The following is the text of a report set out on pages I-1 to I-103, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JD LOGISTICS, INC., MERRILL LYNCH (ASIA PACIFIC) LIMITED, GOLDMAN SACHS (ASIA) L.L.C. AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of JD Logistics, Inc. (the "Company"), its subsidiaries and consolidated affiliated entities (together, the "Group") set out on pages I-3 to I-103, which comprises the combined statements of financial position of the Group as of December 31, 2018, 2019 and 2020, the statements of financial position of the Company as of December 31, 2018, 2019 and 2020, and the combined statements of profit or loss, the combined statements of comprehensive income/(loss), the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the three years ended December 31, 2020 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-103 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated May 17, 2021 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

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

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

Opinion

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

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

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-3 as were considered necessary.

Dividends

We refer to Note 30 to the Historical Financial Information which states that no dividend was declared or paid by the Company or its subsidiaries or its consolidated affiliated entities in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
May 17, 2021

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

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

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Group and the financial statements of the Remaining Listing Business as defined in Note 1.2 to the Historical Financial Information for the Track Record Period (collectively the "Underlying Financial Statements").

The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB") and were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

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

COMBINED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended December 31, 2018	2019	2020
		RMB'000	RMB'000	RMB'000
Revenue	6	37,873,445	49,847,639	73,374,716
Cost of revenue		(36,793,265)	(46,415,425)	(67,081,077)
Gross profit		1,080,180	3,432,214	6,293,639
Selling and marketing expenses		(593,809)	(946,853)	(1,815,760)
Research and development expenses		(1,519,528)	(1,677,949)	(2,054,325)
General and administrative expenses		(1,731,098)	(1,874,391)	(1,678,921)
Other income, gains/(losses), net	7	28,441	(527,977)	542,668
Finance income	8	326,519	386,140	264,395
Finance costs	9	(63,224)	(430,105)	(454,774)
Fair value changes of convertible redeemable preferred shares	34	(239,142)	(315,477)	(4,861,109)
Impairment losses under expected credit loss model, net of reversal	10	(52,330)	(137,131)	(221,040)
Share of results of an associate and joint ventures		—	(68,627)	(64,069)
Loss before income tax	12	(2,763,991)	(2,160,156)	(4,049,296)
Income tax (expense)/credit	11	(556)	(77,330)	12,007
Loss for the year		(2,764,547)	(2,237,486)	(4,037,289)
(Loss)/profit for the year attributable to:				
Owners of the Company		(2,764,547)	(2,233,900)	(4,133,995)
Non-controlling interests	28	—	(3,586)	96,706
		(2,764,547)	(2,237,486)	(4,037,289)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Loss for the year	(2,764,547)	(2,237,486)	(4,037,289)
Other comprehensive (loss)/income			
Item that will not be reclassified to profit or loss:			
Exchange differences on translation from functional currency to presentation currency	(77,557)	(30,645)	388,150
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	59,624	73,346	(255,012)
Share of other comprehensive loss of an associate, net of related income tax	—	(791)	(100)
	59,624	72,555	(255,112)
Other comprehensive (loss)/income for the year	(17,933)	41,910	133,038
Total comprehensive loss for the year	(2,782,480)	(2,195,576)	(3,904,251)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company	(2,782,480)	(2,191,990)	(4,000,957)
Non-controlling interests	—	(3,586)	96,706
	(2,782,480)	(2,195,576)	(3,904,251)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31, 2018	2019	2020
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property and equipment	16	4,837,775	5,337,907	6,652,425
Right-of-use assets	17	—	8,619,859	12,185,603
Goodwill	18	—	—	1,499,142
Other intangible assets	19	12,571	14,242	2,807,787
Interest in an associate	20	—	287,932	224,021
Interests in joint ventures	21	150,000	—	7,742
Financial assets at fair value through profit or loss	22	1,101,545	1,026,599	1,057,358
Deferred tax assets	36	—	—	43,112
Prepayments, other receivables and other assets	24	240,862	491,117	1,101,033
Restricted cash	25.2	—	—	4,991
Total non-current assets		6,342,753	15,777,656	25,583,214
Current assets				
Inventories		224,010	259,932	393,086
Trade receivables	23	1,640,816	3,229,663	5,371,323
Contract assets		23,249	50,470	58,602
Prepayments, other receivables and other assets	24	963,240	11,461,194	12,376,832
Financial assets at fair value through profit or loss	22	—	—	947,738
Term deposits	25.3	—	—	3,588,695
Restricted cash	25.2	—	—	56,743
Cash and cash equivalents	25.1	19,249,997	9,274,203	6,346,869
Total current assets		22,101,312	24,275,462	29,139,888
Total assets		28,444,065	40,053,118	54,723,102
EQUITY AND LIABILITIES				
Equity				
Share capital	26	610	610	611
Reserves		1,178,058	2,215,313	3,368,733
Accumulated losses		(2,095,273)	(4,333,365)	(8,511,016)
Equity attributable to owners of the Company		(916,605)	(2,117,442)	(5,141,672)
Non-controlling interests	28	—	32,446	2,248,040
Total equity		(916,605)	(2,084,996)	(2,893,632)

