443,039,000).

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

Dividend Rights

As regards to dividends, the Series A Preference Shares shall rank pari passu with the ordinary shares and the holders of the Series A Preference Shares shall be entitled to the same amount of dividends as the holders of the ordinary shares on an as converted basis as if they were a single class. No dividend or distribution shall be payable except out of any funds legally available.

Voting Rights

The holder of each ordinary share issued and outstanding should have one vote in respect of each ordinary share held and the holder of each Series A Preference Share shall carry such number of votes as is equal to the number of votes of ordinary shares then issuable upon the conversion of such Series A Preference Shares. The holders of the Series A Preference Shares and the holders of ordinary shares shall vote together and not as a separate class.

Liquidation Preferences

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, all assets and funds of the Company legally available for distribution (after satisfaction of all creditors’ claims and claims that may be preferred by law) shall be distributed ratably among the holders according to their relative number of ordinary shares held by such holders (all the Series A Preference Shares as if they had been converted into ordinary shares immediately prior to such liquidation, dissolution or winding up of the Company).

Redemption Rights

From and after the fifth anniversary of the Series A Preference Shares original issuance date, and prior to the consummation of a Qualified [REDACTED], each holder of the Series A Preference Shares shall have the rights at any time to require and demand the Company to redeem all or any portion of the Series A Preference Shares held by such holder.

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

28. Convertible redeemable preferred shares—continued

The initial redemption price payable on each Series A Preference Share is the total of:

- (i) any dividend relating to each Series A Preference Share which has been declared by the Company but unpaid, to be calculated up to and including the date of the redemption; plus
- (ii) the Series A Preference Shares purchase price, that is USD2.50 per share, subject to appropriate adjustments in the event of any share dividend, share combination or similar recapitalization events.

Conversion Rights

Each Series A Preference Share shall be convertible, at the option of the holder of the Series A Preference Shares, at any time after the date of issuance of such Series A Preference Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preference Shares purchase price by the conversion price then applicable to such Series A Preference Shares. The conversion price of each Series A Preference Share is the same as its original issuance price if no adjustments to conversion price have occurred. As of September 30, 2020, each Series A Preference Share is convertible into one ordinary share.

Each Series A Preference Share shall automatically be converted into ordinary shares (i) upon the consummation of a Qualified [REDACTED]; or (ii) in the event that the holders of the Series A Preference Shares holding at least 50% of the Series A Preference Shares in issue elect to convert the Series A Preference Shares.

The movements of the Series A Preference Shares issued by the Company are set out as below:

	Nine months ended September 30, 2020	Year ended December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Carrying amount at the beginning of the year/period	18,069,639	17,462,915
Issuance of Series A Preference Shares	443,039	—
Change in fair value	1,556,464	315,477
Currency translation differences	(478,013)	291,247
Carrying amount at the end of the year/period	<u>19,591,129</u>	<u>18,069,639</u>

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

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Discount rate	16.5%	17.0%
Risk-free interest rate	0.37% to 3.84%	1.71% to 3.71%
Discount for lack of marketability (“DLOM”)	25%	25%
Expected volatility	39%	38%

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28. Convertible redeemable preferred shares—continued

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

29. Equity instruments with preference rights

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
<i>Financial liability at amortized cost</i>		
Equity instruments with preference rights issued by Kuayue Express	589,353	—

Equity instruments with preference rights issued by Kuayue Express

In August and October 2018, Kuayue Express entered into definitive agreements with third-party investors and issued equity instruments of Kuayue Express with preference rights (“Kuayue Express Series A and A+ Preference Equity Instruments”).

The primary preference rights of Kuayue Express Series A and A+ Preference Equity Instruments are as follows:

Voting rights

Each of the Kuayue Express Series A and A+ Preference Equity Instrument has voting rights equivalents to the number of ordinary equity securities into which such equity instrument with preference rights could be then convertible.

Dividends rights

The holders of Kuayue Express Series A and A+ Preference Equity Instruments are entitled to receive dividends, out of any assets legally available, as and if declared by the board of directors of Kuayue Express. Such distributions shall not be cumulative. To the extent any dividend is declared and paid, such dividend shall be paid ratably to all holders of equity securities in Kuayue on a fully diluted basis. The dividend right is considered as an equity component included in the equity instruments with preferential rights and will not be remeasured in subsequent periods.

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29. Equity instruments with preference rights—continued

Liquidation Preferences

In the event of any liquidation, dissolution or winding up of Kuayue Express, either voluntary or involuntary, distributions to shareholders of Kuayue Express shall be made in the following manner (after satisfaction of all creditors’ claims and claims that may be preferred by law):

Each holder of Kuayue Express Series A and A+ Preference Equity Instrument shall be entitled to receive the amount equal to 100% of the applicable purchase price of such Kuayue Express Series A and A+ Preference Equity Instruments, plus the corresponding share of retained profits of Kuayue Express, prior and in preference to any distribution of any of the assets or surplus funds of Kuayue Express to the holders of ordinary equity securities.

If the assets and funds available for distribution shall be insufficient to permit the payment to such holders of the full preferred preference amount, the liquidation preference amount will be distributed ratably to the holders of Kuayue Express Series A and A+ Preference Equity Instruments in accordance with their relative shareholding.

After distributing or paying in full the liquidation preference amount to all of the holders of Kuayue Express Series A and A+ Preference Equity Instruments, the remaining assets of Kuayue Express available for distribution, if any, shall be distributed to the holders of ordinary equity securities on a pro-rata basis, based on the number of equity securities then held by each holder on a fully diluted basis.

Redemption Rights

Upon the earlier to occur of (i) Kuayue Express has not completed an initial public offering following the ninth anniversary of the issuance date of Kuayue Express Series A or A+ Preference Equity Instruments, or (ii) any material breach of any transaction agreement by Kuayue Express or any founder party of Kuayue Express, any holder of Kuayue Express Series A or A+ Preference Equity Instruments may require Kuayue Express to redeem any or all of the then outstanding equity securities held by such holders at the redemption price which represent the purchase price, plus an interest at an annual rate of 5% calculating from the issuance date to the payment date, less any retained profits collected by such holder.

The effective interest rate of the liability component is 5.63%. The movements of the liability component of Kuayue Express Series A and A+ Preference Equity Instruments are set out as below:

	From August 17, 2020 to September 30, 2020
	RMB’000 (Unaudited)
Carrying amount at the acquisition date	585,774
Accreted interest	3,579
Carrying amount at the end of the period	<u>589,353</u>

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

30. Deferred tax liabilities

	Accelerated depreciation	Intangible assets acquired in business combinations	Changes in fair value of financial instruments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2019 (Audited)	—	—	—	—
Charge to profit or loss	41,488	—	566	42,054
As of December 31, 2019 (Audited)	41,488	—	566	42,054
(Credit)/charge to profit or loss	(11,450)	(11,096)	1,645	(20,901)
Acquisitions	—	727,888	—	727,888
As of September 30, 2020 (Unaudited)	30,038	716,792	2,211	749,041

Deferred tax assets have not been recognized in respect of the following items:

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Tax losses	1,903,908	3,962,956
Deductible temporary differences	917,110	760,417
	2,821,018	4,723,373

Due to the unpredictability of future profit streams, no deferred tax assets had been recognized for these unused tax losses and deductible temporary differences. As of September 30, 2020, these unrecognized tax losses will expire during the period from 2020 to 2025.

31. Related party transactions

Other than as disclosed elsewhere in the condensed combined financial statements for the nine months ended September 30, 2020, the following significant transactions and balances were carried out between the Group and its related parties during the current period. In the opinion of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

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

Name of related parties	Relationship
JD.com, Inc.	Ultimate parent company of the Company
Jingdong Technology Group Corporation	Immediate parent company of the Company
JD Group	Controlled by JD.com, Inc.
Tencent Holdings Limited and its subsidiaries ("Tencent Group")	A shareholder of the ultimate parent company
AiHuiShou International Co. Ltd. and its subsidiaries ("AiHuiShou Group")	An associate of JD Group
JD Logistics Properties Core Fund, L.P. ("Core Fund")	An associate of JD Group

APPENDIX IA CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

31. Related party transactions—continued

(a) Names and relationships with related parties—continued

<u>Name of related parties</u>	<u>Relationship</u>
Dada Nexus Limited and its subsidiaries (“Dada Group”)	An associate of JD Group
Jingdong Digits Technology Holding Co., Ltd. and its subsidiaries (“JD Digits”)	Controlled by Mr. Richard Qiangdong Liu, the controlling shareholder of JD.com, Inc.

(b) Significant transactions with related parties

During the current period, the supply chain solutions and logistics services revenue, advertising revenue, back-office administrative expenses, and shared service expenses attributable to the [REDACTED] were carved out from the JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, these transactions have been recorded in the condensed combined financial statements based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were the revenue and expenses of the Group.

After the Pricing Policies Effective Date of the Series A Preference Shares financing, based on the terms stipulated in the Series A Share Subscription Agreement, terms and pricing policies of these transactions entered into by JD Group for the Group or between JD Group and the Group were established. Details of these transactions recorded with such terms and pricing policies since that date during the current period are separately shown as follows:

		Nine months ended September 30,	
	Notes	2020	2019
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Rendering of services:			
Services provided to JD Group	(i)	28,006,450	21,422,410
Services provided to JD Digits	(iii)	155,757	81,451
Services provided to AiHuiShou Group	(ii)	48,450	8,809
Services provided to Tencent Group	(ii)	21,375	133,641
Receiving of services:			
Services received from JD Group	(iv)	803,283	541,507
Services received from Dada Group	(v)	1,450,991	897,661
Share-based compensation received from JD.com, Inc.	(iv)	146,907	303,068
Services received from JD Digits	(vi)	70,730	77,306
Lease arrangements:			
Interest on lease liabilities for leases with Core Fund	(vii)	111,169	98,991
Interest on lease liabilities for leases with JD Group	(viii)	11,883	7,167
Receiving or payment of interest:			
Interest income from JD Group	(ix)	70,181	31,197
Interest expenses to JD Group	(ix)	—	59,965

Rendering of services:

- (i) The Group provides integrated supply chain solutions and logistics services to JD Group in exchange for service fees, including but not limited to warehousing and

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

31. Related party transactions—continued

distribution services, express and freight delivery services, after sales and maintenance services, and other related ancillary services.

The Group provides advertising services to JD Group in return for the advertising fees.

- (ii) The Group is primarily engaged in providing supply chain solutions and logistics services to Tencent Group and AiHuiShou Group.
- (iii) The Group is primarily engaged in providing installation and maintenance services, and advertising services to JD Digits.

Receiving of services:

- (iv) JD Group provides back-office administrative support services to the Group, including but not limited to cloud service, provision of servers, information technology support service, certain human resources services, in addition to certain shared services, including office premises sharing, transportation and canteen facilities for staff, administrative purchases and various support services. The Group pays JD Group the actual costs incurred during the service process.

