You should read the following discussion and analysis in conjunction with our audited combined financial statements included in "Appendix I—Accountants' Report" 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 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 2020.

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 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, raised 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 RMB2,026 billion in 2020 to RMB3,190 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 9.0% of the market in terms of revenue in 2020.

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 December 31, 2020, we operated 32 Asia No. 1 smart mega warehouses covering 22 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 December 31, 2020, we operated over 900 warehouses, which covered an aggregate gross floor area of approximately 21 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 further grew by 47.2% to RMB73.4 billion in 2020. We incurred net losses of RMB2.8 billion, RMB2.2 billion and RMB4.0 billion in 2018, 2019 and 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 spin-off transactions (the "Spin-off") for our remaining business operations conducted under certain subsidiaries and consolidated affiliated entities of JD Group (collectively the "Remaining Listing Business"). See note 1.2 to the Accountants' Report in Appendix I to this document for a detailed description of the Spin-off 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 Remaining Listing Business 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 Remaining Listing Business were contracted under the name of entities of JD Group other than the entities controlled by us. Taken into consideration of (1) we were not legally entitled to collect or obligated to pay for the transactions in relation to the Remaining Listing Business operated by JD Group, but JD Group had such rights and obligations; (2) we did not maintain separate bank accounts in relation to the Remaining Listing Business since the treasury and cash disbursement functions of the Remaining Listing Business were centrally administrated under JD Group and the net cash flows generated by the Remaining Listing Business were kept in the bank accounts of JD Group; 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 Remaining Listing Business were not recognized as our Group's financial assets and financial liabilities in accordance with IFRS 9 but recognized as net return to/contribution from JD Group or amount due from/to JD Group as further stated below. The non-IFRS trade receivables and non-IFRS trade payables are presented as if the trade receivables and trade payables of JD Group attributable to the Remaining Listing Business were included in our statement of financial position because we believe that the non-IFRS trade receivables and non-IFRS trade payables are more indicative of our financial position during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they do to our management. For other financial assets and financial liabilities, such as other receivables and other payables, the consideration and basis aforementioned are also applicable. We expect that the Spin-off will be completed prior to the Listing and accordingly all of such non-IFRS trade receivables and non-IFRS trade payables will be reflected as our trade receivables and payables on our annual report subsequent to the Listing for the following reasons: (1) all of the Remaining Listing Business will have been transferred to the entities of our Group upon completion of the Spin-off; (2) we will directly enter into business contracts with the counterparties relating to the Remaining Listing Business under the name of our entities instead of JD Group's, therefore we will be legally entitled to collect or obligated to pay the respective amounts under such contracts; 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 Remaining Listing Business 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 Listing 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 Listing Business were spun off from, as if the Listing 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 Listing 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 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 Remaining Listing Business did not belong to us as such balances were included in JD Group's bank accounts and the treasury and cash disbursement functions were centrally managed under JD Group.

(4) for assets and liabilities other than financial assets and liabilities, such as property and equipment, 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 the Spin-off given that they are specifically identified within the Remaining Listing Business and separately managed and controlled by JD Group. We had neither right claims on nor obligation to any third parties, in contrast to financial assets and liabilities such as trade receivables involving the right to receive from customers or trade payables involving obligation to pay to suppliers. Therefore, there is no need for adjustments regarding the assets and liabilities other than financial assets and liabilities.

After the Agreement Effective Date of Series A Preference Shares financing, for the Remaining Listing Business which was operated by JD Group:

(1) the revenue, cost of revenue and expenses of such business were recorded in our combined statements of profit or loss based on the related party transactions established in accordance with terms stipulated in the Series A Share Subscription Agreement. For revenue, cost of revenue and expenses that were not covered by the Series A Share Subscription Agreement, they were recorded following the same principle as prior to the Agreement Effective Date of Series A Preference Shares financing. In addition, the profit generated from/funds utilized by the Remaining Listing Business 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 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 Remaining Listing Business 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.

In summary, prior to the Agreement Effective Date of the Series A Preference Shares financing, the Group was not able to receive and retain the profits arising from the Remaining Listing Business. Accordingly, the profits generated/loss incurred or funds utilized/provided by JD Group were presented as movements in the equity, and after the Agreement Effective Date of the Series A Preference Shares financing, the profits generated/loss incurred or funds utilized/provided by JD Group were presented as due from/to JD Group as the contractual arrangement between the Group and JD Group on the distribution of profits/loss and the attribution of assets/liabilities of the Listing Business of the Group have been set up.

The net contribution from JD Group we recognized on the items attributable to our Remaining Listing Business as discussed above for the years ended December 31, 2018, 2019 and 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 investors, 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.

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, 2019 and 2020.

IFRS 16 Lease

IFRS 16 superseded IAS 17 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 bellow:

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 *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, 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 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, 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
	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
Total	**5,895,781**

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.

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
Equity			
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 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.

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 further increased by 47.2% to RMB73.4 billion in 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 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 further to RMB312,617 in 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, 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 2020, according to the CIC Report. As of December 31, 2020, our warehouse network covered almost all counties and districts across China, consisting of over 900 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 December 31, 2020, our warehouse network (including the cloud warehouses) had an aggregate GFA of approximately 21 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 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 2020, our research and development expenses amounted to RMB1.5 billion, RMB1.7 billion and RMB2.1 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 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 policy support, such as relief of social security and waiver of toll charges, have also contributed to the improvement our financial performance during the year ended December 31, 2020. Despite the impact of the COVID-19 outbreak, our revenue increased by 47.2% from RMB49.8 billion in 2019 to RMB73.4 billion in 2020.

As of December 31, 2020, we had cash and cash equivalents of RMB6.3 billion and term deposits of RMB3.6 billion. In 2020, we had net cash generated from operating activities of RMB10.2 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 net proceeds from the Global Offering 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 net proceeds from the Global Offering designated for general working capital and our operations based on the low-end of the Offer Price, and remain financially viable for more than five years.

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 to this document.

Significant Accounting Policies

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 us, liabilities incurred by us to the former owners of the acquiree and the equity interests issued by us 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 us 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; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases are 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.

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.

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 our 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 we dispose 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.

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 have 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.

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.

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. Share-based awards to the employees and non-employees of Kuayue Express are granted under a share incentive plan of Kuayue Express. 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.

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.

Other intangible assets acquired in a business combination

Other 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, other 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 other intangible assets that are acquired separately.

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.

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 34 to the Accountants' Report in Appendix I 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.

Key procedures conducted by the Directors, Reporting Accountants and Joint Sponsors in relation to valuation of our level 3 financial assets and financial liabilities

A. Key procedures conducted by us

We engaged an independent qualified professional valuer (the "Independent Valuer") that has appropriate qualification and recent experience in the valuation of similar instrument as management's expert to aid the management in the determination of fair value of our Company's level 3 financial assets for the preparation of the financial statements for the Track Record Period. In addition, a team of personnel have been set up to determine the appropriate valuation techniques and inputs for these level 3 instruments for financial reporting purposes. The valuation team works closely with the qualified Independent Valuer to establish the appropriate valuation techniques and inputs to the model. Valuations or necessary updates on these level 3 instruments are performed at least once every quarter. The chief financial officer of our Company reports the valuation team's findings to the Directors of our Company every quarter to explain the reasons for fluctuations in the fair value.

B. Key procedures conducted by the Reporting Accountants

In evaluating the valuation of our Company's level 3 financial assets, the Reporting Accountants performed the following procedures, mainly including:

- evaluating whether the fair value measurement of level 3 financial assets and disclosures in the financial statements are in conformity with IFRSs;
- understanding our Company's process regarding the determination of fair value of level 3 financial assets; and
- performing substantive testing procedures on the fair value measurement of level 3 financial assets, including:
  - evaluating the qualification of the management/qualified Independent Valuer who performed and reviewed the valuation;
  - with the assistance of internal valuation specialists, (1) evaluating the appropriateness of the valuation methodologies and techniques used in determining the fair value of the investment; (2) reviewing and challenge the appropriateness of key inputs used in determining the fair value of the investment; and (3) testing the mathematical accuracy of the calculation applied in determining the fair value of the investment; and
  - reviewing and checking the sensitivity analysis on the key inputs used in determining the fair value of the investment.