COMBINED STATEMENTS OF FINANCIAL POSITION—continued

	Notes	As of December 31, 2018	2019	2020
		RMB'000	RMB'000	RMB'000
Liabilities				
Non-current liabilities				
Lease liabilities	33	—	5,573,267	7,844,604
Long-term payables	32	—	—	200,000
Convertible redeemable preferred shares	34	17,462,915	18,069,639	21,918,414
Equity instruments with preference rights	35	—	—	597,380
Deferred tax liabilities	36	—	42,054	717,285
Total non-current liabilities		17,462,915	23,684,960	31,277,683
Current liabilities				
Trade payables	31	2,652,948	3,957,416	5,811,619
Contract liabilities		7,170	11,935	67,548
Accrued expenses and other payables	32	9,232,110	11,186,020	15,410,593
Advances from customers		4,971	68,222	258,861
Lease liabilities	33	—	3,103,550	4,619,073
Payables to interest holders of consolidated investment funds		—	109,239	116,950
Tax liabilities		556	16,772	54,407
Total current liabilities		11,897,755	18,453,154	26,339,051
Total liabilities		29,360,670	42,138,114	57,616,734
Total equity and liabilities		28,444,065	40,053,118	54,723,102

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As of December 31, 2018	2019	2020
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current asset				
Investments in subsidiaries		1,000,000	1,000,000	1,000,000
Total non-current asset		1,000,000	1,000,000	1,000,000
Current assets				
Prepayments, other receivables and other assets	24	18,567,917	19,213,603	18,330,918
Cash and cash equivalents	25.1	80	3,039	1,389,955
Total current assets		18,567,997	19,216,642	19,720,873
Total assets		19,567,997	20,216,642	20,720,873
EQUITY AND LIABILITIES				
Equity				
Share capital	26	610	610	611
Reserves	27	2,523,699	3,120,573	4,281,169
Accumulated losses		(419,227)	(974,180)	(5,488,554)
Total equity		2,105,082	2,147,003	(1,206,774)
Liabilities				
Non-current liability				
Convertible redeemable preferred shares	34	17,462,915	18,069,639	21,918,414
Total non-current liability		17,462,915	18,069,639	21,918,414
Current liability				
Accrued expenses and other payables	32	—	—	9,233
Total current liability		—	—	9,233
Total liabilities		17,462,915	18,069,639	21,927,647
Total equity and liabilities		19,567,997	20,216,642	20,720,873

COMBINED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the Company							
	Notes	Share capital	Share premium	Contribution reserve*	Other reserves**	Accumulated losses	Sub-total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2018		306	—	3,075,960	1,637,696	(771,578)	3,942,384	—	3,942,384
Loss for the year		—	—	—	—	(2,764,547)	(2,764,547)	—	(2,764,547)
Other comprehensive loss for the year		—	—	—	(17,933)	—	(17,933)	—	(17,933)
Total comprehensive loss for the year		—	—	—	(17,933)	(2,764,547)	(2,782,480)	—	(2,782,480)
Issuance of ordinary shares	26	304	1,499,694	—	—	—	1,499,998	—	1,499,998
Share-based payments	29	—	—	—	910,385	—	910,385	—	910,385
Net (return to)/contribution from JD Group***		—	—	(98,644)	—	1,440,852	1,342,208	—	1,342,208
Effect arising from Series A Preference Shares financing****		—	—	(5,829,100)	—	—	(5,829,100)	—	(5,829,100)
As of December 31, 2018		610	1,499,694	(2,851,784)	2,530,148	(2,095,273)	(916,605)	—	(916,605)
IFRS 16 adjustment		—	—	—	—	(3,413)	(3,413)	—	(3,413)
As of January 1, 2019		610	1,499,694	(2,851,784)	2,530,148	(2,098,686)	(920,018)	—	(920,018)
Loss for the year		—	—	—	—	(2,233,900)	(2,233,900)	(3,586)	(2,237,486)
Other comprehensive income for the year		—	—	—	41,910	—	41,910	—	41,910
Total comprehensive income/(loss) for the year		—	—	—	41,910	(2,233,900)	(2,191,990)	(3,586)	(2,195,576)
Share-based payments	29	—	—	—	997,912	—	997,912	—	997,912
Repurchase of share options		—	—	—	(3,346)	—	(3,346)	—	(3,346)
Appropriation to statutory reserves		—	—	—	779	(779)	—	—	—
Capital injection from non-controlling shareholders		—	—	—	—	—	—	36,032	36,032
As of December 31, 2019		610	1,499,694	(2,851,784)	3,567,403	(4,333,365)	(2,117,442)	32,446	(2,084,996)
(Loss)/profit for the year		—	—	—	—	(4,133,995)	(4,133,995)	96,706	(4,037,289)
Other comprehensive income for the year		—	—	—	133,038	—	133,038	—	133,038
Total comprehensive income/(loss) for the year		—	—	—	133,038	(4,133,995)	(4,000,957)	96,706	(3,904,251)
Share-based payments	29	—	—	—	868,703	—	868,703	8,891	877,594
Repurchase of share options		—	—	—	(8,528)	—	(8,528)	—	(8,528)
Appropriation to statutory reserves		—	—	—	43,656	(43,656)	—	—	—
Additional non-controlling interests arising on partial disposal of a subsidiary		—	—	—	695	—	695	149,305	150,000
Acquisition of a non-wholly owned subsidiary	39	1	115,856	—	—	—	115,857	1,960,692	2,076,549
As of December 31, 2020		611	1,615,550	(2,851,784)	4,604,967	(8,511,016)	(5,141,672)	2,248,040	(2,893,632)

* Contribution reserve consists of the profits or losses generated/funds utilized by the Remaining Listing Business as defined in Note 1.2 in JD Group prior to the Agreement Effective Date of Series A Preference Shares financing.

** Other reserves consist of share-based payment reserve from the deemed contribution from JD.com, Inc. and granting of share options under the Company's share award scheme, exchange differences on foreign currency translation recognized in other comprehensive income/(loss), and statutory reserves required by relevant laws of the People's Republic of China (the "PRC") applicable to the Company's PRC subsidiaries and consolidated affiliated entities.