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

- (v) Dada Group primarily provides on-demand delivery services to the Group.
- (vi) JD Digits primarily provides payment and ancillary services to the Group.

Lease arrangements:

- (vii) During the nine months ended September 30, 2020, the Group entered into several lease agreements for the use of operational purposes with Core Fund for 4 to 7 years. Right-of-use assets and lease liabilities amounted to RMB2,636,429,000 (as of September 30, 2019: RMB2,749,655,000) and RMB2,773,498,000 (as of September 30, 2019: RMB2,745,526,000) as of September 30, 2020, respectively.
- (viii) During the nine months ended September 30, 2020, the Group entered into several lease agreements for the use of operational purposes with JD Group for 2 to 6 years. Right-of-use assets and lease liabilities amounted to RMB469,490,000 (as of September 30, 2019: RMB214,183,000) and RMB480,121,000 (as of September 30, 2019: RMB215,809,000) as of September 30, 2020, respectively.

Receiving or payment of interest:

- (ix) To better utilize the excessive cash for higher returns, the Group participates in the treasury management scheme administrated by JD Group, through transferring excessive cash to JD Group and charges interest accordingly, while JD Group charges the Group with interest expenses on amount due to JD Group. The Group is entitled to receive interest income and obligated to make payments of interest expenses with JD Group based on the terms stipulated in the Series A Share Subscription Agreement.

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31. Related party transactions—continued

(c) Significant period end balances with related parties

The Group had the following significant balances with related parties:

	As of September 30, 2020	As of December 31, 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
<i>Due from related parties:</i>		
Amount due from JD Group	10,814,023	10,486,252
Amount due from JD Digits	308,147	143,584
Amount due from Tencent Group	23,914	38,806
Amount due from Dada Group	—	11,579
Amount due from AiHuiShou Group	3,185	15,536
Amounts due from other related parties	3,572	5,187
	<u>11,152,841</u>	<u>10,700,944</u>
<i>Due to related parties:</i>		
Amount due to JD Group	10,708,056	6,474,480
Amount due to Dada Group	306,719	228,456
Amount due to Core Fund	29,486	20,308
Amounts due to other related parties	150,437	152,124
	<u>11,194,698</u>	<u>6,875,368</u>

Other than amount due from JD Group, amounts due from related parties of RMB94,160,000 and RMB83,689,000 as of December 31, 2019 and September 30, 2020, respectively, were trade in nature; and RMB120,532,000 and RMB255,129,000 respectively, were non-trade in nature. Amount due from JD Group as of December 31, 2019 and September 30, 2020 primarily includes (i) trade receivables resulting from the Group’s integrated supply chain solutions and logistics services provided to JD Group, and (ii) non-trade related balances with JD Group.

Other than amount due to JD Group, amounts due to related parties of RMB230,580,000 and RMB302,651,000 as of December 31, 2019 and September 30, 2020, respectively, were trade in nature; and RMB170,308,000 and RMB183,991,000 respectively, were non-trade in nature. Amount due to JD Group as of December 31, 2019 and September 30, 2020 primarily includes (i) payables for services received from JD Group, and (ii) the funds utilized by the [REDACTED] since January 1, 2017 and other non-trade related balances as a result of the carve-out process.

Amounts due from/due to related parties are unsecured and either repayable on demand or due within one year from the end of reporting period. Other than amount due from/due to JD Group, balances with related parties are non-interest bearing.

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

31. Related party transactions—continued

(d) Key management personnel compensation

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

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Salaries and bonuses	2,289	2,227
Share-based payments	64,982	96,609
Pension costs—defined contribution plans	77	77
Welfare, medical and other benefits	630	435
	<u>67,978</u>	<u>99,348</u>

32. Acquisition of a subsidiary

On August 17, 2020, the Group acquired 60.2% of ordinary shares (55.1% of equity interest on a fully diluted basis) in Kuayue Express. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	2,850,000
Equity instruments issued less cash proceeds received	<u>115,856</u>
Total	<u>2,965,856</u>

Acquisition-related costs were immaterial and had been recognized as expenses in the nine months ended September 30, 2020.

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

32. Acquisition of a subsidiary—continued

Assets acquired and liabilities recognized at the date of acquisition

	Fair value
	RMB'000
Other intangible assets	2,919,879
Including: Customer relationship	2,549,400
Technology systems	357,000
Property and equipment	657,777
Right-of-use assets	1,451,216
Prepayments, deposits and other assets	260,286
Inventories	33,661
Trade receivables	829,752
Amount due from a related party	2,460
Financial assets at fair value through profit or loss	638,000
Restricted cash	97,567
Cash and cash equivalents	1,375,710
Lease liabilities	(1,425,238)
Long-term borrowings	(123,296)
Short-term Borrowings	(862,812)
Trade payables	(835,202)
Accrued expenses and other payables	(278,692)
Deferred tax liabilities	(727,888)
Equity instruments with preference rights	(585,774)
	<u>3,427,406</u>

The receivables acquired (which were primarily comprised of trade receivables) with a fair value of RMB829,752,000 at the date of acquisition had gross contractual amounts of RMB923,608,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB93,856,000.

Non-controlling interests

The non-controlling interests (39.8%) in Kuayue Express recognized at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to RMB1,960,692,000. This fair value was estimated by applying an income approach. The following were the key model inputs used in determining the fair value:

- assumed discount rate of 18.5%; and
- assumed long-term sustainable growth rate of 3%.

In addition, the non-controlling interests recognized at the acquisition date include the outstanding share options granted by Kuayue Express to its employees under Kuayue Express Share Incentive Plan.

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

32. Acquisition of a subsidiary—continued

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	2,965,856
Plus: non-controlling interests (39.8% in Kuayue Express)	1,960,692
Less: fair value of net assets acquired	<u>(3,427,406)</u>
Goodwill arising on acquisition	<u>1,499,142</u>

Goodwill arose on the acquisition of Kuayue Express because the acquisition included the assembled workforce of Kuayue Express, benefit of expected synergies, revenue growth and future market development as of the date of acquisition. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition

	RMB'000
Cash consideration paid	2,850,000
Less: cash and cash equivalents balances acquired	<u>(1,375,710)</u>
	<u>1,474,290</u>

Impact of acquisition on the results of the Group

Included in the loss for the period is profit of RMB151,652,000 attributable to the additional business generated by Kuayue Express. Revenue for the period includes RMB1,142,345,000 generated from Kuayue Express.

Had the acquisition of Kuayue Express been completed on January 1, 2020, revenue for the current period of the Group would have been RMB53,748,740,000, and profit for the current period would have been RMB242,129,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2020, nor is it intended to be a projection of future results. In determining the pro-forma revenue and profit of the Group had Kuayue Express been acquired at the beginning of the current period, depreciation of property and equipment and amortization of other intangible assets is calculated based on the recognized amounts of property and equipment and other intangible assets at the date of the acquisition.

33. Fair value management of financial instruments

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and

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NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

33. Fair value management of financial instruments—continued

inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used). The determination of the fair value for convertible redeemable preferred shares is set out in Note 28.

Financial assets/ financial liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	As of September 30, 2020	As of December 31, 2019			
	RMB'000	RMB'000			
Equity securities in listed entities	428,987	367,867	Level 1	Quoted bid prices in an active market	N/A
Equity investments in unlisted entities	159,960	159,960	Level 3	A combination of observable and unobservable inputs	Discount for lack of marketability; market multiples
Preferred shares investments in unlisted entities	210,696	223,911	Level 2	Recent transaction price	N/A
Preferred shares investments in unlisted entities	268,317	274,861	Level 3	A combination of observable and unobservable inputs	Discount for lack of marketability; market multiples
Wealth management products	3,541,131	—	Level 2	Cash flow discounted using the expected return based on observable market inputs	N/A
Payables to interest holders of consolidated investment funds	123,614	109,239	Level 3	Net assets value of the investment funds	Net assets value of the investment funds

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. During the nine months ended September 30, 2019 and 2020, there were no transfers among different levels of fair values measurement.

APPENDIX IA

CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

33. Fair value management of financial instruments—continued

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL	Convertible redeemable preferred shares	Payables to interest holders of consolidated investment funds
	RMB'000	RMB'000	RMB'000
As of January 1, 2019 (Audited)	218,181	17,462,915	—
Changes in fair value	54,731	236,608	(176)
Currency translation differences	4,645	218,434	—
Capital contribution	—	—	115,750
Purchased	157,697	—	—
As of September 30, 2019 (Unaudited)	435,254	17,917,957	115,574
As of January 1, 2020 (Audited)	434,821	18,069,639	109,239
Changes in fair value	—	1,556,464	(625)
Currency translation differences	(6,544)	(478,013)	—
Capital contribution	—	—	15,000
Issued	—	443,039	—
As of September 30, 2020 (Unaudited)	428,277	19,591,129	123,614

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

For the financial assets and financial liabilities that are not measured at fair value on a recurring basis, carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed combined financial statements approximate their fair values.

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CONDENSED COMBINED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED COMBINED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020—continued

34. Note to condensed combined statements of cash flows

	Nine months ended September 30,	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Loss for the period	(11,714)	(996,298)
Adjustments for:		
Income tax	8,116	32,587
Finance costs	314,882	333,702
Finance income	(202,773)	(299,662)
Share of results of an associate	12,130	3,834
Depreciation of property and equipment	1,047,275	892,683
Depreciation of right-of-use assets	2,385,481	1,993,298
Amortization of other intangible assets	44,371	3,123
Impairment loss, net of reversal		
—financial assets under expected credit loss model	165,318	118,487
—interest in a joint venture	—	150,000
Share-based payments	741,759	721,132
Gain on disposal of property and equipment	(1,550)	(4,295)
Fair value changes of financial assets at fair value through profit or loss	(50,967)	130,333
Investment losses attributable to interest holders of consolidated investment funds	(625)	(176)
Fair value changes of convertible redeemable preferred shares	1,556,464	236,608
Foreign exchange losses, net	16,387	16,552
Operating cash flows before movements in working capital	6,024,554	3,331,908
(Increase)/decrease in inventories	(24,134)	16,290
Increase in trade receivables	(857,705)	(1,603,162)
Increase in prepayments, other receivables and other assets	(1,380,230)	(5,906,132)
(Increase)/decrease in contract assets	(138)	23,249
(Decrease)/increase in trade payables	(520,877)	166,575
Increase in accrued expenses and other payables	3,078,447	5,959,324
Increase in contract liabilities	63,807	1,234
Increase in advances from customers	141,718	12,317
Cash generated from operations	6,525,442	2,001,603

35. Contingencies

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

36. Events after the reporting period

Subsequent to the outbreak of the COVID-19 in early 2020, a series of precautionary and control measures have been implemented across the world. The outbreak has been effectively contained in China, but the global spread of COVID-19 is still evolving and there still remains uncertainty over the future development. The Group will pay close attention to the development of the COVID-19 outbreak and continuously evaluate its impact on the financial position and operating results of the Group.