C. Key procedures conducted by the Joint Sponsors

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

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 PRC domestic companies, Xi'an Jingdong Xincheng and Guangdong Jingxi Logistics Technology Co., Ltd., by entering into a series of contractual arrangements with the PRC domestic companies and their respective 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 companies and uncertainties presented by the PRC legal system could impede our beneficiary rights of the results, assets and liabilities of the PRC domestic companies. Our Directors, based on the advice of our PRC Legal Advisers, consider that the contractual arrangements in relation to Xi'an Jingdong Xincheng and the contractual arrangements in relation to Guangdong Jingxi Logistics Technology Co., Ltd. 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.

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 or initial public offering 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 the end of each reporting period, 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.

Useful lives and amortization of other intangible assets

We determine the estimated useful lives and related amortization for our other intangible assets with reference to the estimated periods that we intend to derive future economic benefits from the use of these assets. Specifically, when determining an appropriate allocation of amortization expense to the period of benefit of customer relationship, we analyzed the total period over which positive cash flows are forecasted to be realized as a result of the acquired customer relationship and determined this period to be approximately 9 years, based on estimated retention rate of Kuayue Express' current customers as of the acquisition date, the historical retention rate and projected future revenues associated with such customers. We will revise the amortization charges where useful lives are different from that of previously estimated. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

Impairment review of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the group of cash-generating units to which goodwill has been allocated, which is the higher of the value-in-use or fair value less costs of disposal. The value in use calculation requires us to estimate the future cash flows expected to arise from the group of cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

Impairment review on goodwill has been conducted by our management as of December 31, 2020 according to IAS 36. For the purpose of impairment review, the recoverable amount of the group of cash-generating units containing goodwill is determined based on value-in-use calculations by using the discounted cash flow method, based on 5-year period financial projections with the forecasted average annual revenue growth rate of 10% following the business plan approved by our management, plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of 3%. Pre-tax discount rate of 22.64% was used to reflect market assessment of time value and the specific risks relating to the group of cash-generating units representing Kuayue Express and its subsidiaries. Our management leveraged their extensive experience in the industry and provided forecast based on past performance and expectation of future business plans and market developments.

We performed impairment test for the goodwill and determined such goodwill was not impaired since the headroom for the group of cash-generating units containing goodwill amounted to RMB375,818,000 as of December 31, 2020. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2020.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

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

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Revenue	37,873,445	100.0	49,847,639	100.0	73,374,716	100.0
Cost of revenue	(36,793,265)	(97.1)	(46,415,425)	(93.1)	(67,081,077)	(91.4)
Gross profit	**1,080,180**	**2.9**	**3,432,214**	**6.9**	**6,293,639**	**8.6**
Selling and marketing expenses	(593,809)	(1.6)	(946,853)	(1.9)	(1,815,760)	(2.5)
Research and development expenses	(1,519,528)	(4.0)	(1,677,949)	(3.4)	(2,054,325)	(2.8)
General and administrative expenses	(1,731,098)	(4.6)	(1,874,391)	(3.8)	(1,678,921)	(2.3)
Other income, gains/(losses), net	28,441	0.1	(527,977)	(1.1)	542,668	0.7
Finance income	326,519	0.9	386,140	0.8	264,395	0.4
Finance costs	(63,224)	(0.2)	(430,105)	(0.9)	(454,774)	(0.6)
Fair value changes of convertible redeemable preferred shares	(239,142)	(0.7)	(315,477)	(0.6)	(4,861,109)	(6.6)
Impairment losses under expected credit loss model, net of reversal	(52,330)	(0.1)	(137,131)	(0.3)	(221,040)	(0.3)
Share of results of an associate and joint ventures	—	—	(68,627)	(0.1)	(64,069)	(0.1)
Loss before income tax	**(2,763,991)**	**(7.3)**	**(2,160,156)**	**(4.3)**	**(4,049,296)**	**(5.5)**
Income tax (expense)/credit	(556)	(0.0)	(77,330)	(0.2)	12,007	0.0
Loss for the year	**(2,764,547)**	**(7.3)**	**(2,237,486)**	**(4.5)**	**(4,037,289)**	**(5.5)**
Owners of the Company	(2,764,547)	(7.3)	(2,233,900)	(4.5)	(4,133,995)	(5.6)
Non-controlling interests	—	—	(3,586)	(0.0)	96,706	0.1
Non-IFRS Measure:[(1)]						
Adjusted (loss)/profit for the year (unaudited)	**(1,615,020)**	**(4.3)**	**(924,097)**	**(1.9)**	**1,709,668**	**2.3**

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

NON-IFRS MEASURE: ADJUSTED PROFIT/(LOSS) FOR THE YEAR

To supplement our combined financial statements, which are presented in accordance with IFRSs, we also use adjusted profit/(loss) as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. We believe adjusted 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 adjusted 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 adjusted profit/(loss) may not be comparable to similarly titled measures presented by other companies. The use of adjusted 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 adjusted profit/(loss) as profit/(loss) for the year, excluding share-based payments, fair value changes of convertible redeemable preferred shares and listing expense. We exclude these items because they are either non-operating in nature or not indicative of our core operating results and business outlook, or do not generate any cash outflows. 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. Share-based payments are non-cash in nature and do not result in cash outflow, and the adjustment has been consistently made during the Track Record Period, which complies with GL103-19. In particular, because of varying valuation methodologies and assumptions and the variety of award types that different companies can use, we believe that excluding share-based payments allows investors to make more meaningful comparisons between our operating results and those of other companies. Accordingly, we believe that excluding share-based payments provides investors and management with greater visibility to the underlying performance of our business operations, facilitates comparison of our results with other periods, and may also facilitate comparison with the results of other companies in our industry. 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 the Listing, and no further loss or gain on fair value changes is expected to be recognized afterwards. Fair value changes of convertible redeemable preferred shares are non-cash, non-recurring and do not result in cash outflow, the exclusion of which complies with GL103-19. In particular, we exclude fair value changes of convertible redeemable preferred shares because we do not believe this item is reflective of ongoing operating results in the period, as this non-cash item is affected by varying valuation methodologies and assumptions and has no direct correlation to the operation of our business. Further, we exclude listing expense as this item, which arises from activities relating to the Listing, is one-off and non-recurring.

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

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Reconciliation of loss to adjusted (loss)/profit:						
Loss for the year	(2,764,547)	(7.3)	(2,237,486)	(4.5)	(4,037,289)	(5.5)
Add:						
Share-based payments	910,385	2.4	997,912	2.0	877,594	1.2
Fair value changes of convertible redeemable preferred shares	239,142	0.6	315,477	0.6	4,861,109	6.6
Listing expense	—	—	—	—	8,254	0.0
Adjusted (loss)/profit for the year	**(1,615,020)**	**(4.3)**	**(924,097)**	**(1.9)**	**1,709,668**	**2.3**

During the Track Record Period, in addition to our core operating activities, our performance has also been affected by: (i) "fair value changes of financial assets at fair value through profit or loss", (ii) "impairment of investments", (iii) "amortization of intangible assets resulting from acquisitions", and (iv) "reconciling items on the share of results of an associate."

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. We review our customers on a regular basis, and customers who have utilized our warehouse or inventory management related 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 2018, 2019 and 2020.

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

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Revenue:						
From integrated supply chain customers	34,151,014	90.2	41,837,437	83.9	55,619,685	75.8
From other customers	3,722,431	9.8	8,010,202	16.1	17,755,031	24.2
Total	**37,873,445**	**100.0**	**49,847,639**	**100.0**	**73,374,716**	**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 and fuel cost.