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

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

COMBINED STATEMENTS OF CASH FLOWS

As detailed and defined in Note 1.2, during the Track Record Period, the Listing Business was carried out by the PRC Operating Entities and Remaining JD Group. No separate bank accounts were maintained by the Remaining Listing Business as defined in Note 1.2. The treasury and cash disbursement functions of the Remaining Listing Business were centrally administrated under JD Group. The net cash flows generated by the Remaining Listing Business were kept in the bank accounts of JD Group. Prior to the Agreement Effective Date of the Series A Preference Shares financing as set out in Note 1.2, the Group was not able to receive and retain the profits arising from the Remaining Listing Business. Accordingly, the profits generated or funds utilized by JD Group were presented as movements in the equity while there were no cash and cash equivalents balances for the Remaining Listing Business and there were no cash received/paid directly by the Group in relation to the operation of the Remaining Listing Business.

Subsequent to the Agreement Effective Date of the Series A Preference Shares financing, the Group was eligible to receive and retain the profits or obligated to repay the losses arising from the Remaining Listing Business accumulated in JD Group since January 1, 2017 in accordance with the Series A Share Subscription Agreement as defined in Note 1.2, stipulating that the profits generated/loss incurred or funds utilized/provided by the Listing Business of the Group will be reflected in the combined financial statements of the Group since January 1, 2017 and will be settled between the Group and JD Group, which is mutually agreed among the Group and all the investors of the Series A Preference Share financing. Accordingly, the profits generated or funds utilized by the Remaining Listing Business in JD Group on behalf of the Group since January 1, 2017 were recognized as the amounts due from/to related parties without any cash flows from/to the Remaining Listing Business.

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

		Year ended December 31,		
	Note	2018	2019	2020
		RMB'000	RMB'000	RMB'000
Operating activities				
Cash generated from operations	41.1	891,033	2,307,360	10,088,650
Interest received		130,736	341,995	158,573
Income tax paid		—	(19,061)	(46,126)
Net cash generated from operating activities		1,021,769	2,630,294	10,201,097

COMBINED STATEMENTS OF CASH FLOWS—continued

	Notes	Year ended December 31, 2018	2019	2020
		RMB'000	RMB'000	RMB'000
Investing activities				
Placement of restricted cash		—	—	(47,975)
Withdrawal of restricted cash		—	—	83,925
Placement of term deposits		—	—	(3,588,695)
Payment for financial assets at fair value through profit or loss		(983,832)	(390,268)	(5,962,520)
Maturity of financial assets at fair value through profit or loss		—	—	5,639,149
Proceeds from disposal of financial assets at fair value through profit or loss		—	1,200	28,750
Acquisition of investment in an associate		—	(357,350)	—
Payment for interest in a joint venture		—	—	(8,000)
Loans to related parties		—	(3,854)	(38,230)
Net cash outflow on acquisition of a non-wholly owned subsidiary	39	—	—	(1,474,290)
Purchases of property and equipment		(2,422,619)	(1,746,210)	(3,178,221)
Proceeds from disposal of property and equipment		2,342	16,776	41,659
Purchases of other intangible assets		(4,373)	(9,651)	(18,765)
Payments for right-of-use assets		—	(34,697)	(25,932)
Payments for rental deposits		—	(85,858)	(221,359)
Net cash used in investing activities		(3,408,482)	(2,609,912)	(8,770,504)
Financing activities				
Proceeds from issuance of ordinary shares		1,499,998	—	1
Proceeds from borrowings		—	—	300,000
Repayment of borrowings		—	—	(986,108)
Repurchase of share options		—	(2,661)	(6,335)
Net proceeds from issuance of convertible redeemable preferred shares		15,958,791	—	443,039
Principal portion of lease payments		—	(2,268,543)	(3,054,659)
Interest paid		—	(345,649)	(423,563)
Advance from/(payment to) JD Group		1,317,869	(7,429,912)	(20,243)
Cash injection by interest holders of consolidated investment funds		—	115,750	15,000
Capital injection from non-controlling shareholders		—	36,032	—
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	25.1	19,249,997	9,274,203	6,346,869

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

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

1.1 General information

The Company, formerly known as Jingdong Express Group Corporation, was incorporated in the Cayman Islands in January 2012 as an exempted company registered under the laws of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are stated in the section headed "Corporate Information" of the Prospectus. The Company acting as an investment holding company and its subsidiaries and consolidated affiliated entities, as set out in Note 42 (collectively, the "Group"), engage in the business of providing integrated supply chain solutions and logistics services to customers across a wide array of industries (collectively, the "Listing Business") through its leading logistics network in the PRC. The Group's principal operations and geographic markets are in the PRC.

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

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

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3, which conform with IFRSs issued by the IASB and the conventions applicable for the Reorganization and Spin-off (details are set out below).

In January 2012, the Company was incorporated in the Cayman Islands by Jingdong Technology Group Corporation.

In August 2012, Beijing Jingbangda Trade Co., Ltd. ("Beijing Jingbangda") was incorporated in the PRC as a wholly foreign-owned subsidiary of the Company through an intermediate holding company.

Prior to the Reorganization and the Spin-off as defined below, the Listing Business was carried out by the Group's subsidiaries in the PRC, and certain subsidiaries and consolidated affiliated entities of JD Group (collectively, the "Remaining JD Group", and the portion of the Listing Business carried out by the Remaining JD Group is referred to as "Remaining Listing Business"). Subsequent to the completion of the Reorganization, the Listing Business was carried out by the Group's subsidiaries and consolidated affiliated entities in the PRC (collectively, the "PRC Operating Entities") and the Remaining JD Group.