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The information set out in this Appendix does not form part of the accountants’ report on the historical financial information of the Group for each of the two years ended December 31, 2019 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Company’s reporting accountants, nor the condensed combined financial statements of the Group for the nine months ended September 30, 2020 as set out in Appendix I and Appendix IA to [REDACTED], and is included in [REDACTED] for information only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial information” in [REDACTED] and the Accountants’ Report and the Condensed Combined Financial Statements set out in Appendix I and Appendix IA to [REDACTED], respectively.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of [REDACTED] on the unaudited combined tangible assets less liabilities of the Group attributable to owners of the Company as of September 30, 2020, as if [REDACTED] had taken place on that date.

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

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company is prepared based on the unaudited combined tangible assets less liabilities of the Group attributable to owners of the Company as of September 30, 2020 as derived from the Condensed Combined Financial Statements, as set out in Appendix IA to [REDACTED], and adjusted as follows:

	Unaudited combined tangible assets less liabilities of the Group attributable to owners of the Company as of September 30, 2020 RMB’000 (Note 1)	Estimated [REDACTED] from [REDACTED] RMB’000 (Note 2)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of September 30, 2020 RMB’000	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of September 30, 2020 per Share RMB (Note 3)	HKS (Note 4)
Based on an [REDACTED] of [REDACTED] per [REDACTED]	[(3,995,400)]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of [REDACTED] per [REDACTED]	[(3,995,400)]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- The combined tangible assets less liabilities of the Group attributable to owners of the Company as of September 30, 2020 is derived from the Condensed Combined Financial Statements of the Group set out in Appendix IA to [REDACTED], which is based on the unaudited combined net liabilities of the Group attributable to the owners of the Company as of September 30, 2020 of RMB[(1,342,989,000)] with adjustments for intangible assets and goodwill of the Group attributable to owners of the Company as of September 30, 2020 of RMB[1,749,928,000] and RMB[902,483,000] respectively.
- The estimated [REDACTED] from [REDACTED] are based on [REDACTED] to be issued at the [REDACTED] of [REDACTED] and [REDACTED] per [REDACTED], being the low-end and high-end of the indicative range of the [REDACTED], respectively, after deduction of the estimated [REDACTED] and share issue costs (including [REDACTED] and other related expenses) expected

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to be incurred by the Group subsequent to September 30, 2020 and does not take into account allotment and issuance of any [REDACTED] upon the exercise of [REDACTED] and the Shares to be [REDACTED] pursuant to the Pre-[REDACTED] ESOP. For the purpose of calculating the estimated [REDACTED] from [REDACTED], the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to RMB[0.8343] as disclosed in the Exchange Rate Conversion section of the [REDACTED]. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

3. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of September 30, 2020 per Share is calculated based on [REDACTED] Shares, being the number of Shares expected to be in [REDACTED] immediately following the completion of [REDACTED] without taking into account allotment and issuance of any [REDACTED] upon the exercise of [REDACTED] and the Shares to be [REDACTED] pursuant to the [REDACTED] ESOP.
4. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB[0.8343] as disclosed in the Exchange Rate Conversion section of [REDACTED]. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
5. No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of September 30, 2020 to reflect any operating result or other transactions of the Group entered into subsequent to September 30, 2020. In particular, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as shown on the table above have not been adjusted to illustrate the effect of the conversion of Series A Preference Shares into Shares upon the completion of [REDACTED] (the “Conversion”), as detailed below.

As of September 30, 2020, the carrying amount of Series A Preference Shares of the Group was RMB[19,591,129,000] and recognized as financial liabilities. The Series A Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon (1) the completion of [REDACTED] (2) with respect to the Series A Preference Shares, in the event that Series A Preference Shares shareholders holding at least 50% of the Series A Preference Shares in issue elect to convert the Series A Preference Shares, and based on initial conversion ratio of 1:1, and shall be subject to adjustment based on adjustments of the conversion price. Had [REDACTED] and the Conversion been assumed to take place as of September 30, 2020, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company would have increased from approximately [REDACTED] to approximately [REDACTED] based on an [REDACTED] of [REDACTED] per [REDACTED], or from approximately [REDACTED] to approximately [REDACTED] based on an [REDACTED] of [REDACTED] per [REDACTED]. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per [REDACTED] would have increased to [REDACTED] ([REDACTED]) and [REDACTED] ([REDACTED]), based on the [REDACTED] of [REDACTED] per [REDACTED] and [REDACTED] per [REDACTED], respectively. The number of Shares used in the calculation would have increased from [REDACTED] shares to [REDACTED] Shares after assuming the conversion of Series A Preference Shares of the Group. For the purpose of calculating the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share, the translation of Hong Kong dollars into Renminbi or Renminbi into Hong Kong dollars was made at the exchange rate of HK\$1.00 to RMB[0.8343] as disclosed in the Exchange Rate Conversion section of the [REDACTED]. No representation is made that Hong Kong dollars amounts have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

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[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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[REDACTED]

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[REDACTED]

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SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●] and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$[●] divided into [●] shares of US\$[●] each.

2.2 Directors

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the

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Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other

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proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to

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any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting

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for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors. A member holding 40% or more of the issued and outstanding shares of the Company shall be entitled to nominate at least five persons to serve as Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

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2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

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- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Act.

2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but

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if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do

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not within one month from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further one month, the requisitionist(s) themselves or any of them holding no less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice

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shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is canceled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, the Company shall endeavor to cause a notice of such postponement to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

Where a general meeting is postponed:

- (a) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (b) notice of the business to be transacted at the reconvened meeting shall not be required, nor shall any accompanying documents be required to be recirculated, provided that the business to be transacted at the reconvened meeting is the same as that set out in the notice of the original meeting circulated to the members of the Company.

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2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf

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of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied

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wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by check or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every check or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such check or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the

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contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

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The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

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A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an

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advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**1 Introduction**

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 19, 2012 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;

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- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class

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action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the

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Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the

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parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated under the laws of the Cayman Islands on January 19, 2012 as an exempted company with limited liability. Upon our incorporation, our authorized share capital was US\$50,000 divided into 50,000 shares of a nominal value of US\$1.00.

Our registered office address is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Company’s corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III to this document.

Our registered place of business in Hong Kong is at [Room 1901, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay, Hong Kong]. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on [●] with the Registrar of Companies in Hong Kong. Mr. Chiu Ming King [has been] appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is [Room 1901, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay, Hong Kong].

2. Changes in share capital of our Company

The following sets out the changes in our Company’s issued share capital within the two years immediately preceding the date of this document:

- (a) On January 19, 2012, our Company issued one share of par value US\$1.00 to Offshore Incorporations (Cayman) Limited, which was subsequently transferred to Jingdong Technology Group Corporation on the same day;
- (b) On February 8, 2018, February 9, 2018 and March 7, 2018, our Company conducted share subdivisions and new share issuances, resulting in a total of 3,924,000,000 ordinary shares with par value of US\$0.000025 each being issued to Jingdong Technology Group Corporation;
- (c) On March 7, 2018, our Company issued 40,000,000 Series A Preference Shares with par value of US\$0.000025 each, to China Life Trustees Ltd. (中國人壽信託有限公司);
- (d) On March 7, 2018, our Company issued 40,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Jungle Parent Limited;
- (e) On March 7, 2018, our Company issued 28,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Skycus China Fund, L.P.;
- (f) On March 7, 2018, our Company issued 8,000,000 Series A Preference Shares with par value of US\$0.000025 each, to SCC Growth IV Holdco A, Ltd.;
- (g) On March 7, 2018, our Company issued 64,000,000 Series A Preference Shares with par value of US\$0.000025 each, to SCC Growth IV 2018-A, L.P.;
- (h) On March 7, 2018, our Company issued 40,000,000 Series A Preference Shares with par value of US\$0.000025 each, to China Merchants Logistics Synergy Limited Partnership;
- (i) On March 7, 2018, our Company issued 12,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Image Frame Investment (HK) Limited (意像架構投資(香港)有限公司);

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- (j) On March 7, 2018, our Company issued 12,000,000 Series A Preference Shares with par value of US\$0.000025 each, to TPP Follow-on I Holding E Limited;
- (k) On March 7, 2018, our Company issued 20,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Qianshan Logistics L.P. (千山物流基金有限合夥);
- (l) On March 7, 2018, our Company issued 144,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Eastar Capital Fund, L.P.;
- (m) On March 7, 2018, our Company issued 144,000,000 Series A Preference Shares with par value of US\$0.000025 each, to HHJL Holdings Limited;
- (n) On March 7, 2018, our Company issued 352,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Jingdong E-Commerce (Express) LLC;
- (o) On May 11, 2018, our Company issued 12,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Jingdong E-Commerce (Express) LLC;
- (p) On July 9, 2018, our Company issued 40,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Shanghai Hudeyuezhen Enterprise Management Partnership (Limited Partnership) (上海滬德越貞企業管理合夥企業(有限合夥));
- (q) On September 12, 2018 our Company issued 28,000,000 Series A Preference Shares with par value of US\$0.000025 each, to Jingdong E-Commerce (Express) LLC;
- (r) On October 3, 2018, our Company issued 20,000,000 Series A Preference Shares with par value of US\$0.000025 each, to EverestTai Capital LLC (永泰資本有限責任公司);
- (s) On August 24, 2020, our Company issued 8,467,879 ordinary shares with par value of US\$0.000025 each, to Ocean HHJ Holding Limited;
- (t) On August 24, 2020, our Company issued 3,658,776 Series A Preference Shares with par value of US\$0.000025 each, to Hidden Hill SPV II; and
- (u) On August 24, 2020, our Company issued 19,208,571 Series A Preference Shares with par value of US\$0.000025 each, to CG Partners Opportunity Fund SP2.

Save as disclosed above and in the section headed “—Resolutions of Our Shareholders Dated [•], 2021” below, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this document.

3. Changes in the share capital of members of our Group

The following sets out the changes in the share or registered capital of members of our Group within the two years immediately preceding the date of this document:

- On June 14, 2019, Guangxi Jingdong Shangyou Media Co., Ltd. (廣西京東尚佑傳媒有限公司) was incorporated with a registered capital of RMB2,000,000.
- On June 24, 2019, Suqian Jingdong Jixuan Trade Co., Ltd. (宿遷京東集選貿易有限公司) was incorporated with a registered capital of RMB10,000,000.
- On June 27, 2019, the registered capital of Tianjin Huihe Haihe Intelligent Logistics Enterprise Fund Partnership (Limited Partnership) (天津匯禾海河智能物流產業基金合夥企業 (有限合夥)) was increased from RMB50,000,000 to RMB1,500,000,000.