The following table sets forth the components of our cost of revenue, in absolute amounts and as percentages of total revenue for the years indicated:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Cost of revenue:						
Employee benefit expenses	17,071,287	45.1	19,692,060	39.5	26,060,971	35.5
Outsourcing cost	10,491,538	27.7	16,308,388	32.7	26,087,307	35.6
Rental cost	4,443,848	11.7	4,651,270	9.3	6,589,593	9.0
Depreciation and amortization	1,122,379	3.0	1,177,555	2.4	1,419,267	1.9
Others	3,664,213	9.6	4,586,152	9.2	6,923,939	9.4
Total	**36,793,265**	**97.1**	**46,415,425**	**93.1**	**67,081,077**	**91.4**

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 and other service providers for sorting, shipping, and dispatching services, (ii) the costs in relation to on-demand last-mile delivery services, which are primarily used during peak seasons to supplement our in-house last-mile delivery capabilities and (iii) 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 maintenance 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 office 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 years indicated:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Employee benefit expenses	445,461	75.0	737,867	77.9	1,146,753	63.2
Promotion fee	76,875	13.0	89,599	9.5	137,276	7.5
Others	71,473	12.0	119,387	12.6	531,731	29.3
Total	**593,809**	**100.0**	**946,853**	**100.0**	**1,815,760**	**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 research and development team, enhance our technology capabilities and develop solutions and services to better serve our customers.

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

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Employee benefit expenses	1,094,301	72.0	1,143,711	68.2	1,363,730	66.4
Bandwidth and data center costs	70,740	4.7	165,035	9.8	175,264	8.5
Others	354,487	23.3	369,203	22.0	515,331	25.1
Total	**1,519,528**	**100.0**	**1,677,949**	**100.0**	**2,054,325**	**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.

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 years indicated:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Employee benefit expenses	1,063,250	61.4	1,221,148	65.2	1,186,275	70.7
Expenses of administrative support services charged by JD Group	424,319	24.5	356,556	19.0	281,331	16.8
Others	243,529	14.1	296,687	15.8	211,315	12.5
Total	**1,731,098**	**100.0**	**1,874,391**	**100.0**	**1,678,921**	**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.

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 years indicated:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Government grants	39,476	138.8	104,486	19.8	429,417	79.1
Impairment of interest in a joint venture	—	—	(150,000)	(28.4)	—	—
Fair value changes of financial assets at FVTPL	(13,064)	(45.9)	(469,241)	(88.9)	68,456	12.6
(Losses)/gains on disposal of property and equipment	(12,546)	(44.1)	4,610	0.9	(32,955)	(6.1)
Investment losses attributable to interest holders of consolidated investment funds	—	—	6,511	1.2	7,289	1.3
Others	14,575	51.2	(24,343)	(4.6)	70,461	13.1
Total	**28,441**	**100.0**	**(527,977)**	**(100.0)**	**542,668**	**100.0**

The government grants were mainly incentives provided by local government authorities in the PRC, including various forms of government financial incentives and preferential tax treatments such as tax refunds and grants for employment stabilization, to reward our support and contribution for the development of local economies. There were no unfulfilled conditions or contingencies relating to these government grants at the end of each of the reporting period during the Track Record Period.

The increase in government grants in 2020 was mainly due to the grants for employment stabilization, which were mainly to reward our past compliance with specific policies promoted by the local governments, such as relative low level of layoff rates. For certain government grants, there were no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy was determined at the discretion of the relevant government authorities. There were no unfulfilled conditions or contingencies relating to these government grants at the end of each of the reporting period during the Track Record Period.

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 years indicated:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Interest income from bank deposits	169,561	51.9	316,316	81.9	162,348	61.4
Interest income from related parties	156,958	48.1	69,824	18.1	102,047	38.6
Total	**326,519**	**100.0**	**386,140**	**100.0**	**264,395**	**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 the Listing. Accordingly, we do not expect to generate interest income of this type, recurring or non-recurring, from related parties after the Listing. 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.

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 years indicated:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Interest expense on lease liabilities	—	—	370,137	86.1	424,766	93.4
Interest expense to related parties	48,451	76.6	59,968	13.9	—	—
Interest expense from borrowings	—	—	—	—	18,402	4.0
Others	14,773	23.4	—	—	11,606	2.6
Total	**63,224**	**100.0**	**430,105**	**100.0**	**454,774**	**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 Listing.

Others primarily consist of transaction costs associated with our Series A Preference Shares financing and accrued interest expenses of equity instruments with preference rights.

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 34 to the Accountants' Report included in Appendix I 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 the Global Offering, 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.

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 years indicated:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Impairment losses recognized, net of reversal, on:						
—trade receivables	51,848	99.1	127,452	92.9	209,222	94.7
—other receivables	482	0.9	9,679	7.1	11,818	5.3
Total	**52,330**	**100.0**	**137,131**	**100.0**	**221,040**	**100.0**

Share of Results of an Associate and Joint Ventures

Share of results of an associate and joint ventures 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.

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 the Track Record Period, 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 did not record any withholding tax on any profits generated by the PRC Operating Entities, as the Company intends to reinvest its profits in China to further expand its business in China, and its FIEs do not intend to declare dividends on the retained earnings to their immediate foreign holding companies.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 47.2% from RMB49.8 billion in 2019 to RMB73.4 billion in 2020. The increase in our total revenue was driven by a 32.9% increase in revenue from our integrated supply chain customers and a 121.7% 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 39,926 in 2019 to 52,666 in 2020. The increase in the number of external integrated supply chain customers was due to the increased demand of our services as well as our ongoing sales and marketing efforts. In addition, we achieved an average revenue per external integrated supply chain customer of RMB279,401 and RMB312,617 in 2019 and 2020, respectively. Such improvement resulted from the deepened collaborations between our customers and us.

Revenue from other customers increased by 121.7% from RMB8.0 billion in 2019 to RMB17.8 billion in 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, as well as the acquisition of Kuayue Express in August 2020.

Cost of revenue

Our cost of revenue increased by 44.5% from RMB46.4 billion in 2019 to RMB67.1 billion in 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 32.3% from RMB19.7 billion in 2019 to RMB26.1 billion in 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.

Outsourcing cost, including costs charged by transportation companies, couriers and other service providers for sorting, shipping, dispatching, delivering and labor outsourcing services, increased by 60.0% from RMB16.3 billion in 2019 to RMB26.1 billion in 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 revenue from other customers, who primarily use 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. To a lesser extent, the acquisition of Kuayue Express, which was completed in August 2020, also contributed to the increase in outsourcing cost, as Kuayue Express used suppliers for various services, such as shipping and labor outsourcing.

Rental cost increased by 41.7% from RMB4.7 billion in 2019 to RMB6.6 billion in 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, as well as the acquisition of Kuayue Express in August 2020.

Depreciation and amortization increased by 20.5% from RMB1.2 billion in 2019 to RMB1.4 billion in 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 51.0% from RMB4.6 billion in 2019 to RMB6.9 billion in 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 RMB3.4 billion and RMB6.3 billion in 2019 and 2020, respectively, and (ii) a gross profit margin of 6.9% and 8.6% in 2019 and 2020, respectively. The increase in the gross profit margin was primarily due to COVID-19 related government policy support, such as relief of social security. 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 91.8% from RMB946.9 million in 2019 to RMB1.8 billion in 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 22.4% from RMB1.7 billion in 2019 to RMB2.1 billion in 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 decreased by 10.4% from RMB1.9 billion in 2019 to RMB1.7 billion in 2020, primarily due to efficiency gains and a lower share-based compensation amount in 2020.

Other income, gains/(losses), net

We recorded other losses of RMB528.0 million in 2019, and other gains of RMB542.7 million in 2020. The change was primarily attributable to (i) government grants of RMB429.4 million we received in 2020, as compared with RMB104.5 million in 2019, (ii) impairment charges of RMB150 million in 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 RMB68.5 million in 2020, as compared with a fair value loss of financial assets of RMB469.2 million in 2019.

Finance income

Our finance income decreased by 31.5% from RMB386.1 million in 2019 to RMB264.4 million in 2020, primarily due to a decrease in interest income from bank deposits from RMB316.3 million in 2019 to RMB162.3 million in 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 RMB69.8 million in 2019 to RMB102.0 million in 2020 due to the utilization of JD Group’s treasury management functions to help manage our Series A Financing Proceeds, substantially all of which remained offshore.