Reorganization

The Group underwent a reorganization (the "Reorganization") which primarily involved the following:

In May 2017, Xi'an Jingxundi Supply Chain Technology Co., Ltd. ("Xi'an Jingxundi") was incorporated in the PRC as a wholly foreign-owned subsidiary of the Company through an intermediate holding company.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

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

In June 2017, Xi'an Jingdong Xincheng Information Technology Co., Ltd. ("Xi'an Jingdong Xincheng") was incorporated in the PRC. The paid-in capital of Xi'an Jingdong Xincheng was funded by the Company, and the equity interests are held by certain individuals ("Nominee Shareholders"). Xi'an Jingxundi, Xi'an Jingdong Xincheng and its Nominee Shareholders entered into a series of agreements, which enable Xi'an Jingxundi to obtain control over Xi'an Jingdong Xincheng and its subsidiaries. See the section headed "Contractual Arrangements" below for further details.

Subsequent to the incorporation of Xi'an Jingdong Xincheng, all the equity interests of Beijing Jingbangda were transferred to Xi'an Jingdong Xincheng at a cash consideration of RMB980,000,000. Upon the completion of the transfer, Beijing Jingbangda became a subsidiary of Xi'an Jingdong Xincheng. As both Xi'an Jingdong Xincheng and Beijing Jingbangda were under the common control of the Group, the transfer of Beijing Jingbangda had been accounted for as business combination involving entities under common control using the principle of merger accounting.

Spin-off

Subsequently in February 2018, the Group commenced to undertake a series of spin-off transactions for the Remaining Listing Business, which primarily include obtaining relevant business licenses and permissions, and the transfer of relevant management and employees, operating assets and liabilities, retained profits or accumulated losses, as well as the replacement of the business contracts of counter parties to the Group (the "Spin-off").

The Group is in the process of the Spin-off, which is expected to be completed before the Listing. Upon the completion of the Spin-off, the entire Listing Business will be operated and controlled by the Group.

Throughout the Spin-off, to the extent the assets, liabilities, income and expenses that are specifically identified to the Listing Business, such items are included in the Historical Financial Information throughout the Track Record Period. To the extent the assets, liabilities, income and expenses that are impracticable to be identified specifically, these items are allocated to the Listing Business on the basis of the combination of revenues, the headcount of employees, and total operating expenses (such items include certain cost of revenue, selling and marketing expenses, research and development expenses, and general and administrative expenses). Items that do not meet the criteria above are not included in the Historical Financial Information of the Group.

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

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

Series A Preference Shares

In February 2018, the Company entered into a subscription agreement for the series A preference shares (the "Series A Preference Shares") financing with certain third-party investors (the "Series A Share Subscription Agreement"), which became effective on February 14, 2018 (the "Agreement Effective Date"), details are set out in Note 34. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between JD Group and the Group were established and became effective since January 1, 2018 (the "Pricing Policies Effective Date"). Such arrangements of the related party transactions affected the Historical Financial Information as below.

Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, expenses incurred by JD Group that are impracticable to be specifically identified to the 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 the Group directly in accordance with the terms stipulated in the Series A Share Subscription Agreement. Other items of expenses that are impracticable to be specifically identified to the Listing Business are determined as same as before the Pricing Policies Effective Date.

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

Contractual Arrangements

In June 2017, to comply with the relevant laws and regulations in the PRC which prohibit or restrict foreign ownership of the companies where the PRC operating licenses are required, Xi'an Jingxundi entered into a series of contractual arrangements (the "Contractual Arrangements") with Xi'an Jingdong Xincheng and its Nominee Shareholders, including loan agreement, exclusive option agreement, share pledge agreement, exclusive business cooperation agreement, shareholders' right entrustment agreement and powers of attorney. These Contractual Arrangements can be extended at Xi'an Jingxundi's option prior to the expiration date.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

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

The Contractual Arrangements enable Xi'an Jingxundi to control Xi'an Jingdong Xincheng by:

- Irrevocably exercising equity holders' voting rights of Xi'an Jingdong Xincheng;
- Exercising effective financial and operational control over Xi'an Jingdong Xincheng;
- Receiving substantially all of the economic interest returns generated by Xi'an Jingdong Xincheng in consideration for the technology consulting and services provided by Xi'an Jingxundi. Xi'an Jingxundi has obligation to grant interest-free loans to the relevant Nominee Shareholders of Xi'an Jingdong Xincheng with the sole purpose of providing funds necessary for the capital contribution to Xi'an Jingdong Xincheng;
- Obtaining an irrevocable and exclusive right which Xi'an Jingxundi may exercise at any time to purchase all or part of the equity interests in Xi'an Jingdong Xincheng from the Nominee Shareholders at a minimum purchase price permitted under the PRC laws and regulations; and
- Obtaining a pledge over the entire equity interests of Xi'an Jingdong Xincheng from its Nominee Shareholders as collateral security for all of Xi'an Jingdong Xincheng's payments due to Xi'an Jingxundi and to secure performance of Xi'an Jingdong Xincheng's obligation under the Contractual Arrangements.

In September 2020, 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, Jingdong Logistics Supply Chain Co., Ltd., a wholly foreign-owned subsidiary of the Company, entered into a series of contractual arrangements, which substantially mirror the terms of the Contractual Arrangements, with Guangdong Jingxi Logistics Technology Co., Ltd. and its shareholders.

Total assets of the Group's consolidated affiliated entities were RMB7,619,469,000, RMB16,228,277,000 and RMB30,604,325,000 as of December 31, 2018, 2019 and 2020, respectively, and these balances have been reflected in the Group's combined financial statements with intercompany balances and transactions between the consolidated affiliated entities, the subsidiaries of the consolidated affiliated entities and other entities within the Group eliminated.