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- On June 27, 2019, the registered capital of Tianjin Huihe Haihe Investment Management Partnership (Limited Partnership) (天津匯禾海河投資管理合夥企業(有限合夥)) was increased from RMB15,000,000 to RMB20,000,000.
- On July 17, 2019, the registered capital of Rongchengxian Jingdong Cloud Technology Trade Co., Ltd. (容城縣京東雲科商貿有限公司) was increased from RMB500,000 to RMB30,000,000.
- On August 21, 2019, Qingdao Qianqing Information Services Co., Ltd. (青島乾清信息服務有限公司) was incorporated with a registered capital of RMB10,000,000.
- On September 26, 2019, Jiangsu Jingdong Cargo Airlines Co., Ltd. (江蘇京東貨運航空有限公司) was incorporated with a registered capital of RMB600,000,000.
- On November 18, 2019, Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) was incorporated with a registered capital of RMB5,000,000.
- On November 27, 2019, Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司) was incorporated with a registered capital of RMB5,000,000.
- On November 29, 2019, Suqian Jingdong Bohai Enterprise Management Co., Ltd. (宿遷京東博海企業管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On November 29, 2019, Suqian Jingdong Keyue Enterprise Management Co., Ltd. (宿遷京東科越企業管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 13, 2019, Hunan Jingxi Logistics Technology Co., Ltd. (湖南京喜物流科技有限公司) was incorporated with a registered capital of RMB2,000,000.
- On December 16, 2019, Anhui Hongbang Tuoxian Logistics Co., Ltd. (安徽弘邦拓先物流有限公司) was incorporated with a registered capital of RMB5,000,000.
- On December 19, 2019, Sichuan Hongbang Tuoxian Logistics Technology Co., Ltd. (四川弘邦拓先物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 23, 2019, the registered capital of Suqian Jingdong Tonglian Logistics Co., Ltd. (宿遷京東通聯物流有限公司) was increased from RMB1,000,000 to RMB10,000,000.
- On January 9, 2020, Shanghai Zhongyou Logistics Technology Co., Ltd. (上海眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On January 10, 2020, Zhejiang Zhongyou Logistics Technology Co., Ltd. (浙江眾郵物流科技有限公司) was incorporated with a registered capital of RMB10,000,000.
- On January 13, 2020, Guangdong Jingdong Xingyou Logistics Co., Ltd. (廣東京東星佑物流有限公司) was incorporated with a registered capital of RMB60,000,000.
- On February 27, 2020, Jiangsu Zhongyou Logistics Technology Co., Ltd. (江蘇眾郵物流科技有限公司) was incorporated with a registered capital of RMB10,000,000.
- On March 10, 2020, Fujian Zhongyou Logistics Technology Co., Ltd. (福建眾郵物流科技有限公司) was incorporated with a registered capital of RMB10,000,000.
- On March 10, 2020, Beijing Zhongyou Logistics Technology Co., Ltd. (北京眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.

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- On March 17, 2020, Shanghai Yixiang Logistics Facilities Technology Co., Ltd. (上海易箱物流設備科技有限公司) was incorporated with a registered capital of RMB20,000,000.
- On April 21, 2020, Chongqing Zhongyou Logistics Technology Co., Ltd. (重慶眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On April 24, 2020, Hunan Zhongyou Logistics Technology Co., Ltd. (湖南眾郵物流科技有限公司) was incorporated with a registered capital of RMB2,000,000.
- On May 11, 2020, Shaanxi Jingdong Medical Supply Chain Management Co., Ltd. (陝西京東醫藥供應鏈管理有限公司) was incorporated with a registered capital of RMB50,000,000.
- On May 25, 2020, Sanya Jingdong Huanhai Supply Chain Technology Co., Ltd. (三亞京東環海供應鏈科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On June 17, 2020 Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) was incorporated with a registered capital of RMB100,000,000.
- On June 24, 2020, Shanxi Zhongyou Supply Chain Management Services Co., Ltd. (山西眾郵供應鏈管理服務有限公司) was incorporated with a registered capital of RMB1,000,000.
- On June 24, 2020, Inner Mongolia Zhongyou Logistics Technology Co., Ltd. (內蒙古眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On June 30, 2020, the registered capital of Kuayue-Express Group Co., LTD. (跨越速運集團有限公司) was increased from RMB467,617,488.91 to RMB566,804,139.00.
- On July 2, 2020, Shandong Tuoxian Logistics Co., Ltd. (山東拓先物流有限公司) was incorporated with a registered capital of RMB3,000,000.
- On July 10, 2020, Jingxiaofu Technology Service Co., Ltd. (京小服科技服務有限公司) was incorporated with a registered capital of RMB50,000,000.
- On July 21, 2020, Hebei Tuoxian Logistics Co., Ltd. (河北拓先物流有限公司) was incorporated with a registered capital of RMB3,000,000.
- On July 30, 2020, Tianjin Zhongyou Logistics Technology Co., Ltd. (天津眾郵物流科技有限公司) was incorporated with a registered capital of RMB5,000,000.
- On August 5, 2020, Hubei Zhongyou Logistics Technology Co., Ltd. (湖北眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On August 7, 2020, Jiangxi Hongbang Tuoxian Logistics Technology Co., Ltd (江西弘邦拓先物流科技有限公司) was incorporated with a registered capital of RMB2,000,000.
- On August 10, 2020, Henan Hongbang Tuoxian Logistics Co., Ltd. (河南弘邦拓先物流有限公司) was incorporated with a registered capital of RMB1,000,000.
- On August 13, 2020, the registered capital of Kuayue-Express Group Co., LTD. (跨越速運集團有限公司) was increased from RMB566,804,139.00 to RMB661,271,495.50.
- On August 24, 2020, Guizhou Zhongyou Logistics Co., Ltd. (貴州眾郵物流有限公司) was incorporated with a registered capital of RMB1,000,000.
- On August 27, 2020, Yunnan Zhongyou Logistics Technology Co., Ltd. (雲南眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.

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- On September 17, 2020, Hainan Zhongyou Logistics Technology Co., Ltd. (海南眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On October 28, 2020, Guangxi Zhongyou Logistics Co., Ltd. (廣西眾郵物流有限公司) was incorporated with a registered capital of RMB2,000,000.
- On November 12, 2020, Shaanxi Jingxi Express Co., Ltd. (陝西京喜快遞有限公司) was incorporated with a registered capital of RMB1,000,000.
- On November 16, 2020, Liaoning Zhongyou Logistics Technology Co., Ltd. (遼寧眾郵物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On August 10, 2020, Gansu Xunzan Trade Co., Ltd. (甘肅迅贊貿易有限公司) was incorporated with a registered capital of RMB1,000,000.
- On October 14, 2020, Jingdong Xingchen Leasing (Tianjin) Co., Ltd. (京東星辰租賃(天津)有限公司) was incorporated with a registered capital of RMB50,000,000.
- On October 19, 2020, Jingdong Xingchen No. 1 Leasing (Tianjin) Co., Ltd. (京東星辰一號租賃(天津)有限公司) was incorporated with a registered capital of RMB100,000.
- On October 19, 2020, Jingdong Xingchen No. 2 Leasing (Tianjin) Co., Ltd. (京東星辰二號租賃(天津)有限公司) was incorporated with a registered capital of RMB100,000.
- On October 20, 2020, Suqian Kunpeng (Jiangsu) Technology Co., Ltd. (京東鯤鵬(江蘇)科技有限公司) was incorporated with a registered capital of RMB20,000,000.
- On October 29, 2020, Suqian Jingdong Dewei Enterprise Management Co., Ltd. (宿遷京東德維企業管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On October 29, 2020, Suqian Jingdong Guanyue Enterprise Management Co., Ltd. (宿遷京東冠越企業管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On November 29, 2020, Suqian Jingdong Bohai Enterprise Management Co., Ltd. (宿遷京東博海企業管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On November 2, 2020, Suqian Jingdong Zhuofeng Enterprise Management Co., Ltd. (宿遷京東卓風企業管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On November 2, 2020, Suqian Jingdong Tuohong Enterprise Management Co., Ltd. (宿遷京東拓宏企業管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On November 3, 2020, Sichuan Jingdong Medical Supply Chain Co., Ltd. (四川京東醫藥供應鏈有限公司) was incorporated with a registered capital of RMB10,000,000.
- On November 30, 2020, Jilin Jingxi Logistics Technology Co., Ltd. (吉林京喜物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 15, 2020, Shanxi Jingxi Express Technology Co., Ltd. (山西京喜快遞科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 15, 2020, Guangxi Jingxi Supply Chain Co., Ltd. (廣西京喜供應鏈有限公司) was incorporated with a registered capital of RMB2,000,000.
- On December 15, 2020, Chongqing Jingxi Logistics Technology Co., Ltd. (重慶京喜物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.

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- On December 15, 2020, Ningxia Jingxi Express Co., Ltd. (寧夏京喜快遞有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 23, 2020, Beijing Jingxi Express Co., Ltd. (北京京喜快遞有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 24, 2020, Inner Mongolia Jingxi Supply Chain Management Co., Ltd. (內蒙古京喜供應鏈管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 30, 2020, Sichuan Jingxi Logistics Co., Ltd. (四川京喜物流有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 30, 2020, Lanzhou Jingxi Supply Chain Technology Co., Ltd. (蘭州京喜供應鏈科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 30, 2020, Heilongjiang Jingxi Logistics Technology Co., Ltd. (黑龍江京喜物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On December 30, 2020, Yunnan Jingxi Logistics Technology Co., Ltd. (雲南京喜物流科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On January 5, 2021, Shandong Jingxi Logistics Technology Co., Ltd. (山東京喜物流科技有限公司) was incorporated with a registered capital of RMB3,000,000.
- On January 5, 2021, Jiangxi Jingxi Logistics Technology Co., Ltd. (江蘇京喜物流科技有限公司) was incorporated with a registered capital of RMB2,000,000.
- On January 7, 2021, Hubei Jingxi Supply Chain Technology Co., Ltd. (湖北京喜供應鏈科技有限公司) was incorporated with a registered capital of RMB1,000,000.
- On January 8, 2021, Qinghai Jingxi Supply Chain Co., Ltd. (青海京喜供應鏈有限公司) was incorporated with a registered capital of RMB1,000,000.
- On January 11, 2021, Henan Jingxi Supply Chain Management Co., Ltd. (河南京喜供應鏈管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On January 12, 2021, Zhejiang Jingxi Supply Chain Technology Co., Ltd. (浙江京喜供應鏈科技有限公司) was incorporated with a registered capital of RMB10,000,000.
- On January 12, 2021, Tianjin Tonglian Supply Chain Management Co., Ltd. (天津通聯供應鏈管理有限公司) was incorporated with a registered capital of RMB10,000,000.
- On January 15, 2021, Tibet Jingxi Supply Chain Management Co., Ltd. (西藏京喜供應鏈管理有限公司) was incorporated with a registered capital of RMB1,000,000.
- On January 15, 2021, Hubei Jingdong Medical Supply Chain Co., Ltd. (湖北京東醫藥供應鏈有限公司) was incorporated with a registered capital of RMB10,000,000.
- On January 18, 2021, Fujian Jingxitong Logistics Co., Ltd. (福建京喜通物流有限公司) was incorporated with a registered capital of RMB10,000,000.
- On February 3, 2021, Hainan Jingxi Logistics Co., Ltd. (海南京喜物流有限公司) was incorporated with a registered capital of RMB1,000,000.
- On August 19, 2019, JD LOGISTICS VIETNAM COMPANY LIMITED was incorporated with a registered capital of VND5,000,000,000.