Finance costs

Our finance costs increased by 5.7% from RMB430.1 million in 2019 to RMB454.8 million in 2020, primarily due to (i) an increase in interest on lease liabilities from RMB370.1 million in 2019 to RMB424.8 million in 2020, due to a higher amount of lease liabilities, which was in line with the rapid growth of our business and (ii) an increase in interest expense from borrowings from nil in 2019 to RMB18.4 million in 2020, partially offset by a decrease in interest on loans from related parties from RMB60.0 million in 2019 to nil in 2020 due to a lower net payable amount to related parties.

Fair value changes of convertible redeemable preferred shares

We recorded a loss on fair value changes of convertible redeemable preferred shares of RMB315.5 million in 2019 and RMB4.9 billion in 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 61.2% from RMB137.1 million in 2019 to RMB221.0 million in 2020, primarily due to an increase in the impairment charges recorded on trade receivables from RMB127.5 million in 2019 to RMB209.2 million in 2020, primarily due to increase of trade receivables balance from third-parties.

Income tax (expense)/credit

Our income tax credit was RMB12.0 million in 2020, compared to an income tax expense of RMB77.3 million in 2019, primarily due to the recognition of deferred tax assets and the reversal of deferred tax liabilities in 2020.

Loss for the year

As a result of the foregoing, we generated a loss of RMB2.2 billion in 2019 and a loss of RMB4.0 billion in 2020. The loss in 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.

Outsourcing cost includes the costs charged by transportation companies, couriers and other service providers for sorting, 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 revenue from other customers, who primarily use 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."

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 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 spin-off 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 financial assets 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.

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 changes of convertible redeemable preferred shares

We recorded a loss on fair value changes 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 and joint ventures

We recorded a loss on share of results of an associate and joint ventures of RMB68.6 million 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.

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.

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 March 31,
	2018	2019	2020	2021
	(in thousands of RMB)			
Current assets:				
Inventories	224,010	259,932	393,086	430,761
Trade receivables	1,640,816	3,229,663	5,371,323	5,299,997
Contract assets	23,249	50,470	58,602	67,254
Prepayments, other receivables and other assets	963,240	11,461,194	12,376,832	2,736,944
Financial assets at fair value through profit or loss	—	—	947,738	1,236,382
Term deposits	—	—	3,588,695	5,257,040
Restricted cash	—	—	56,743	24,962
Cash and cash equivalents	19,249,997	9,274,203	6,346,869	4,641,336
Total current assets	**22,101,312**	**24,275,462**	**29,139,888**	**19,694,676**
Current liabilities:				
Trade payables	2,652,948	3,957,416	5,811,619	5,007,806
Contract liabilities	7,170	11,935	67,548	76,307
Accrued expenses and other payables	9,232,110	11,186,020	15,410,593	8,659,096
Advances from customers	4,971	68,222	258,861	167,795
Borrowings	—	—	—	165,000
Lease liabilities	—	3,103,550	4,619,073	4,921,199
Payables to interest holders of consolidated investment funds	—	109,239	116,950	116,962
Tax liabilities	556	16,772	54,407	73,891
Total current liabilities	**11,897,755**	**18,453,154**	**26,339,051**	**19,188,056**
Net current assets	**10,203,557**	**5,822,308**	**2,800,837**	**506,620**

We had net current assets positions as of December 31, 2018, 2019 and 2020 and as of March 31, 2021. 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, term deposits 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 RMB2.8 billion as of December 31, 2020.

As of December 31, 2020, we had RMB29.1 billion of current assets and RMB26.3 billion of current liabilities.

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,		
	2018	2019	2020
	(in thousands of RMB)		
Trade receivables from third parties	1,602,005	3,246,423	5,517,630
Trade receivables from related parties[(1)]	95,512	94,160	93,473
Less: allowance for credit losses	(56,701)	(110,920)	(239,780)
Total	**1,640,816**	**3,229,663**	**5,371,323**

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 70.0% and to RMB5.5 billion as of December 31, 2020. The increases in trade receivables from third parties were primarily due to the significant growth of our business from third parties 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 from RMB94.2 million as of December 31, 2019 to RMB93.5 million as of December 31, 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 based on billing date is as follows:

	As of December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Trade receivables			
Within three months	1,605,095	3,138,218	5,337,485
Three to six months	53,663	104,191	100,283
Six months to twelve months	35,767	57,154	61,987
Over twelve months	2,992	41,020	111,348
	1,697,517	3,340,583	5,611,103
Less: allowance for credit losses	(56,701)	(110,920)	(239,780)
Total	**1,640,816**	**3,229,663**	**5,371,323**

Our Directors are of the view that no further impairment is required for trade receivables that have exceeded the normal credit period. We apply the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL for trade receivables, and we measure the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. In addition, trade receivables that are credit-impaired are assessed for ECL individually. For those outstanding balances of trade receivables which exceeded the normal credit period, these debtors have confirmed the balances due to our company and have also been maintaining continuous business relationships with our company. Our business department has been making periodic communications to these debtors to understand their state of operations, ensure that they are in agreement with the amounts owed, and obtain the commitments from them to continue to repay our company. Therefore, our Directors believe that these companies have no intent, and have displayed no such behavior indicating an intent, to default on making payments. In addition, when a receivable is confirmed to be uncollectible, it is written off against the related allowances for its impairment in order to ensure the accuracy of the impairment allowance maintained and the recoverability of the receivables.

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

The following table reconciles our non-IFRS trade receivables as of the end of the years 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 years indicated:

	As of December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Reconciliation of trade receivables to non-IFRS trade receivables:			
Trade receivables, net of allowance for credit loss	1,640,816	3,229,663	5,371,323
Trade receivables of JD Group attributable to our business	1,704,880	398,814	605,590
Non-IFRS trade receivables	3,345,696	3,628,477	5,976,913

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 years indicated:

	For the Year Ended December 31,		
	2018	2019	2020
Trade receivables turnover days	36.7	45.7	45.2
Non-IFRS trade receivables turnover days	75.9	65.5	50.5

Our trade receivables do not contain receivables from JD Group. Accordingly, (i) our trade receivables turnover days for a year equals the average of the opening and closing trade receivables balance divided by total revenue (excluding services provided to JD Group) during the relevant year and multiplied by 360 days; and (ii) non-IFRS trade receivables turnover days for a year 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 year and multiplied by 360 days.

Our trade receivables turnover days were 36.7 days in 2018, 45.7 days in 2019, and 45.2 days in 2020. The general 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 50.5 days in 2020. The decreasing trend was due to our continued improvement of trade receivables collection management.

As of March 31, 2021, approximately RMB5.1 billion, or 91.4%, of our trade receivables as of December 31, 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 from partial disposal of a subsidiary. 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 the Listing, except for those incurred in the normal course of business.

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

	As of December 31,		
	2018	**2019**	**2020**
	(in thousands of RMB)		
Current prepayments, other receivables and other assets:			
Amounts due from related parties	92,945	10,606,784	10,722,372
Prepaid expenses	733,501	634,079	1,262,489
Refundable deposits	69,788	92,059	179,141
Receivables from partial disposal of a subsidiary	—	—	75,000
Prepayments to suppliers	13,742	84,387	72,354
Loans to related parties*	—	3,854	42,084
Interest receivables	38,825	13,146	16,802
Others	15,709	37,745	37,884
	964,510	11,472,054	12,408,126
Less: allowance for credit losses	(1,270)	(10,860)	(31,294)
Total	**963,240**	**11,461,194**	**12,376,832**

* As of December 31, 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, respectively.

Our current prepayments, other receivables and other assets increased by 8.0% from RMB11.5 billion as of December 31, 2019 to RMB12.4 billion as of December 31, 2020, primarily due to 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.

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

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

	As of December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Reconciliation of current prepayments, other receivables and other assets to non-IFRS current prepayments, other receivables and other assets:			
Current prepayments, other receivables and other assets	963,240	11,461,194	12,376,832
Current loans to employees of JD Group attributable to our business	17,171	21,525	32,479
Current refundable deposits of JD Group attributable to our business	79,087	71,788	81,422
Non-IFRS current prepayments, other receivables and other assets	1,059,498	11,554,507	12,490,733

Our PRC Legal Advisor is of the opinion that, during the Track Record Period, our provision of loans to related parties was in compliance with the applicable laws and regulations, including the PRC Civil Code, the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases promulgated in 2015 and Several Decisions of the Supreme People's Count on Revising the Private Lending Provisions promulgated in 2020.