Total revenue of the Group's consolidated affiliated entities was RMB36,468,121,000, RMB40,373,481,000 and RMB58,835,840,000 for the years ended December 31, 2018, 2019 and 2020, respectively, and these amounts have been reflected in the Group's combined financial statements with intercompany balances and transactions between the consolidated affiliated entities, the subsidiaries of the consolidated affiliated entities and other entities within the Group eliminated.

2. Application of new and amendments to IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Application of new and amendments to IFRSs—continued

International Accounting Standards ("IASs"), the IFRSs, amendments to IFRSs and the related interpretations issued by the IASB throughout the Track Record Period, including IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*, except that IFRS 16 *Leases* has been adopted on January 1, 2019, and the amendment to IFRS 16 *COVID-19—Related Rental Concessions* has been early adopted on January 1, 2020.

IFRS 16 Leases

IFRS 16 superseded IAS 17 *Leases* and the related interpretations. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity as of January 1, 2019. Financial information for the year ended December 31, 2018 has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to accounting policies and the transition options applied are set out below:

Definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and to direct the use of the identified asset. The election to use the transitional practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices, unless such allocation cannot be made reliably.

As a lessee

As of January 1, 2019, the Group recognized additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the applicable discount rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening accumulated losses and financial information for the year ended December 31, 2018 has not been restated.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Application of new and amendments to IFRSs—continued

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

The table below explains the difference between operating lease commitments disclosed at December 31, 2018 by applying IAS 17 and lease liabilities recognized at January 1, 2019 by applying IFRS 16:

	As of January 1, 2019
	RMB'000
Operating lease commitments disclosed as of December 31, 2018	6,435,469
Lease liabilities discounted at applicable discount rates and recognized upon application of IFRS 16 as of January 1, 2019	5,895,781
Analyzed as:	
Current	2,382,821
Non-current	3,512,960
	5,895,781

When recognizing the lease liabilities for leases previously classified as operating leases, the weighted average discount rate applied by the relevant group entities at the date of initial application was 4.75%.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Application of new and amendments to IFRSs—continued

The following table summarizes the impacts of the adoption of IFRS 16 on the Group's combined statements of financial position. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported as of December 31, 2018	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	(a)	240,862	(11,197)	229,665
Current assets				
Prepayments, other receivables and other assets	(a)	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	(b)	9,232,110	(237,766)	8,994,344

Note a: Before the application of IFRS 16, the Group considered refundable rental deposits paid included in prepayments, other receivables and other assets as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to right-of-use assets to reflect the discounting effect at transition.

Note b: The amount relates to accrued lease liabilities under accrued expenses and other payables as of January 1, 2019 and was reclassified to lease liabilities.

For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening combined statement of financial position as of January 1, 2019 as disclosed above.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Application of new and amendments to IFRSs—continued

New and amended standards not yet adopted by the Group

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective in the preparation of the Historical Financial Information:

Standards/Amendments	Content	Effective for annual periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform—Phase 2	January 1, 2021
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37	Onerous Contracts—Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
IFRS 17	Insurance Contracts and related Amendments	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group expects that the new standards and amendments listed above are unlikely to have any material impact on the Group's combined financial statements in the foreseeable future.

3. Summary of significant accounting policies

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

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

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

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

The principal accounting policies are set out below.

3.1 Basis of combination

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

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

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

When the Group is an investor of an investment fund in which the Group also acts as a fund manager, the Group will determine whether it is a principal or an agent for the purpose of assessing whether the Group controls the relevant investment fund. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether the Group is an agent to the investment fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreements; and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.1 Basis of combination—continued

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3.2 Business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.2 Business combinations—continued

- 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.

3.3 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.3 Goodwill—continued

goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

3.4 Investments in subsidiaries

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

3.5 Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.5 Investments in associates and joint ventures—continued

investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's Historical Financial Information only to the extent of interests in the associate or joint venture that are not related to the Group.

3.6 Revenue from contracts with customers

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.6 Revenue from contracts with customers—continued

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

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.6 Revenue from contracts with customers—continued

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Recognition of revenue from specific major source of revenue

The Group provides integrated supply chain solutions and logistics services through its complementary networks, including warehouse network, line-haul transportation network, last-mile delivery network, bulky item logistics network, cold-chain logistics network and cross-border logistics network, to satisfy customers' supply chain needs for standard goods and parcels, along with specialized goods, such as bulky items, heavy load parcels, fresh produce and pharmaceutical products. Revenue is primarily generated from provision of warehousing and distribution services, express and freight delivery services, and to a lesser extent, other services, to corporate and individual customers. Corporate customers are primarily billed on a monthly basis and make payments according to their granted credit terms.

Warehousing and distribution services

The Group provides warehousing and distribution services, primarily including warehousing services, distribution and delivery services and value added logistics services.

Warehousing services are comprised of multiple service offerings, including (i) pick-up of inbound goods; (ii) storage, consolidation and palletization of goods at transfer center, and delivery to

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.6 Revenue from contracts with customers—continued

the appropriate warehouse; (iii) inspection of goods upon arrival at the warehouse and completion of the subsequent scheduled storage operations; (iv) product storage in multi-location warehouses based on end-consumer's demands; (v) retrieval of products from storage upon customer request; (vi) product packing and labeling; (vii) kitting and repackaging, which involves assembling custom product packages for delivery to retailers and consumers; (viii) order assembly and load consolidation; and (ix) omni-channel inventory management system that includes customer interface management tools. These service offerings are interrelated and integrated to provide a combined output, and therefore are jointly considered as a single performance obligation. The Group recognizes revenue from warehousing services over time as customers receive the benefits of the Group's performance as it occurs.