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- On December 19, 2019, Jingdong Logistics Co., Ltd. was incorporated with a registered capital of THB10,000,000.
- On April 24, 2020, Jingdong Logistics (Netherlands) Holding B.V. was incorporated with a registered capital of EUR35,000.
- On May 7, 2020, Jingdong Logistics (Netherlands) B.V. was incorporated with a registered capital of EUR8,000.
- On September 30, 2020, JINGDONG RETAIL (NETHERLANDS) B.V. was incorporated with a registered capital of EUR360,000.
- On October 5, 2020, JINGDONG DEVELOPMENT DEUTSCHLAND GmbH was incorporated with a registered capital of EUR25,000.
- On November 27, 2020, Jingdong Logistics Investment Inc. was incorporated with a registered capital of US\$50,000.
- On December 17, 2020, Jingdong Logistics Investment (Hong Kong) Limited was incorporated with a registered capital of HK\$10,000.

Save as disclosed above, there has been no alteration in the share capital of any member of our Group within the two years immediately preceding the date of this document.

[4. Resolutions of our Shareholders dated [●], 2021

Resolutions of our Shareholders were passed on [●], 2021, pursuant to which, among others, conditional upon the conditions of [REDACTED] (as set out in this document) being fulfilled:

- (a) the Memorandum and the Articles were approved and adopted effective conditional on and immediately prior to [REDACTED] on [REDACTED];
- (b) [REDACTED], [REDACTED] and [REDACTED] were approved, and our Directors were authorized to negotiate and agree the [REDACTED] and to allot and [REDACTED] (including pursuant to [REDACTED]);
- (c) a general mandate (the “**Sale Mandate**”) was granted to our Directors to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted, issued or dealt

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with, provided that the number of Shares so allotted, issued or dealt with or agreed to be allotted, issued or dealt with by our Directors, shall not exceed 20% of the total number of Shares in issue immediately following the completion of [REDACTED];

- (d) a general mandate (the “**Repurchase Mandate**”) was granted to our Directors to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to [REDACTED]% of the total number of Shares in issue immediately following completion of [REDACTED];
- (e) the Sale Mandate was extended by the addition to the total number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the total number of the Shares purchased by our Company pursuant to the Repurchase Mandate, provided that such extended amount shall not exceed [REDACTED]% of the total number of the Shares in issue immediately following completion of [REDACTED]; and
- (f) all of the authorized Preference Shares (including all the then existed issued and outstanding Preference Shares) be re-designated and re-classified into ordinary Shares of our Company each with effect from [REDACTED].

Each of the general mandates referred to above will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.]

5. [Explanatory statement on repurchase of our own securities]

The following summarizes restrictions imposed by the Listing Rules on share repurchases by a company listed on the Stock Exchange and provides further information about the repurchase of our own securities.

Shareholders’ approval

A listed company whose primary listing is on the Stock Exchange may only purchase its shares on the Stock Exchange, either directly or indirectly, if: (i) the shares proposed to be purchased are fully-paid up, and (ii) its shareholders have given a specific approval or general mandate by way of an ordinary resolution of shareholders.

Size of mandate

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following completion of [REDACTED] (assuming [REDACTED] is not

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exercised and excluding the share to be issued under the [REDACTED] ESOP), could accordingly result in up to approximately [REDACTED] Shares being repurchased by our Company.

The total number of shares which a listed company may repurchase on the Stock Exchange may not exceed 10% of the number of issued shares as at the date of the shareholder approval.

Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

Source of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands.

Our Company shall not purchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any purchases by our Company may be made out of profits or out of an issue of new shares made for the purpose of the purchase or, if authorized by its Memorandum and Articles of Association and subject to the Companies Ordinance, out of capital, and, in the case of any premium payable on the purchase out of profits or from sums standing to the credit of our share premium account or, if authorized by its Memorandum and Articles of Association and subject to the Companies Ordinance, out of capital.

Suspension of repurchase

A listed company shall not repurchase its shares on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (b) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), until the date of the results announcement, the company may not repurchase its shares on the Stock Exchange unless there are exceptional circumstances.

Trading restrictions

A listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

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A listed company may not repurchase its shares if that repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Status of repurchased Shares

The listing of all repurchased shares (whether through the Stock Exchange or otherwise) shall be automatically canceled and the relevant documents of title must be canceled and destroyed as soon as reasonably practicable.

Close associates and core connected persons

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates have a present intention, in the event the Repurchase Mandate is approved, to sell any Shares to our Company.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken to do so, if the Repurchase Mandate is approved.

A listed company shall not knowingly purchase its shares on the Stock Exchange from a core connected person (namely a director, chief executive or substantial shareholder of the company or any of its subsidiaries, or a close associate of any of them), and a core connected person shall not knowingly sell their interest in shares of the company to it.

Takeover implications

If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

General

If the Repurchase Mandate were to be carried out in full at any time, there may be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in our most recent published audited accounts). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would have a material adverse effect on our working capital or gearing position.

Our Directors have undertaken to the Stock Exchange to exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

We have not made any repurchases of our Shares in the previous six months.]

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B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by any member of our Group within the two years immediately preceding the date of this document that are or may be material:

- (a) an exclusive business cooperation agreement entered into between Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) and Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) dated January 25, 2021, pursuant to which Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) agreed to engage Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) as its exclusive provider of business support, technical and consulting services in exchange for service fees;
- (b) an exclusive option agreement entered into among Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司), Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) and Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲), dated January 25, 2021, pursuant to which Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) (for itself or its designated party) is granted an irrevocable and exclusive option to purchase all or part of the equity interest in and/or assets of Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request;
- (c) a loan agreement entered into among Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) and each of Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲), dated January 25, 2021, pursuant to which Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) agreed to provide loans in an aggregate amount of RMB1,000,000 to the Registered Shareholders, of which RMB450,000 to Richard Qiangdong Liu (劉強東), RMB250,000 to Pang Zhang (張雱) and RMB300,000 to Yayun Li (李姪雲), to be used exclusively to contribute to the registered capital of Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司);
- (d) a share pledge agreement entered into among Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司), Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲) and Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) dated January 25, 2021, pursuant to which Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲) agreed to pledge all of their respective equity interests in Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) to Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) as a first priority charge;
- (e) a shareholder's rights entrustment agreement entered into among Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司), Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司) and Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲) on January 25, 2021,

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and an exclusive and irrevocable power of attorney executed by each of Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲) dated January 25, 2021, whereby Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲) will appoint Xi'an Jingxundi Supply Chain Technology Co., Ltd. (西安京迅遞供應鏈科技有限公司) or its designated persons (including director(s) nominated by the board of directors of its offshore holding company, a liquidator or other successor exercising the rights of such director(s)) to exercise all of the rights as the registered shareholders of Xi'an Jingdong Xincheng Information Technology Co., Ltd. (西安京東信成信息技術有限公司);

- (f) an exclusive business cooperation agreement entered into between Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) dated January 25, 2021, pursuant to which Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) agreed to engage Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) as its exclusive provider of business support, technical and consulting services in exchange for service fees;
- (g) an exclusive option agreement entered into among Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司), Jian Cui (崔建) and Dingkai Yu (禹定凱), dated January 25, 2021, pursuant to which Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) (for itself or its designated party) is granted an irrevocable and exclusive option to purchase all or part of the equity interest in and/or assets of Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request;
- (h) a loan agreement entered into among Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) and each of Jian Cui (崔建) and Dingkai Yu (禹定凱), dated January 25, 2021, pursuant to which Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) agreed to provide loans in an aggregate amount of RMB5,000,000 to the Registered Shareholders, of which RMB2,500,000 to Jian Cui (崔建) and RMB2,500,000 to Dingkai Yu (禹定凱), to be used exclusively to contribute to the registered capital of Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司);
- (i) a share pledge agreement entered into among Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), each of Jian Cui (崔建) and Dingkai Yu (禹定凱) and Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) dated January 25, 2021, pursuant to which Jian Cui (崔建) and Dingkai Yu (禹定凱) agreed to pledge all of their respective equity interests in Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) to Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) as a first priority charge; and
- (j) a shareholder's rights entrustment agreement entered into among Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司), Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司) and each of Jian Cui (崔建) and Dingkai Yu (禹定凱) on January 25, 2021, and an exclusive and irrevocable power of attorney executed by each of Jian Cui (崔建) and Dingkai Yu (禹定凱) dated January 25,

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2021, whereby Jian Cui (崔建) and Dingkai Yu (禹定凱) will appoint Jingdong Logistics Supply Chain Co., Ltd. (京東物流供應鏈有限公司) or its designated persons (including director(s) nominated by the board of directors of its offshore holding company, a liquidator or other successor exercising the rights of such director(s)) to exercise all of the rights as the registered shareholders of Guangdong Jingxi Logistics Technology Co., Ltd. (廣東京喜物流科技有限公司).