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 held by us as of December 31, 2020 range from 1.35% to 3.65%. 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 discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

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

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

	As of December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Current financial assets at fair value through profit or loss:			
Wealth management products	—	—	947,738

Our current financial assets at fair value through profit or loss increased from nil as of December 31, 2018 and 2019 to RMB947.7 million as of December 31, 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,		
	2018	2019	2020
	(in thousands of RMB)		
Term deposits	—	—	3,588,695

Our term deposits increased from nil as of December 31, 2018 and 2019 to RMB3.6 billion as of December 31, 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,		
	2018	2019	2020
	(in thousands of RMB)		
Trade payables	2,652,948	3,957,416	5,811,619

Our trade payables increased by 46.9% from RMB4.0 billion as of December 31, 2019 to RMB5.8 billion as of December 31, 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,		
	2018	2019	2020
	(in thousands of RMB)		
Trade payables:			
Within three months	2,119,493	3,937,357	5,092,371
Three to six months	529,537	4,884	501,446
Six months to twelve months	3,383	6,911	122,484
Over twelve months	535	8,264	95,318
Total	**2,652,948**	**3,957,416**	**5,811,619**

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

The following table reconciles our non-IFRS trade payables as of the end of the years 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,		
	2018	2019	2020
	(in thousands of RMB)		
Reconciliation of trade payables to non-IFRS trade payables:			
Trade payables	2,652,948	3,957,416	5,811,619
Trade payables of JD Group attributable to our business	162,866	30,987	12,984
Non-IFRS trade payables	2,815,814	3,988,403	5,824,603

Our non-IFRS trade payables increased by 46.0% from RMB4.0 billion as of December 31, 2019 to RMB5.8 billion as of December 31, 2020. 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. The increases in non-IFRS trade payables as of the dates presented were primarily due to our overall business expansion.

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

	For the Year Ended December 31,		
	2018	2019	2020
Trade payables turnover days	49.2	73.0	67.4
Non-IFRS trade payables turnover days	90.4	75.1	67.7

Substantially all of our trade payables consist of payables to our outsourcing partners. Accordingly, (i) our trade payables turnover days for a year equals the average of the opening and closing trade payables balance divided by outsourcing cost for the relevant year and multiplied by 360 days; and (ii) our non-IFRS trade payables turnover days for a year equals the average of the opening and closing non-IFRS trade payables balance divided by outsourcing cost for the relevant year and multiplied by 360 days.

Our trade payables turnover days increased from 49.2 days in 2018 to 73.0 days in 2019 and decreased to 67.4 days in 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 67.7 days in 2020 primarily as a result of more efficient payable settlement, and, to a lesser extent, a higher proportion of labor outsourcing in our outsourcing cost, which typically has a shorter settlement cycle.

As of March 31, 2021, approximately RMB5.7 billion, or 98.3%, of our trade payables as of December 31, 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 RMB5.0 million as of December 31, 2018 to RMB68.2 million as of December 31, 2019, and further increased to RMB258.9 million as of December 31, 2020. 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 Remaining Listing Business in JD Group on behalf of us since January 1, 2017 or the funds support to our PRC operating entities provided by JD Group.

As of the Latest Practicable Date, our Group had sufficient financial resources, including proceeds received in the Series A Preference Shares financing, to cover the amounts due to related parties. However, a substantial portion of our resources 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 the Listing Date, the amounts due to related parties under "accrued expenses and other payables" will (1) cease to fluctuate (save for certain other payables as a result of the normal course of our business) 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 one year from the Listing Date. We have sufficient financial resources to settle the payables due to JD Group. As of March 31, 2021, the payables due to JD Group was RMB0.8 billion. As of March 31, 2021, we had (i) cash and cash equivalents of RMB4.6 billion and (ii) term deposits of RMB5.3 billion, both of which had substantial portions offshore. 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,		
	2018	2019	2020
	(in thousands of RMB)		
Accrued expenses and other payables:			
Amounts due to related parties	6,016,874	6,644,788	7,141,788
Salary and welfare payables	1,303,668	1,773,098	3,500,957
Accrued expenses	823,170	1,110,062	1,550,083
Property and equipment payables	98,728	361,260	612,408
Deposits	193,308	369,207	626,567
Packing materials payables	229,465	465,968	812,589
Other tax payables	76,470	181,827	314,738
Amount due to non-controlling shareholder	—	—	104,640
Temporary receipt	305,060	92,004	109,903
Others	185,367	187,806	636,920
Total	**9,232,110**	**11,186,020**	**15,410,593**

Our accrued expenses and other payables increased by 37.8% from RMB11.2 billion as of December 31, 2019 to RMB15.4 billion as of December 31, 2020, primarily due to (i) an increase in amounts due to related parties, (ii) an increase in salary and welfare payables, and (iii) an 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 (i) an increase in salary and welfare payables, and (ii) an increase in amounts due to related parties.

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

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

	As of December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Reconciliation of accrued expenses and other payables to non-IFRS accrued expenses and other payables:			
Accrued expenses and other payables	9,232,110	11,186,020	15,410,593
Accrued expenses and other payables of JD Group attributable to our business	1,604,800	1,445,001	1,138,170
Non-IFRS accrued expenses and other payables	10,836,910	12,631,021	16,548,763

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.

Our current lease liabilities increased by 48.8% from RMB3.1 billion as of December 31, 2019 to RMB4.6 billion as of December 31, 2020, primarily due to (i) new lease agreements we entered into with lease terms ranging from 1 to 15 years in 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, due to our application of IFRS 16 from January 1, 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 7.1% from RMB109.2 million as of December 31, 2019 to RMB117.0 million as of December 31, 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,		
	2018	2019	2020
	(in thousands of RMB)		
Non-current assets:			
Property and equipment	4,837,775	5,337,907	6,652,425
Right-of-use assets	—	8,619,859	12,185,603
Goodwill	—	—	1,499,142
Other intangible assets	12,571	14,242	2,807,787
Interest in an associate	—	287,932	224,021
Interest in a joint venture	150,000	—	7,742
Financial assets at fair value through profit or loss	1,101,545	1,026,599	1,057,358
Deferred tax assets	—	—	43,112
Prepayments, other receivables and other assets	240,862	491,117	1,101,033
Restricted cash	—	—	4,991
Total non-current assets	**6,342,753**	**15,777,656**	**25,583,214**
Non-current liabilities:			
Lease liabilities	—	5,573,267	7,844,604
Convertible redeemable preferred shares	17,462,915	18,069,639	21,918,414
Equity instruments with preference rights	—	—	597,380
Long-term payables	—	—	200,000
Deferred tax liabilities	—	42,054	717,285
Total non-current liabilities	**17,462,915**	**23,684,960**	**31,277,683**

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 24.6% from RMB5.3 billion as of December 31, 2019 to RMB6.7 billion as of December 31, 2020, primarily due to the increase of logistics equipment to support our business expansion and 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. 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 41.4% from RMB8.6 billion as of December 31, 2019 to RMB12.2 billion as of December 31, 2020, primarily due to (i) new lease agreements we entered into with lease terms ranging from 1 to 15 years in 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 December 31, 2020 due to the acquisition of a controlling interest in Kuayue Express in August 2020.

For the purpose of impairment tests of goodwill, goodwill is allocated to a group of cash generating units which represent Kuayue Express and its subsidiaries.

Impairment review on the goodwill has been conducted by our management as of December 31, 2020 according to IAS 36. For the purpose of impairment review, the recoverable amount of the group of cash-generating units containing goodwill is determined based on value-in-use calculations by using the discounted cash flow method, based on 5-year period financial projections with the forecasted average annual revenue growth rate of 10% following the business plan approved by the management, plus a terminal value related to cash flows beyond the projection period extrapolated at an estimated terminal growth rate of 3%. Pre-tax discount rate of 22.64% was used to reflect market assessment of time value and the specific risks relating to the cash-generating units. Our management leveraged their extensive experience in the industry and provided forecast based on past performance and expectation of future business plans and market developments.