The Group recognizes distribution and delivery services over time as customers receive the benefits of the Group's services as the goods are shipped from origin to destination. In addition, the Group also provides value added logistics services such as after-sales reverse logistics services, cash on delivery services and specialized packaging services.

Express and freight delivery services

The Group provides express and freight delivery services to both corporate and individual customers. Express deliveries are provided for standard parcels, while freight delivery services are provided for heavy load parcels. Express and freight delivery services mainly include parcel pickup, parcel sorting, line-haul transportation and last-mile delivery. Each order for delivery of parcels from the point of receiving the parcels from senders all the way through to the point when the parcels are delivered to end recipients, is considered as a performance obligation. The Group recognizes revenue from express and freight delivery services over time since customers receive the benefits of the Group's services as the parcels are delivered from one location to another.

Other services

The Group also provides other value-added services to customers, such as installment, after sales and maintenance, logistics technology services and advertising services. Revenue is recognized over time or upon completion of the services.

3.7 Cost of revenue

Cost of revenue consists primarily of (i) employee benefit expenses for employees involved in warehouse management, sorting, picking, packaging, shipping and delivery, (ii) outsourcing cost, (iii) rental cost of warehouse and delivery stations, (iv) depreciation and amortization of logistics and electronic equipment, and (v) other cost of revenue such as the cost of packaging materials and fuel cost.

3.8 Research and development expenses

Research expenditures are recognized as expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (i) it is

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.8 Research and development expenses—continued

technically feasible to complete the software so that it will be available for use; (ii) management intends to complete the software and use or sell it; (iii) there is an ability to use or sell the software; (iv) it can be demonstrated how the software will generate probable future economic benefits; (v) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (vi) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets at the end of each reporting period during the Track Record Period.

3.9 Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2)

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

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

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2)

Allocation of consideration to components of a contract

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.9 Leases—continued

- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from COVID-19-related rent concessions in which the Group applied the practical expedient.

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

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

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.9 Leases—continued

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

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

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

Lease modifications

Except for COVID-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

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

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.9 Leases—continued

- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived.

Definition of a lease (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee (prior to January 1, 2019)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

3.10 Foreign currencies

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

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using exchange rates

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.10 Foreign currencies—continued

prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of reserves (attributed to non-controlling interests as appropriate).

3.11 Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under "Other income, gains/(losses), net".

3.12 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. For properties under development for which revenue is recognized over time, the Group ceases to capitalize borrowing costs as soon as the properties are ready for the Group's intended sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalization rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.13 Employee benefits

Retirement benefit costs

Payments to state-managed defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.13 Employee benefits—continued

Short-term employee benefits

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

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

3.14 Share-based payments

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

In addition, the Group operates a share incentive plan, under which it receives services from employees and non-employees as consideration for share options of the Company (the "JD Logistics Share Incentive Plan"). Share-based awards to the employees and non-employees of Kuayue Express are granted under a share incentive plan of Kuayue Express (the "Kuayue Express Share Incentive Plan"). The fair value of the services received in exchange for the grant of options is recognized as an expense on the combined statements of profit or loss with a corresponding increase in equity.

Equity-settled share-based payments transactions

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.14 Share-based payments—continued

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

Equity-settled share-based payments transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognized as expenses (unless the goods or services qualify for recognition as assets).

At each reporting period end, the Group revises the estimates of the number of options and RSUs that are expected to ultimately vest. The Group recognizes the impact of the revision to original estimates, if any, in the combined statements of profit or loss, with a corresponding adjustment to equity.

3.15 Taxation

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

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.15 Taxation—continued

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 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.

3.16 Property and equipment

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

Property and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.16 Property and equipment—continued

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

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

3.17 Other intangible assets

Other intangible assets acquired separately

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

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.

3.18 Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill

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

The recoverable amount of property and equipment, right-of-use assets, and other intangible assets are estimated individually. When it is not possible to estimate the recoverable amount

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.18 Impairment on property and equipment, right-of-use assets and intangible assets other than goodwill—continued

individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

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

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

3.19 Financial instruments

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

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

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

3.19.1 Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL.

(a) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

3.19.1 Financial assets—continued

income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(b) Financial assets at FVTPL

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

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

Impairment of financial assets

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of reporting period. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the end of reporting period as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

(a) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the end of reporting

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

3.19.1 Financial assets—continued

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

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

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

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

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

(b) Definition of default

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

3.19.1 Financial assets—continued

(c) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(d) Write-off policy

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

(e) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience and forward looking information that is available without undue cost or effort.

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

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

- nature of financial instruments;

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

3.19.1 Financial assets—continued

- past-due status;
- nature, size and industry of debtors; and
- external credit ratings where available.

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

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

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

(f) Derecognition of financial assets

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

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

3.19.2 Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

3.19.2 Financial liabilities and equity—continued

Financial liabilities

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

Financial liabilities at amortized cost

Financial liabilities including trade payables, other payables, advances from customers and long-term payables are subsequently measured at amortized cost, using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Convertible redeemable preferred shares

Series A Preference Shares issued by the Company are contingently redeemable by the holders under certain events. This instrument can be converted into ordinary shares of the Company at the option of the holders of Series A Preference Shares or automatically converted under certain events. The details of Series A Preference Shares are set out in Note 34.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

3.19.2 Financial liabilities and equity—continued

The convertible redeemable preferred shares are initially recognized at fair value. The Group does not account for the embedded derivatives separately from the host contract and designates the entire convertible redeemable preferred shares as financial liabilities at FVTPL with fair value change recognized in "fair value changes of convertible redeemable preferred shares" in profit or loss. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

Equity instruments with preference rights

The equity instruments with preference rights issued by Kuayue-Express Group Co., Ltd. ("Kuayue Express") are contingently redeemable by the holders under certain events. The details of equity instruments with preference rights issued by Kuayue Express are set out in Note 35.