2. Intellectual property rights

Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

Trademarks registered in China

As at the Latest Practicable Date, we (including through JD Group) had registered the following trademarks in China which we consider to be or may be material to our business:

No.	Trademark	Registered Owner	Place of Registration	Class	Registered number	Registration date
1.		Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	China	35	27598158	June 21, 2019
2.		Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	China	39	27613988	November 28, 2018
3.	京东亚洲一号	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	China	9	16257541	March 28, 2016

Trademarks registered in Hong Kong

As at the Latest Practicable Date, we (including through JD Group) had registered the following trademarks in Hong Kong which we consider to be or may be material to our business:

No.	Trademark	Registered Owner	Place of Registration	Class	Registered number	Registration date
1.	京东快递	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	Hong Kong	39	302114766	November 5, 2012
2.	JD Logistics	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	Hong Kong	39	304261545	September 4, 2017

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Trademarks applications pending in China

As at the Latest Practicable Date, we (including through JD Group) had applied for the registration of the following trademarks in China which we consider to be or may be material to our business:

No.	Trademark	Applicant	Class	Application number	Application date
1.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	46549670	May 22, 2020
2.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	47841643	July 6, 2020
3.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	47841706	July 6, 2020
4.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	42	47824706	July 6, 2020
5.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	48458203	July 28, 2020
6.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	48458217	July 28, 2020
7.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	48442451	July 28, 2020
8.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	42	48464278	July 28, 2020
9.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	12	49005863	August 18, 2020
10.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	37	49028486	August 18, 2020
11.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	49852353	September 18, 2020
12.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	49856233	September 18, 2020
13.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	48458198	July 28, 2020
14.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	48466359	July 28, 2020
15.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	48475701	July 28, 2020

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No.	Trademark	Applicant	Class	Application number	Application date
16.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	42	48457911	July 28, 2020
17.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	12	49024201	August 18, 2020
18.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	37	49018162	August 18, 2020
19.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	41	49008831	August 18, 2020
20.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	49877019	September 18, 2020
21.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	49876755	September 18, 2020
22.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	50388561	October 13, 2020
23.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	12	50380030	October 13, 2020
24.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	50393862	October 13, 2020
25.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	50366240	October 13, 2020
26.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	42	50360951	October 13, 2020
27.		Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	9	47131627	June 10, 2020
28.		Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	35	47143482	June 10, 2020
29.		Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	39	47120478	June 10, 2020
30.		Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	42	48748310	August 7, 2020
31.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	53166315	January 21, 2021
32.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	53176153	January 21, 2021

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No.	Trademark	Applicant	Class	Application number	Application date
33.	京东云仓	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	53193434	January 21, 2021
34.	京东云仓	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	42	53169175	January 21, 2021
35.	京东服务+	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	53189007	January 21, 2021
36.	京东服务+	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	53169231	January 21, 2021
37.	京东服务+	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	37	53192282	January 21, 2021
38.	京东供应链	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	53164894	January 21, 2021
39.	京东供应链	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	53189059	January 21, 2021
40.	京东供应链	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	53182484	January 21, 2021
41.	京东快运	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	53170581	January 21, 2021
42.	京东快运	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	53189089	January 21, 2021
43.	京东快运	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	53174817	January 21, 2021
44.	 JDL Technology 物流科技	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9	53168849	January 21, 2021
45.	 JDL Technology 物流科技	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	35	53189480	January 21, 2021
46.	 JDL Technology 物流科技	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	39	53189512	January 21, 2021
47.	 JDL Technology 物流科技	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	42	53189186	January 21, 2021

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Trademarks applications pending in Hong Kong

As at the Latest Practicable Date, we (including through JD Group) had applied for the registration of the following trademarks in Hong Kong which we consider to be or may be material to our business:

No.	Trademark	Applicant	Class	Application number	Application date
1.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9, 35, 39, 42	305484385	December 21, 2020
2.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	9, 12, 35, 39, 42	305450706	November 17, 2020

Copyrights

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material to our business:

No.	Copyright	Version	Registration number	Registration date
1.	Jingdong Warehousing System (京東倉儲系統)	V2.0	2020SR0094004	January 17, 2020
2.	Automated Flow Unmanned System (自動化全流程無人倉系統)	V5.0	2020SR0303936	April 2, 2020
3.	Unmanned Warehouse System (無人倉系統)	V1.0	2020SR0076018	January 15, 2020
4.	Jingdong Cloud Logistics Tianxuan Transport Management System (京東雲物流天璿運配管理系統)	V3.0	2019SR1155410	November 14, 2019
5.	JDWCS System	V1.0	2019SR0989506	September 24, 2019
6.	Jingdong Smart Campus Management System (京東智能園區管理系統)	V1.0	2020SR0918684	August 12, 2020
7.	Cloud Commodity Logistics Emergency Security Management System (雲物資物流應急保障管理系統)	V1.0	2020SR0739801	July 8, 2020
8.	Jingdong Qinglong Tengfei System (京東青龍騰飛系統)	V2.0	2020SR0076151	January 15, 2020
9.	Jingdong Big-ticket Item Service Integration System (京東大件服務一體化系統)	V2.0	2020SR0076118	January 15, 2020
10.	Qinglong Logistics Delivery System (青龍物流配送系統)	V1.0	2019SR1423840	December 25, 2019
11.	Jingdong Cloud Warehouse Moving Management System (京東雲倉移動管理系統)	V2.1.0	2020SR0431901	May 11, 2020

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Patents

As at the Latest Practicable Date, we (including through JD Group) had applied for the registration of the following patents in the PRC which we consider to be or may be material to our business:

No.	Patent	Applicant	Application Number	Application date
1.	Robot, Robot control system, control method, device and medium (機器人、機器人控制系統、控制方法、控制裝置及介質)	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	201611044147.6	November 23, 2016
2.	Logistics information system's data management method and device (物流信息系統中的資訊處理方法和裝置)	Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	201611119230.5	December 8, 2016
3.	Method, device, electronic equipment and readable medium for determining orders' delivery times (確定訂單的配送時間的方法、裝置、電子設備和可讀介質)	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司); Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	202010076046.7	January 23, 2020
4.	Automated Guided Vehicle, route planning method and device (自動導引車、路徑規劃方法與裝置)	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	201610892495.2	October 12, 2016
5.	Method and device for improving storage efficiency (提高倉儲出庫效率的方法和裝置)	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	201710934498.2	October 10, 2017
6.	Robot carrier dispatch method and device (機器人搬運車的調度方法和調度裝置)	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	201710068223.5	February 8, 2017
7.	Goods transfer system, method and device (貨物傳輸系統、方法和裝置)	Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	201711382477.0	December 20, 2017
8.	Robot control method and device using Cartesian coordinates (直角坐標機器人的控制方法及系統)	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	201710030718.9	January 16, 2017
9.	Object storage device, pallet system and object storage method (物品存放裝置、碼垛系統及物品存儲方法)	Tianjin Jingdong Shentuo Robot Technology Co., Ltd. (天津京東深拓機器人科技有限公司)	201711455335.2	December 28, 2017
10.	Block chain-based signature return method, device, equipment and readable storage medium (基於區塊鏈的簽單返還方法、裝置、設備和可讀存儲介質)	Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司); Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	201911322241.7	December 20, 2019

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No.	Patent	Applicant	Application Number	Application date
11.	Map matching method and system (地圖匹配方法和系統)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201710012176.2	January 9, 2017
12.	Method and device for displaying driving route history based on electronic maps (基於電子地圖的歷史行車軌跡顯示方法和裝置)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201611021946.1	November 17, 2016
13.	Logistics transfer station vehicle and its internal method and system for the transfer of goods (物流傳站車及其內部貨物調動方法、系統)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201710902099.8	September 29, 2017
14.	System, device and method for self-service locker and self-service locker replenishment (用於自提櫃補貨的系統、自提櫃系統、裝置及方法)	Tianjin Jingdong Shentuo Robot Technology Co., Ltd. (天津京東深拓機器人科技有限公司)	201710063919.9	February 3, 2017
15.	Transmission system and method (一種傳輸系統及方法)	Tianjin Jingdong Shentuo Robot Technology Co., Ltd. (天津京東深拓機器人科技有限公司)	201710878343.1	September 26, 2017
16.	Unmanned aerial vehicle (“UAV”) flight control method, device and UAV (無人機飛行控制方法、裝置及無人機)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201610909051.5	October 19, 2016
17.	Object picking system and method (物品抓取系統和方法)	Tianjin Jingdong Shentuo Robot Technology Co., Ltd. (天津京東深拓機器人科技有限公司)	201611204338.4	December 22, 2016
18.	Method and device for constructing warehouse maps (倉庫地圖構建方法和裝置)	Tianjin Jingdong Shentuo Robot Technology Co., Ltd. (天津京東深拓機器人科技有限公司)	201710012179.6	January 9, 2017
19.	Sorting system and method (分揀系統和分揀方法)	Beijing Jingdong Zhenshi Information Technology Co., Ltd. (北京京東振世信息技術有限公司)	201710881676.X	September 26, 2017
20.	Automated guided vehicle, method and device to automatically adjust rudder angle of automated guided vehicle’s wheel system (自動引導車輪系舵角自動調整方法、裝置和自動引導車)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201610937562.8	October 25, 2016
21.	UAV, UAV control method and system (無人機的控制方法及控制系統和無人機系統)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201610173715.6	March 24, 2016

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No.	Patent	Applicant	Application Number	Application date
22.	Shelf unit, shelf and goods sorting system and goods sorting method (貨架單元、貨架、貨物分揀系統和貨物分揀方法)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201610818531.0	September 13, 2016
23.	Movable device's control method and system (可移動裝置的控制方法及系統)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201611204337.X	December 22, 2016
24.	Self-service lockers' advertising machine's control system and method (自提櫃廣告機控制系統和方法)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201510015922.4	January 13, 2015
25.	Self-service storage lockers distribution method, device and system (自助存儲式自提櫃的分配方法、分配裝置及分配系統)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201510337907.1	June 17, 2015
26.	Method, device and system for guiding UAVs to land (用於引導無人機降落的方法、裝置和系統)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201610632597.0	August 4, 2016
27.	Self-service locker and its control system and method (自提櫃控制系統、自提櫃控制方法、及自提櫃)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201410588920.X	October 28, 2014
28.	Real-time inventory device and method (一種用於即時盤點的裝置及方法)	Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201210504447.3	November 30, 2012
29.	Quick order review system (一種快速訂單複核系統)	Beijing Jingdong Shangke Information Technology Co., Ltd. (北京京東尚科信息技術有限公司); Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201410818229.6	December 24, 2014
30.	Method and device for providing cargo transportation routes (提供貨物運送軌跡的方法和裝置)	Beijing Century Trade Co., Ltd. (北京京東世紀貿易有限公司)	201210406497.8	October 23, 2012

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Domain names

As at the Latest Practicable Date, we (including through JD Group) owned the following domain names which we consider to be or may be material to our business:

No.	Domain name	Registered owner	Expiry date
1.	jdl.cn	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	May 12, 2023
2.	zhongyouex.com	Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd. (廣東弘邦拓先物流科技有限公司)	December 12, 2021
3.	wuliujie.com	Beijing Jingdong Qianshi Technology Co., Ltd. (北京京東乾石科技有限公司)	July 20, 2021
4.	jclps.cn	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東叁佰陸拾度電子商務有限公司)	November 23, 2021

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of Directors’ service contracts and appointment letters

Executive Directors

Our executive Director entered into a service contract with our Company on [●]. The term of appointment shall be for an initial term of three years from [REDACTED] or until the third annual general meeting of our Company after [REDACTED], whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three months’ written notice.

The executive Director is [not] entitled to receive any remuneration in his capacity as executive Director under his service contract.

Non-executive Directors

Each of our non-executive Directors entered into an appointment letter with our Company on [●]. The term of appointment shall be for an initial term of three years from [REDACTED] or until the third annual general meeting of our Company after [REDACTED], whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three months’ written notice.