We performed impairment test for the goodwill and determined such goodwill was not impaired since the headroom for the group of cash-generating units containing goodwill amounted to RMB375.8 million as of December 31, 2020. Sensitivity analysis has been performed based on the assumptions that revenue or terminal value or the pre-tax discount rate has been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased to as below:

	As of December 31, 2020
	RMB'000
Revenue decrease by 5%	163,830
Terminal value decrease by 10%	185,763
Pre-tax discount rate increase by 5%	142,219

As of December 31, 2020, an 8.9% decrease in estimated revenue, a 19.8% decrease in estimated terminal value, an 8.3% increase in pre-tax discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for the group of cash-generating units containing goodwill.

Reasonable possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2020.

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 RMB2.8 billion as of December 31, 2020 due to the recognition of other intangible assets arising from the acquisition of a controlling interest in Kuayue Express in August 2020.

Our other 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
Customer relationship	9 years
License and others	3-10 years

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 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.

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 RMB224.0 million as of December 31, 2020.

The fair value of our investment on Xinning Logistics is measured with its closing price quoted on China Growth Enterprise Market, which amounted to RMB411.0 million and RMB330.5 million as of December 31, 2019 and 2020, respectively, exceeding the carrying value of RMB287.9 million and RMB224.0 million as of December 31, 2019 and 2020, respectively. As such, no impairment charges were recorded for our interest in this associate, after performing the impairment assessment in accordance with IAS 36 for each of the years ended December 31, 2019 and 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 3.19 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,		
	2018	2019	2020
	(in thousands of RMB)		
Non-current financial assets at fair value through profit or loss:			
Equity securities in listed entities	565,611	367,867	397,649
Preferred shares investments in unlisted entities	534,734	498,772	497,529
Equity investments in unlisted entities	1,200	159,960	162,180
Total	**1,101,545**	**1,026,599**	**1,057,358**

Our non-current financial assets at fair value through profit or loss remained stable as of December 31, 2018, 2019 and 2020.

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,		
	2018	2019	2020
	(in thousands of RMB)		
Non-current prepayments, other receivables and other assets:			
Refundable deposits	102,530	222,262	483,750
Pallets	92,517	156,748	299,332
Long-term prepaid expenses	38,635	98,763	216,142
Prepayments for property and equipment	7,180	11,486	24,992
Receivables from partial disposal of a subsidiary	—	—	75,000
Others	—	1,858	1,817
Total	**240,862**	**491,117**	**1,101,033**

Our non-current prepayments, other receivables and other assets increased by 124.2% from RMB491.1 million as of December 31, 2019 to RMB1.1 billion as of December 31, 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.

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

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

	As of December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Reconciliation of non-current prepayments, other receivables and other assets to non-IFRS non-current prepayments, other receivables and other assets:			
Non-current prepayments, other receivables and other assets	240,862	491,117	1,101,033
Non-current loans to employees of JD Group attributable to our business	63,824	61,599	99,227
Non-current refundable deposits of JD Group attributable to our business	435,199	360,687	277,322
Prepayments for property and equipment of JD Group attributable to our business	140,463	25,980	6,020
Non-IFRS non-current prepayments, other receivables and other assets	880,348	939,383	1,483,602

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 34 to the Accountants' Report in Appendix I 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 34 to the Accountants' Report in Appendix I 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 40.8% from RMB5.6 billion as of December 31, 2019 to RMB7.8 billion as of December 31, 2020, primarily due to (i) new lease agreements we entered into with lease terms ranging from 1 to 15 years in 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 lease liabilities increased from nil as of December 31, 2018 to RMB5.6 billion as of December 31, 2019, 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 December 31, 2020.

Our long-term payables increased from nil as of December 31, 2019 to RMB200 million as of December 31, 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 RMB717.3 million as of December 31, 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.

KEY FINANCIAL RATIOS

	For the Year Ended December 31,		
	2018	**2019**	**2020**
Total revenue growth (%)	48.2	31.6	47.2
Total gross margin (%)[1]	2.9	6.9	8.6
Adjusted net margin (%)[2]	(4.3)	(1.9)	2.3

Notes:

(1) Total gross margin equals gross profit divided by revenue for the year and multiplied by 100%.

(2) Adjusted net margin represents adjusted profit/(loss) for the year as a percentage of total revenue of such year and multiplied by 100%. For details of the adjusted profit/(loss) of the year, see "—Non-IFRS Measure: Adjusted Profit/(Loss) For the Year."

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 equivalents represents cash and bank balances. We had cash and cash equivalents of RMB19.2 billion, RMB9.3 billion and RMB6.3 billion as of December 31, 2018, 2019 and 2020, respectively.

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

	For the Year Ended December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Net cash generated from operating activities	1,021,769	2,630,294	10,201,097
Net cash used in investing activities	(3,408,482)	(2,609,912)	(8,770,504)
Net cash generated from/(used in) financing activities	18,776,658	(9,894,983)	(3,732,868)
Net increase/(decrease) in cash and cash equivalents	16,389,945	(9,874,601)	(2,302,275)
Net contribution from JD Group	1,342,208	—	—
Cash and cash equivalents at the beginning of the year	293,250	19,249,997	9,274,203
Effects of foreign exchange rate changes on cash and cash equivalents	1,224,594	(101,193)	(625,059)
Cash and cash equivalents at the end of the year	19,249,997	9,274,203	6,346,869

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

Net Cash Generated from Operating Activities

In 2020, net cash generated from operating activities was RMB10.2 billion, primarily attributable to our loss of RMB4.0 billion, as adjusted by (i) non-cash and non-operating items, which primarily consist of loss on fair value changes of convertible redeemable preferred shares of RMB4.9 billion, depreciation of right-of-use assets of RMB3.6 billion, depreciation of property and equipment of RMB1.5 billion, and share-based payments of RMB877.6 million and (ii) changes in working capital, which primarily result from an increase in accrued expenses and other payables of RMB3.3 billion and an increase in trade payables of RMB1.0 billion, partially offset by an increase in trade receivables of RMB1.5 billion.

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 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

In 2020, net cash used in investing activities was RMB8.8 billion, primarily attributable to payment for financial assets at fair value through profit or loss (wealth management products mainly) of RMB6.0 billion, placement of term deposits of RMB3.6 billion, purchases of property and equipment of RMB3.2 billion, and net cash outflow on acquisition of the controlling interest in Kuayue Express of RMB1.5 billion, partially offset by maturity of financial assets at fair value through profit or loss (wealth management products) of RMB5.6 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 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 of RMB983.8 million.

Net Cash Generated from/(Used in) Financing Activities

In 2020, net cash used in financing activities was RMB3.7 billion, primarily attributable to principal portion of lease payments of RMB3.1 billion, repayment of borrowings of RMB986.1 million, and interest paid of RMB423.6 million, partially offset by the net proceeds from issuance of convertible redeemable preferred shares of RMB443.0 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.

INDEBTEDNESS

Borrowings

As of December 31, 2018, 2019 and 2020, we did not have any bank borrowings. In August 2020, as a result of acquisition of a controlling interest in Kuayue Express, all the bank loans made by Kuayue Express had been consolidated into our combined financial statements. The loans were fully repaid in the last quarter of 2020. As of March 31, 2021, we had current borrowings amounted to RMB165.0 million which are unsecured and unguaranteed, and will be due within one year.

As of December 31, 2018, 2019 and 2020 and as of March 31, 2021, we had available unutilized general borrowing facilities of nil, nil, RMB2.3 billion and RMB0.4 billion, respectively.

Amounts due to related parties

As of December 31, 2018, we had unsecured and unguaranteed amounts due to JD Group, Dada Group, Core Funds and other related parties of RMB6.0 billion, RMB146.6 million, nil and nil, respectively. As of December 31, 2019, we had unsecured and unguaranteed amounts due to JD Group, Dada Group, Core Funds and other related parties of RMB6.5 billion, RMB228.5 million, RMB20.3 million and RMB152.1 million, respectively. As of December 31, 2020, we had unsecured and unguaranteed amounts due to JD Group, Dada Group, Core Funds and other related parties of RMB7.0 billion, RMB507.3 million, RMB39.8 million and RMB154.0 million, respectively. As of March 31, 2021, we had unsecured and unguaranteed amounts due to JD Group, Dada Group, Core Funds and other related parties of RMB794.5 million, RMB285.3 million, RMB48.8 million and RMB155.8 million, respectively.