The equity instruments with preference rights issued by Kuayue Express are separated into liability and equity components based on the terms of the contract. On issuance of the equity instruments with preference rights, the fair value of the liability component is determined using a market rate for an equivalent instrument without preference features. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on redemption. The remainder of the proceeds is allocated to the equity. The carrying amount of the equity component is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the equity instruments with preference rights issued by Kuayue Express, based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

Derecognition of financial liabilities

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

Payables to interest holders of consolidated investment funds

A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

Payables to interest holders of consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment funds after deducting the consolidated investment funds' other liabilities. The holders have the right to put their attributable shares to the fund for cash with no cause.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Summary of significant accounting policies—continued

3.19 Financial instruments—continued

3.19.3 Derivative financial instruments

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

Embedded derivatives

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

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

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

3.19.4 Offsetting a financial asset and a financial liability

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the combined financial statements.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. Critical accounting judgements and key sources of estimation uncertainty—continued

Critical judgements in applying accounting policies—continued

Consolidation of affiliated entities

The Group 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 the Group with direct control over the PRC domestic companies and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC domestic companies. The directors of the Company, based on the advice of its legal counsel, 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 ("DLOM") and risk-free rate associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 40.

Estimation of the fair value of the convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions and key inputs such as the timing of the liquidation, redemption or Initial Public Offerings ("IPO") event as well as the probability of the various scenarios were based on the Group's best estimates. Further details are included in Note 34.

Provision of ECL for trade receivables and contract assets

Credit-impaired trade receivables and contract assets are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables and contract assets which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At the end of each reporting period, the historical observed default rates are reassessed and

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. Critical accounting judgements and key sources of estimation uncertainty—continued

Key sources of estimation uncertainty—continued

Provision of ECL for trade receivables and contract assets—continued

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

The Group determines the estimated useful lives and related amortization for the Group's other intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Specifically, the useful life of customer relationship is estimated based on the retention rate of the current customers of the acquisition target as of the acquisition date, the historical retention rate and projected future revenues associated with such customers. Management 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 the Group 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.

5. Segment information

The Group's chief operating decision maker, who has been identified as the Chief Executive Officer (the "CEO"), reviews the combined results when making decisions about allocating resources and assessing performance of the Group as a whole and no other discrete financial information is provided to the CEO. Hence, the Group has only one reportable segment. As the Group's non-current assets are all located in the PRC and most of the Group's revenue is derived from the PRC, no geographical information is presented. During the Track Record Period, other than the Group's largest customer as disclosed in Note 37, no other single customer contributed over 10% of the total revenue of the Group.

6. Revenue

Given the central role of inventory management in the Group's integrated supply chain solutions and logistics services, customers of the Group are categorized based on whether such customers have utilized the Group's warehouse or inventory management related services. Customers are reviewed by the Group on a regular basis, and customers who have utilized the Group's warehouse

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. Revenue—continued

or inventory management related services in the recent past are classified as the Group's integrated supply chain customers.

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Type of customer:			
Integrated supply chain customers	34,151,014	41,837,437	55,619,685
Other customers	3,722,431	8,010,202	17,755,031
Total	37,873,445	49,847,639	73,374,716
Timing of revenue recognition:			
Overtime	36,975,587	47,711,435	69,873,623
A point in time	897,858	2,136,204	3,501,093
Total	37,873,445	49,847,639	73,374,716

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

7. Other income, gains/(losses), net

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Government grants	39,476	104,486	429,417
Impairment of interest in joint ventures	—	(150,000)	—
Fair value changes of financial assets at fair value through profit or loss	(13,064)	(469,241)	68,456
(Losses)/gains on disposal of property and equipment	(12,546)	4,610	(32,955)
Investment losses attributable to interest holders of consolidated investment funds	—	6,511	7,289
Others	14,575	(24,343)	70,461
Total	28,441	(527,977)	542,668

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, to reward the Group's 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 reporting period during the Track Record Period.

8. Finance income

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Interest income from bank deposits	169,561	316,316	162,348
Interest income from related parties (Note 37)	156,958	69,824	102,047
Total	326,519	386,140	264,395

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Finance costs

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Interest expense to related parties (Note 37)	48,451	59,968	—
Interest expense on lease liabilities	—	370,137	424,766
Interest expense from borrowings	—	—	18,402
Others	14,773	—	11,606
Total	63,224	430,105	454,774

10. Impairment losses under expected credit loss model, net of reversal

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Impairment losses recognized, net of reversal, on:			
—trade receivables	51,848	127,452	209,222
—other receivables	482	9,679	11,818
Total	52,330	137,131	221,040

Details of impairment assessment are set out in Note 40.2.

11. Income tax (expense)/credit

The income tax (expense)/credit of the Group during the Track Record Period is analyzed as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Current tax	(556)	(35,276)	(83,762)
Deferred tax (Note 36)	—	(42,054)	95,769
Total	(556)	(77,330)	12,007

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax (expense)/credit—continued

Kong dollars of profits earned by the company are subject to be taxed at an income tax rate of 8.25%, while the remaining profits will continue to be taxed at the existing tax rate, 16.5%. To avoid abuse of the two-tiered tax regime, each group of connected entities can nominate only one entity to benefit from the two-tiered tax rate. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

PRC

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

Certain enterprises can benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the catalog of encouraged industries in western regions (initially effective through the end of 2010 and further extended to 2030) ("Western Regions Catalog"), subject to certain general restrictions described in the EIT Law and the related regulations. During the Track Record Period, several entities of the Group are qualified as enterprises within the Western Regions Catalog and enjoyed 15% preferential income tax rate.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The State Taxation Administration of the PRC announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020.