The non-executive Directors are [not] entitled to receive any remuneration and benefits in their capacities as non-executive Directors under their respective appointment letters.

Independent non-executive Directors

Each of our independent non-executive Directors entered into an appointment letter with our Company on [●]. The term of appointment shall be for an initial term of three years from [REDACTED] or until the third annual general meeting of our Company after [REDACTED], whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three months’ written notice.

The annual director’s fees of our independent non-executive Directors (namely [●]) payable by us under their respective appointment letters is HK\$[●].

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2. Remuneration of Directors

- (a) Save as disclosed in this document, none of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).
- (b) The aggregate amount of remuneration paid and benefits in kind granted to our Directors by our Group in respect of the year ended December 31, 2020 was approximately HK\$[●].
- (c) Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the year ending December 31, 2021 is approximately [●].

3. Disclosure of interests

Interests and short positions of our Directors in the share capital of our Company or our associated corporations following completion of [REDACTED]

Immediately following completion of [REDACTED] (without taking into account of, as applicable, (i) any change to the share capital of JD.com since the Latest Practicable Date up until completion of [REDACTED]; and (iii) any dealings in the securities of JD.com by the Directors since the Latest Practicable Date up until completion of [REDACTED]), the interests or short positions of our Directors and chief executives in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the ‘Model Code for Securities Transactions by Directors of Listed Issuers’ contained in the Listing Rules, to be notified to our Company and the Stock Exchange are set out below:

Interest in our Company

Name of director	Nature of interest	Number of Shares	Approximate percentage of interest in our Company immediately after the [REDACTED] ⁽¹⁾
	[REDACTED]		

Note:

- (1) The calculation is based on the total number of [REDACTED] Shares in issue immediately after completion of [REDACTED] (assuming the [REDACTED] is not exercised and excluding the shares to be issued under the [REDACTED] ESOP).
- (2) The beneficial ownership of the directors listed here are pursuant to the exercise of options granted to them under the [REDACTED] ESOP, subject to the conditions (including vesting conditions) of those options.
- (3) Jingdong Technology Group Corporation, which holds 3,924,000,000 Shares, is wholly-owned by JD.com. As of the Latest Practicable Date, Mr. Liu is interested in approximately 76.9% of the voting rights in JD.com through shares capable of being exercised on resolutions in general meetings, further details of which are set out in the section headed “Relationship with our Controlling Shareholders”.

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Interest in our associated corporations

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

The calculations in the table below are based on 3,117,761,409 ordinary shares of JD. com outstanding as of Latest Practicable Date, comprising of (i) 2,673,510,558 Class A ordinary shares, excluding the 12,032,424 Class A ordinary shares issued to JD.com’s depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under JD.com’s share incentive plan, and (ii) 444,250,851 Class B ordinary shares.

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

	Ordinary Shares Beneficially Owned**				
	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	% of Beneficial Ownership	% of Aggregate Voting Power†
Directors and Executive Officers:					
Richard Qiangdong Liu					
(劉強東) ⁽¹⁾	13,000,000 ⁽¹⁾	421,507,423 ⁽¹⁾	434,507,423 ⁽¹⁾	13.9 ⁽¹⁾	76.9 ⁽²⁾⁽³⁾
Sandy Ran Xu (許冉)	*	—	*	*	*
Yui Yu (余睿)	*	—	*	*	*
Pang Zhang (張霄)	*	—	*	*	*

Notes:

† For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of the Class A ordinary shares and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per share and each holder of the Class B ordinary shares is entitled to 20 votes per share on all matters submitted to them for a vote. JD.com’s Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of JD Shareholders and other matters as may otherwise be required by law. Each Class B ordinary share is convertible at any time by the holder thereof into one Class A ordinary share.

* Less than 1% of JD.com’s total outstanding shares.

** Beneficial ownership information disclosed herein represents direct and indirect holdings of entities owned, controlled or otherwise affiliated with the applicable holder as determined in accordance with the rules and regulations of the U.S. SEC.

(1) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited, and (ii) 13,000,000 Class A ordinary shares Mr. Liu had the right to acquire upon exercise of vested options. Max Smart Limited is a British Virgin Islands company beneficially owned by Mr. Richard Qiangdong Liu (劉強東) through a trust and of which Mr. Richard Qiangdong Liu (劉強東) is the sole director, as described in footnote (2) below. The ordinary shares beneficially owned by Mr. Liu do not include 22,743,428 Class B ordinary shares held by Fortune Rising Holdings Limited, a British Virgin Islands company, as described in footnote (2) below.

(2) The aggregate voting power includes the voting power with respect to the 22,743,428 Class B ordinary shares held by Fortune Rising Holdings Limited. Mr. Richard Qiangdong Liu (劉強東) is the sole shareholder and the sole director of Fortune Rising Holdings Limited and he may be deemed to beneficially own the voting power with respect to all of the ordinary shares held by Fortune Rising Holdings Limited in accordance with the rules and regulations of the U.S. SEC, notwithstanding the facts described in note (3) below.

(3) Fortune Rising Holdings Limited holds the 22,743,428 Class B ordinary shares for the purpose of transferring such shares to the plan participants under JD.com’s share incentive plan, and administers the awards and acts according to JD.com’s instruction. Fortune Rising Holdings Limited exercises the voting power with respect to these shares according to JD.com’s instruction. Fortune Rising Holdings Limited is a company incorporated in the British Virgin Islands. Mr. Richard Qiangdong Liu (劉強東) is the sole shareholder and the sole director of Fortune Rising Holdings Limited.

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The following table lists out the directors’ or chief executives’ interests in the other associated corporations:

Associated corporation	Name of director	Nature of interest	Number of shares / underlying shares	Interest in associated corporation
JD Health International, Inc.	Richard Qiangdong Liu (劉強東)	Interest in controlled corporation; Beneficial owner	2,202,296,248 ⁽¹⁾	69.16%

[REDACTED]

Note:

- (1) These interests comprise of (i) 2,149,253,732 shares of JD Health International, Inc. directly held by JD Jiankang Limited which is wholly-owned by JD.com, and (ii) 53,042,516 underlying shares of JD Health International, Inc. in respect of the options granted to Mr. Liu. As of the Latest Practicable Date, Mr. Liu is interested in approximately 76.9% of the voting rights in JD.com through shares capable of being exercised on resolutions in general meetings—further details of which are set out in the section headed “Relationship with our Controlling Shareholders”.
- (2) These interests comprise of [REDACTED]’s entitlement to receive shares in JD.com, Inc. pursuant to options and restricted share units under the share incentive plan of JD.com.
- (3) These interests comprise of [REDACTED]’s entitlement to receive shares in JD.com, Inc. pursuant to options under the share incentive plan of JD.com.

Interests and short positions disclosable under Divisions 2 and 3 of Part XV of the SFO

For information, so far as is known to our Directors or chief executive, of each person, other than our Director or chief executive, who immediately following completion of [REDACTED] will have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group, see “Substantial shareholders”.

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of [REDACTED], be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

D. SHARE INCENTIVE PLAN

1. [REDACTED] ESOP

Summary

The following is a summary of the principal terms of the share incentive plan, or the [REDACTED] ESOP of the Company as approved and adopted by the Board on March 31, 2018, as amended from time to time. The terms of the [REDACTED] ESOP are not subject to the provisions of Chapter 17 of the Listing Rules as the [REDACTED] ESOP does not involve the grant of options by our Company to subscribe for new Shares upon our [REDACTED].

(a) Purpose

The purpose of the [REDACTED] ESOP is to promote the success and enhance the value of the Company by linking the personal interests of the members of the Board, employees and consultants to those of the Company’s shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Shareholders. The [REDACTED] ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services

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of its recipients upon whose judgment, interest and special effort the successful conduct of the Company’s operation is largely dependent.

(b) Who may join

Persons eligible to participate in the [REDACTED] ESOP include employees, consultants and all members of the Board, as determined by a committee authorized by the Board (the “**Committee**”). The Committee may, from time to time, select from among all eligible individuals (the “**Participants**”) to whom awards in the form of options (“**Options**”), restricted share awards (“**Restricted Shares**”) and

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restricted share units (“**RSUs**”) (collectively “**Awards**”) shall be granted and will determine the nature and amount of each Award. No individual shall have any automatic right to be granted an Award pursuant to the [REDACTED] ESOP.

(c) Maximum number of Shares

The maximum aggregate number of underlying shares which may be issued pursuant to all Awards under the [REDACTED] ESOP is 436,000,000 Shares as of March 31, 2018 that are reserved under the [REDACTED] ESOP.

In the event that the total number of Shares which have been reserved for under the [REDACTED] ESOP but have not been granted or are otherwise available for future grants under the [REDACTED] ESOP, as a percentage of the then total equity securities of the Company on a fully diluted basis (the “**Ungranted Awards Percentage**”) is less than five percent (5%) (the “**Triggering Event**”), the number of Shares which may be issued under the [REDACTED] ESOP shall be increased by an amount equal to one percent (1%) of the then total equity securities of the Company on a fully diluted basis, immediately and in any event no later than the end of the year when the Triggering Event occurs and/or on January 1st for each year following the year in which the Triggering Event occurs, until the Ungranted Awards Percentage is equal to or higher than five percent (5%). For the avoidance of doubt, the foregoing increase of Shares of the Company shall not occur more than once a year.

(d) Administration

The [REDACTED] ESOP shall be administered by the Board as a Committee or one or more members of the Board delegated by the Board as a Committee who has the authority to grant or amend Awards to Participants.

Subject to any specific designation in the [REDACTED] ESOP, the Committee has the exclusive power, authority and discretion to:

- (i) designate Participants to receive Awards;
- (ii) determine the type or types of Awards to be granted to each Participant;
- (iii) determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (iv) determine the terms and conditions of any Award granted pursuant to the [REDACTED] ESOP, including, without limitation, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;
- (v) determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards or other property, or an Award may be canceled, forfeited or surrendered;
- (vi) prescribe the form of each Award Agreement (as defined below), which need not be identical for each Participant;
- (vii) decide all other matters that must be determined in connection with an Award;

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- (viii) establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the [REDACTED] ESOP;
- (ix) interpret the terms of, and any matter arising pursuant to, the [REDACTED] ESOP or any Award Agreement; and
- (x) make all other decisions and determinations that may be required pursuant to the [REDACTED] ESOP or as the Committee deems necessary or advisable to administer the [REDACTED] ESOP.

(e) Grant of Awards

The Committee is authorized to grant Awards to Participants in accordance with the terms of the [REDACTED] ESOP. Awards granted will be evidenced by an agreement (“**Award Agreement**”) between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee. The Committee can determine the terms and conditions of the Award, including the grant or purchase price of Awards.