Other than amount due to JD Group, amounts due to related parties of RMB146.6 million, RMB230.6 million, RMB511.3 million and RMB291.0 million as of December 31, 2018, 2019 and 2020 and as of March 31, 2021, respectively, were trade in nature; and nil, RMB170.3 million, RMB189.8 million and RMB198.8 million respectively, were non-trade in nature.

The amounts due to JD Group primarily include (i) payables for services received from JD Group, and (ii) the funds utilized by the Remaining Listing Business since January 1, 2017 and other non-trade related balances as a result of the carve-out process.

Convertible redeemable preferred shares

As of December 31, 2018, 2019 and 2020, our convertible redeemable preferred shares had a fair value of RMB17.5 billion, RMB18.1 billion and RMB21.9 billion, respectively. For further information regarding the preferred shares, see note 34 to the Accountants' Report in Appendix I to this document. Between December 31, 2020 and March 31, 2021, we did not issue or repurchase any preferred shares. All the convertible redeemable preferred shares are unsecured and unguaranteed.

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,			As of March 31,
	2018	2019	2020	2021
		(in thousands of RMB)		
Current	—	3,103,550	4,619,073	4,921,199
Non-current	—	5,573,267	7,844,604	8,317,229
Total	—	**8,676,817**	**12,463,677**	**13,238,428**

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	2020
	(in thousands of RMB)		
Within one year	—	3,103,550	4,619,073
One to two years	—	2,121,042	3,154,657
Two to five years	—	3,111,922	3,906,885
Over five years	—	340,303	783,062
Total	—	8,676,817	12,463,677
Less: Amount due for settlement within 12 months shown under current liabilities	—	(3,103,550)	(4,619,073)
Amount due for settlement after 12 months shown under non-current liabilities	—	5,573,267	7,844,604

Amount due to non-controlling shareholder

Amount due to non-controlling shareholder was originated from the interest-bearing borrowings provided by non-controlling shareholder of Kuayue Express, which had a term of 3 years and were unsecured and unguaranteed.

As of December 31, 2020, total balance of the amount due to non-controlling shareholder amounted to RMB304.6 million, which consisted of short term portion of RMB104.6 million and long term portion of RMB200 million.

As of March 31, 2021, amount due to non-controlling shareholder had a total balance of RMB307.9 million, with short term and long term portion amounting to RMB107.9 million and RMB200 million, respectively.

Equity instruments with preference rights

As a result of our acquisition of the controlling interest of Kuayue Express in August 2020, the equity instruments with preference rights issued by Kuayue Express were consolidated into our combined financial statements, which had carrying values of RMB597.4 million and RMB605.8 million as of December 31, 2020 and March 31, 2021, respectively. All of these equity instruments with preference rights are unsecured and unguaranteed.

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 March 31, 2021.

CONTINGENT LIABILITIES OR GUARANTEES

As of December 31, 2018, 2019 and 2020 and as of March 31, 2021, we did not have any material contingent liabilities or guarantees.

CAPITAL EXPENDITURES

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

	For the Year Ended December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Payments for equipment	(2,422,619)	(1,746,210)	(3,178,221)
Disposal of equipment	2,342	16,776	41,659
Payments for other intangible assets	(4,373)	(9,651)	(18,765)
Total	**(2,424,650)**	**(1,739,085)**	**(3,155,327)**

Our capital expenditures in 2018, 2019 and 2020 were RMB2.4 billion, RMB1.7 billion and RMB3.2 billion, respectively, primarily attributable to payments for 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 proceeds from the Global Offering. See the section headed "Use of Proceeds" for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Other than the items displayed below, we had no material capital commitments as of December 31, 2018, 2019 and 2020.

	As of December 31,		
	2018	2019	2020
	(in thousands of RMB)		
Contracted for but not provided in the Historical Financial Information			
Purchase of property and equipment	514,041	25,192	107,175

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	2020
	(in thousands of RMB)		
Within 1 year	2,442,605	3,188,247	4,732,571
In the second to fifth year inclusive	3,573,798	6,104,442	8,067,601
Over 5 years	419,066	483,953	1,169,196
	6,435,469	**9,776,642**	**13,969,368**

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

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 Funds	Associates of JD Group
Dada Group	An associate of JD Group
JD Technology*	An associate of JD Group, and controlled by Mr. Richard Qiangdong Liu (劉強東)

* JD Technology became an associate of JD Group since June 2020.

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 the Remaining Listing Business 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 Group 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 Group 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:

	Notes	For the Year Ended December 31, 2018	2019	2020
		(in thousands of RMB)		
Rendering of services:				
Services provided to JD Group	(i)	26,552,355	30,682,081	39,155,413
Services provided to Tencent Group	(ii)	275,431	170,523	54,670
Services provided to JD Technology	(iii)	9,534	128,772	220,093
Services provided to AiHuiShou Group	(ii)	4,759	24,245	69,455
Receiving of services:				
Services received from JD Group	(iv)	644,578	802,333	1,281,288
Services received from Dada Group	(v)	938,627	1,561,772	2,189,983
Share-based compensation received from JD.com, Inc.	(iv)	509,417	425,803	228,562
Services received from JD Technology	(vi)	111,140	101,324	97,928
Lease arrangements:				
Lease and property management services received from JD Group	(viii)	281,561	—	—
Interest on lease liabilities for leases with Core Funds	(vii)	—	147,587	132,878
Interest on lease liabilities for leases with JD Group	(ix)	—	10,517	20,595
Receiving or payment of interest:				
Interest income from JD Group	(x)	156,958	69,824	102,047
Interest expenses to JD Group	(x)	48,451	59,968	—

Rendering of services

(i) We provide 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 provide 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 Technology.

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. In addition, the share-based payments of JD Group's employees in the headquarters are allocated to us based on corresponding drivers.

(v) Dada Group primarily provides on-demand delivery services to us.

(vi) JD Technology primarily provides payment and ancillary services to us.

Lease arrangements

(vii) During the year ended December 31, 2019, we entered into several lease agreements for operational purposes with Core Funds 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.

During the year ended December 31, 2020, we entered into a lease agreement for operational purposes with Core Funds for 4 years. Right-of-use assets and lease liabilities amounted to RMB2.5 billion and RMB2.7 billion as of December 31, 2020, respectively.

(viii) We lease warehouses from JD Group for operational purposes.

(ix) During the year ended December 31, 2019, we entered into several lease agreements 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.

During the year ended December 31, 2020, we entered into several lease agreements with JD Group for 1 to 6 years. Right-of-use assets and lease liabilities amounted to RMB796.8 million and RMB799.9 million as of December 31, 2020, respectively.

Receiving or payment of interest:

(x) To better utilize the excessive cash for higher returns, we participate in the treasury management scheme administrated by JD Group, through transferring excessive cash to JD Group and charge 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.

We had the following significant balances with related parties:

	As of December 31,		
	2018	**2019**	**2020**
	(in thousands of RMB)		
Due from related parties:			
Amounts due from JD Group	—	10,486,252	10,538,555
Amounts due from JD Technology	72,940	143,584	199,821
Amounts due from Tencent Group	83,121	38,806	63,202
Amounts due from AiHuiShou Group	892	15,536	7,199
Amounts due from Dada Group	23,925	11,579	3,438
Amounts due from other related parties	7,579	5,187	3,630
Total	188,457	10,700,944	10,815,845
Due to related parties:			
Amounts due to JD Group	6,016,874	6,474,480	6,951,957
Amounts due to Dada Group	146,586	228,456	507,274
Amounts due to Core Funds	—	20,308	39,831
Amounts due to other related parties	—	152,124	154,017
Total	6,163,460	6,875,368	7,653,079

The amounts due from/to JD Group include both trade and non-trade related amounts. Amounts due from JD Group increased from nil as of December 31, 2018 to RMB10.5 billion as of December 31, 2019, because, in 2019, we utilized JD Group's treasury management functions to help manage our Series A Financing Proceeds, substantially all of which remained offshore. The amounts due to JD Group slightly increased from RMB6.5 billion as of December 31, 2019 to RMB7.0 billion as of December 31, 2020.