(f) Terms of the [REDACTED] Share Option Plans

The [REDACTED] ESOP commenced on March 31, 2018 (the “**Effective Date**”) and will expire on March 31, 2028. Upon expiry of the [REDACTED] ESOP, no Award may be granted pursuant to the [REDACTED] ESOP; any Awards that are outstanding shall remain in force according to the terms of the [REDACTED] ESOP and the applicable Award Agreement.

(g) Options

- (i) Exercise of option

The Committee shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any Option granted under the [REDACTED] ESOP shall not exceed ten years, subject to a shareholder approval of extension of the exercise period for an option beyond ten years from the date of the grant. The Committee shall also determine conditions, if any, that must be satisfied before all or part of an Option may be exercised.

- (ii) Exercise price

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

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

- (iii) Forfeiture

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service, Options that at that time have not vested shall

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be forfeited in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any Option Award Agreement that forfeiture conditions relating to Options will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part forfeiture conditions relating to Options.

(iv) Expiration of incentive share options

An incentive share Option ("**Incentive Share Option**") under the [REDACTED] ESOP may not be exercised to any extent by anyone after the first to occur of the following events (i) ten (10) years from the date it is granted, unless an earlier time is set in the Award Agreement; (ii) six (6) months after the Participant's termination of employment or service; and (iii) one (1) year after the date of the Participant's termination of employment or service on account of disability or death. Upon the Participant's disability or death, any Incentive Share Options exercisable at the Participant's disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Share Option or dies intestate, by the person or persons entitled to receive the Incentive Share Option pursuant to the applicable laws of descent and distribution.

(h) Restricted Shares

(i) Restriction

Restricted Shares shall be subject to such restrictions on transferability (excluding any transfer of Shares to nominees and/or trustees of any employee benefit trusts established for them) and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Shares or the right to receive dividends on the Restricted Share). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

Unless the Committee determines otherwise, Restricted Shares shall be held by the Company as escrow agent until the restrictions on such Restricted Shares have lapsed.

(ii) Forfeiture and repurchase

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Shares that are at that time subject to restrictions shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any Restricted Share Award Agreement that restrictions or forfeiture and repurchase conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to Restricted Shares.

(iii) Removal of restrictions

Except as otherwise provided in the [REDACTED] ESOP, Restricted Shares granted shall be released from escrow as soon as practicable after the last day of the period of restriction. The Committee, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed.

After the

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restrictions have lapsed, the shares shall be freely transferable by the Participant, subject to applicable legal restrictions.

(i) RSUs

(i) Performance objectives and other terms

The Committee, in its discretion, may set performance objectives or other vesting criteria which, depending on the extent to which they are met, will determine the number or value of RSUs that will be paid out to the Participants.

(ii) Form and timing of payment of RSUs

At the time of grant, the Committee shall specify the date or dates on which the RSUs shall become fully vested and nonforfeitable. Upon vesting, the Committee, in its sole discretion, may pay RSUs in the form of cash, in Shares or in a combination thereof.

(iii) Forfeiture and repurchase

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, RSUs that are at that time unvested shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any RSU Award Agreement that restrictions or forfeiture and repurchase conditions relating to RSUs will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to RSUs.

(j) Limits on Transfer

Unless otherwise provided in the [REDACTED] ESOP, by applicable law, by the Committee and by the Award Agreement, as the same may be amended, all Awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; Awards will be exercised only by the Participant; and amounts payable or shares issuable pursuant to an Award will be delivered only to (or for the account of), and in the case of the Shares registered in the name of, the Participant.

(k) Adjustments

In the event of any share dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the Shares or the price of a Share, the Committee shall make such proportionate adjustments, if any, to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the [REDACTED] ESOP, (including, without limitation, adjustments of the limitations in paragraph 1(c) in this section); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the [REDACTED] ESOP.

(l) Amendment, Modification and Termination

With the approval of the Board, at any time and from time to time, the Committee may terminate, cancel or modify the [REDACTED] ESOP.

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Except with respect to amendments made pursuant to the above, no termination, amendment or modification of the [REDACTED] ESOP shall adversely affect in any material way any Award previously granted pursuant to the [REDACTED] ESOP without the prior written consent of the Participant.

Outstanding Options granted

The grants of Options under the [REDACTED] ESOP to the grantees as set out below has been approved by the Board. The aggregate number of underlying Shares pursuant to the outstanding Options granted under the [REDACTED] ESOP is [REDACTED] Shares. Immediately following completion of [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the [REDACTED] ESOP), the aggregate number of underlying Shares underlying all Options granted represents approximately [REDACTED]% of the issued Shares immediately following the completion of [REDACTED]. Assuming full vesting and exercise of all Options granted under the [REDACTED] ESOP, the shareholding of our Shareholders immediately following completion of the [REDACTED] (assuming [REDACTED] is not exercised) will be diluted by approximately [REDACTED]%. As our Group incurred losses for the nine months ended September 30, 2020, the dilutive potential ordinary shares, namely the share options, were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the nine months ended September 30, 2020 was the same as basic loss per share for the corresponding period.

As of the Latest Practicable Date, our Company has granted Options to [REDACTED] participants under the [REDACTED] ESOP, including Directors, senior management, other employees [and consultants] of the Company. The Company will not grant further Options under the [REDACTED] ESOP after the [REDACTED].

The table below shows the details of the outstanding Options granted to the Directors and members of the senior management of the Company under the [REDACTED] ESOP as of the Latest Practicable Date:

Name	Role	Address	Number of Shares underlying Options outstanding	Exercise price (per Share)	Date of Grant	Vesting Period ⁽²⁾	Approximate percentage of issued Shares immediately after completion of [REDACTED] ⁽¹⁾
[REDACTED]							

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Name	Role	Address	Number of Shares underlying Options outstanding	Exercise price (per Share)	Date of Grant	Vesting Period ⁽²⁾	Approximate percentage of issued Shares immediately after completion of [REDACTED] ⁽¹⁾
[REDACTED]							

Notes:

- (1) Assuming [REDACTED] is not exercised and no Shares are issued under the [REDACTED] Share Option ESOP.
- (2) The exercise period of the Options granted under the [REDACTED] ESOP shall commence from the date on which the relevant Options become vested and end on the 10th anniversary of the grant date, subject to the terms of the [REDACTED] ESOP and the Option award agreement signed by the grantee.

The table below shows the details of the outstanding Options granted to the remaining [REDACTED] grantees, who are neither Directors nor members of the senior management of the Company, under [REDACTED] ESOP as of the Latest Practicable Date:

Range of Shares underlying outstanding options under the [REDACTED] ESOP	Total number of grantees	Total number of Shares underlying Options outstanding	Exercise price (per Share)	Date of Grant	Vesting Period ⁽²⁾	Approximate percentage of issued Shares immediately after completion of [REDACTED] ⁽¹⁾
[REDACTED]						

Notes:

- (1) Assuming [REDACTED] is not exercised and excluding the share to be issued under the [REDACTED] ESOP.
- (2) The exercise period of the Options granted under the [REDACTED] ESOP shall commence from the date on which the relevant Options become vested and end on the 10th anniversary of the grant date, subject to the terms of the [REDACTED] ESOP and the Option award agreement signed by the grantee.

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E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

2. Litigation

Save as disclosed in this document, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company’s results of operations or financial condition.

3. Joint Sponsors

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors will receive an aggregate of US\$1.5 million for acting as the sponsor for [REDACTED].

4. Consent of experts

This document contains statements made by the following experts:

Name	Qualification
Merrill Lynch (Asia Pacific) Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Goldman Sachs (Asia) L.L.C.	A licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities as defined under the SFO
Haitong International Capital Limited	A licensed corporation under the SFO for type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Shihui Partners	Legal adviser to Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal adviser to Company as to Cayman Islands law
Deloitte Touche Tohmatsu	Certified public accountants
China Insights Industry Consultancy Limited	Industry consultant

As at the Latest Practicable Date, none of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Each of the experts named above have given and have not withdrawn their respective written consent to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

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5. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

[REDACTED]

7. Preliminary expenses

We have not incurred any material preliminary expenses in relation to the incorporation of our Company.

8. Disclaimers

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
- (i) there are no commissions (but not including commission to sub-[REDACTED]) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company; and
 - (ii) there are no commissions, discounts, brokerages or other special terms granted in connection with the issue or sale of any capital of any member of our Group, and no Directors, promoters or experts named in the part headed “—Other information—Consent of experts” received any such payment or benefit.
- (b) Save as disclosed in this document:
- (i) there are no founder, management or deferred shares in our Company or any member of our Group;
 - (ii) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this document, or are proposed to be paid, allotted or given to any promoters;
 - (iii) none of the Directors or the experts named in the part headed “—Other information—Consent of experts” above has any interest, direct or indirect, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
 - (iv) there are no bank overdrafts or other similar indebtedness by our Company or any member of our Group;
 - (v) there are no hire purchase commitments, guarantees or other material contingent liabilities of our Company or any member of our Group;
 - (vi) there are no outstanding debentures of our Company or any member of our Group;

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- (vii) there are no other stock exchange on which any part of the equity or debt securities of our Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought;
- (viii) no capital of any member of our Group is under option, or is agreed conditionally or unconditionally to be put under option; and
- (ix) there are no contracts or arrangements subsisting at the date of this document in which a Director is materially interested or which is significant in relation to the business of our Group.

APPENDIX V

**DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of **[REDACTED]**;
- (b) the written consents referred to in the section headed “Statutory and general information—Other information—Consent of experts” in Appendix IV to this document; and
- (c) copies of the material contracts referred to in the section headed “Statutory and general information—Further information about our business—Summary of material contracts” in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the material contracts referred to in the section headed “Statutory and general information—Further information about our business—Summary of material contracts” in Appendix IV to this document;
- (c) the service contracts and the letters of appointment with our Directors referred to in the section headed “Statutory and general information—Further information about our Directors—Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this document;
- (d) the report issued by China Insights Industry Consultancy Limited, a summary of which is set forth in the section headed “Industry overview”;
- (e) the PRC legal opinions issued by Shihui Partners, our PRC Legal Adviser on PRC law, in respect of certain general corporate matters and property interests in the PRC of our Group;
- (f) the Accountants’ Report and the report on the unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II to this document;
- (g) the consolidated financial statements of our Group and the financial statements of the **[REDACTED]** (as defined under “Financial Information—Basis of Presentation”) for the three years ended December 31, 2020;
- (h) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser on Cayman Islands law, summarizing certain aspects of Cayman company law referred to in Appendix III to this document;
- (i) the Cayman Companies Act;
- (j) the written consents referred to in the section headed “Statutory and general information—Other information—Consent of experts” in Appendix IV to this document; and
- (k) the terms of the **[REDACTED]** ESOP.