Other than amount due from JD Group, amounts due from related parties of RMB95.5 million, RMB94.2 million and RMB93.5 million as of December 31, 2018, 2019 and 2020, respectively, were trade in nature; and RMB92.9 million, RMB120.5 million and RMB183.8 million, respectively, were non-trade in nature which will be settled prior to the Listing. Amount due from JD Group as of December 31, 2019 and 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. It is expected that all the outstanding receivables due from JD Group will be settled prior to the Listing, except for those receivables arising from the normal course of business which will be typically settled on a monthly basis.

Other than amount due to JD Group, amounts due to related parties of RMB146.6 million, RMB230.6 million and RMB511.3 million as of December 31, 2018, 2019 and 2020, respectively, were trade in nature; and nil, RMB170.3 million and RMB189.8 million respectively, were non-trade in nature, which will be settled prior to the Listing Date. Amount due to JD Group as of December 31, 2018, 2019 and 2020 primarily includes (i) payables for services received from JD Group, and (ii) the funds utilized by the Remaining Listing Business since January 1, 2017 and other non-trade related balances as a result of the carve-out process, which are expected to be fully settled within one year from the Listing Date.

The above 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 amounts due from/due to JD Group, the above amounts due from/due to related parties are non-interest bearing.

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 40.2 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. As of December 31, 2018, 2019 and 2020, we had RMB18.8 billion, RMB8.4 billion and RMB8.7 billion, respectively, in cash, cash equivalents and term deposits denominated in USD and other foreign currencies. Although during the Track Record Period, exchange gains and losses from those transactions conducted in USD and other foreign currencies were immaterial, we cannot guarantee that we will not experience significant changes in exchange rates in the future, impacting both our statements of operations and the value of our assets and liabilities denominated in foreign currencies.

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 balance, amounts due from/due to JD Group and borrowing from non-controlling shareholders. We are also exposed to fair value interest rate risk in relation to fixed-rate bank balances and lease liabilities.

The sensitivity analysis has been determined based on the exposure to interest rates at the end of each reporting period during the Track Record Period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period 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 loss for the years ended December 31, 2018, 2019 and 2020 would decrease/increase by RMB13.0 million, RMB21.7 million and RMB4.7 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 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 and debt securities at FVTPL

To manage risk arising from bank balances and wealth management products, 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 and wealth management products 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 and amounts due from related parties with non-trade nature

In order to minimize the credit risk of other receivables and amounts due from related parties with non-trade nature, we continuously monitor 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, 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 and amounts due from related parties with non-trade nature based on historical settlement records and past experience.

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 that are 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 our 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 reporting period 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
		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, 2020							
Trade payables		5,811,619	—	—	—	5,811,619	5,811,619
Advances from customers		258,861	—	—	—	258,861	258,861
Lease liabilities	5.17%	4,732,571	3,406,675	4,660,926	1,169,196	13,969,368	12,463,677
Financial liabilities included in accrued expenses and other payables		9,407,895	—	—	—	9,407,895	9,407,895
Convertible redeemable preferred shares		—	—	16,502,686	—	16,502,686	21,918,414
Long-term payables	4.35%	—	100,000	100,000	—	200,000	200,000
Equity instruments with preference rights	5.63%	—	—	—	859,865	859,865	597,380

	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)			
Payables to interest holders of consolidated investment funds . . .		116,950	—	—	—	116,950	116,950
		20,327,896	3,506,675	21,263,612	2,029,061	47,127,244	50,774,796

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 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, internally generated funds, available facilities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present needs and for the next twelve months from the date of this document. We had positive cash flows from operations during the Track Record Period. Our net cash generated from operating activities were RMB1.0 billion, RMB2.6 billion and RMB10.2 billion, respectively, in 2018, 2019 and 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 December 31, 2020, we did not have any distributable reserves.

LISTING EXPENSE

Based on the mid-point Offer Price of HK$41.36, the total estimated listing expenses in relation to the Global Offering is approximately RMB401.2 million, assuming the Over-allotment Option is not exercised and no additional Shares are issued pursuant to the Pre-IPO Equity Plan. We estimate that we will incur listing expenses of RMB401.2 million, of which RMB8.3 million was charged to our combined statement of profit or loss for the year ended December 31, 2020. We estimate that the total listing expenses for the year of 2021 in the amount of RMB66.3 million will be charged to our combined statement of profit or loss for the year ending December 31, 2021. The balance of approximately RMB326.7 million, which mainly includes underwriting commission, is expected to be accounted for as a deduction from equity upon the completion of the Global Offering.

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

The 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 the Global Offering on the unaudited combined tangible assets less liabilities attributable to owners of our Company as of December 31, 2020, as if the Global Offering 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 the Global Offering been completed as of December 31, 2020 or at any future dates.

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 December 31, 2020 as derived from the Accountants' Report of the Group, as set out in Appendix I to this prospectus, and adjusted as follows:

	Audited combined tangible assets less liabilities of the Group attributable to owners of our Company as of December 31, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company as of December 31, 2020	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company as of December 31, 2020 per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK$ (Note 4)
Based on an Offer Price of HK$39.36 per Offer Share	(7,743,390)	19,583,339	11,839,949	2.61	3.14
Based on an Offer Price of HK$43.36 per Offer Share	(7,743,390)	21,581,308	13,837,918	3.05	3.66

Notes:

1. The audited combined tangible assets less liabilities of the Group attributable to owners of our Company as of December 31, 2020 is derived from the Accountants' Report of the Group set out in Appendix I to this Prospectus, which is based on the audited combined net liabilities of the Group attributable to the owners of our Company as of December 31, 2020 of RMB5,141,672,000 with adjustments for intangible assets and goodwill of the Group attributable to owners of our Company as of December 31, 2020 of RMB1,699,235,000 and RMB902,483,000 respectively.
2. The estimated net proceeds from the Global Offering are based on 609,160,800 Offer Shares to be issued at the Offer Price of HK$39.36 and HK$43.36 per Offer Share, being the low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated listing expenses and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Group subsequent to December 31, 2020 and does not take into account conversion of Series A Preference Shares, allotment and issuance of any Offer Shares upon the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK$1.00 to RMB0.8325, which was the exchange rate prevailing on May 7, 2021 with reference to the rate published by the People's Bank of China. 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 our Company as of December 31, 2020 per Share is calculated based on 4,541,628,679 Shares, being the number of Shares expected to be in issue immediately following the completion of the Global Offering without taking into account conversion of Series A Preference Shares, allotment and issuance of any Offer Shares upon the exercise of the Overallotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.
4. 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 RMB0.8325, which was the exchange rate prevailing on

May 7, 2021 with reference to the rate published by the People's Bank of China. 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 our Company as of December 31, 2020 to reflect any operating result or other transactions of the Group entered into subsequent to December 31, 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 the Global Offering (the "Conversion"), as detailed below.

   As of December 31, 2020, the carrying amount of Series A Preference Shares of the Group was RMB21,918,414,000 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 the Global Offering (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 the Global Offering and the Conversion been assumed to take place as of December 31, 2020, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company would have increased from approximately RMB11,839,949,000 to approximately RMB33,758,363,000 based on an Offer Price of HK$39.36 per Offer Share, or from approximately RMB13,837,918,000 to approximately RMB35,756,332,000 based on an Offer Price of HK$43.36 per Offer Share. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company per Offer Share would have increased to RMB6.06 (HK$7.28) and RMB6.42 (HK$7.71) , based on the Offer Price of HK$39.36 per Offer Share and HK$43.36 per Offer Share, respectively. The number of Shares used in the calculation would have increased from 4,541,628,679 Shares to 5,568,496,026 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 our Company per Share, the translation of Hong Kong dollars into Renminbi or Renminbi into Hong Kong dollars was made at the exchange rate of HK$1.00 to RMB0.8325, which was the exchange rate prevailing on May 7, 2021 with reference to the rate published by the People's Bank of China. 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 December 31, 2020, which is the end date of the periods reported on in the Accountants' Report included in Appendix I to this document, and there is no event since December 31, 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.