Withholding tax on undistributed dividends

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

According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the FIE satisfies the criteria for "beneficial owner" under Circular No. 9, which was issued by the State Administration of Taxation in February 2018, and the foreign investor owns directly at least 25% of the shares of the FIE). The Company 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.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax (expense)/credit—continued

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

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Loss before income tax	(2,763,991)	(2,160,156)	(4,049,296)
Tax at PRC statutory income tax rate of 25%	690,998	540,039	1,012,324
Tax effect of income not taxable for tax purpose	27,713	33,935	10,055
Tax effect of expenses that are not deductible for tax purpose	(65,661)	(159,830)	(242,195)
Tax effect of super deduction for research and development expenses	29,343	102,808	151,863
Effect of different tax rate of subsidiaries operating in other jurisdictions	19,742	17,022	3,182
Tax effect of tax-exempt entities	(203,927)	(275,781)	(1,146,780)
Tax effect of preferential tax treatments	1,166	4,956	51,251
Tax effect of utilization of tax losses and deductible temporary differences previously not recognized	51,657	376,479	528,331
Tax effect of tax losses and deductible temporary differences not recognized	(551,587)	(716,958)	(356,024)
Total	(556)	(77,330)	12,007

12. Loss before income tax

Loss before income tax has been arrived at after charging:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Depreciation of property and equipment	1,154,605	1,243,149	1,457,405
Amortization of other intangible assets	3,805	4,712	147,233
Depreciation of right-of-use assets	—	2,685,562	3,591,729
Outsourcing cost	10,491,538	16,308,388	26,087,307
Auditors' remuneration	—	2,800	2,806

13. Employee benefit expenses

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Salaries and bonuses	13,074,152	15,136,182	21,061,481
Welfare, medical and other benefits	5,851,156	6,823,508	7,904,597
Share-based payments	748,991	835,096	791,652
Total	19,674,299	22,794,786	29,757,730

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Employee benefit expenses—continued

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

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

	Year ended December 31, 2018				
	Salaries and bonuses	Share-based payments	Pension cost – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Zhenhui Wang[1]	1,926	131,834	53	315	134,128
Non-executive directors:					
Richard Qiangdong Liu[2]	—	—	—	—	—
Sidney Xuande Huang[3]	—	2,222	—	—	2,222
Nani Wang[4]	—	—	—	—	—
Haoyu Shen[5]	—	—	—	—	—
Shilin Shi[6]	—	—	—	—	—
	1,926	134,056	53	315	136,350

	Year ended December 31, 2019				
	Salaries and bonuses	Share-based payments	Pension cost – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Zhenhui Wang[1]	2,101	118,840	50	324	121,315
Non-executive directors:					
Richard Qiangdong Liu[2]	—	—	—	—	—
Sidney Xuande Huang[3]	—	1,896	—	—	1,896
Jianwen Liao[7]	—	1,896	—	—	1,896
Haoyu Shen[5]	—	—	—	—	—
Shilin Shi[6]	—	—	—	—	—
	2,101	122,632	50	324	125,107

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Employee benefit expenses—continued

	Year ended December 31, 2020				
	Salaries and bonuses	Share-based payments	Pension cost – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Yui Yu[8]	—	—	—	—	—
Zhenhui Wang[1]	1,724	473	51	564	2,812
Non-executive directors:					
Richard Qiangdong Liu[2]	—	134,783	—	—	134,783
Sandy Ran Xu[9]	—	—	—	—	—
Sidney Xuande Huang[3]	—	1,073	—	—	1,073
Jianwen Liao[7]	—	1,827	—	—	1,827
Haoyu Shen[5]	—	—	—	—	—
Shilin Shi[6]	—	—	—	—	—
	1,724	138,156	51	564	140,495

Notes:

1. Served as the Group's CEO since April 2017, and appointed as executive director since March 2018. Resigned in December 2020.
2. Appointed as non-executive director since March 2018, and resigned in December 2019. Re-appointed as non-executive director since October 2020.
3. Appointed as non-executive director since March 2018, and resigned in September 2020.
4. Appointed as non-executive director since January 2018, and resigned in March 2018.
5. Appointed as non-executive director since March 2018, and resigned in January 2021.
6. Appointed as non-executive director since March 2018, and resigned in January 2021.
7. Appointed as non-executive director since December 2019, and resigned in January 2021.
8. Served as the Group's CEO since December 2020, and appointed as executive director since January 2021.
9. Appointed as non-executive director since September 2020.

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

(b) Benefits and interests of directors

Except for the amounts disclosed above, there are no other benefits offered to the directors and the CEO.

(c) Directors' termination benefits

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Employee benefit expenses—continued

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

Save as disclosed in the Contractual Arrangements, there are no other loans, quasi-loans and other dealings in favor of directors, their controlled bodies corporate and connected entities subsisted at the end of each reporting period or at any time during the Track Record Period.

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

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

14. Five highest paid employees

The five highest paid employees include one director whose remuneration is set out in Note 13 for each of the year during the Track Record Period. All of these individuals including that director have not received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for the loss of office during the Track Record Period. None of the directors, the CEO and employees waived or agreed to waive any emoluments during the Track Record Period.

The emoluments payable to the remaining four individuals, who are neither a director nor chief executive of the Company, during the Track Record Period, are as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**
Salaries and bonuses	5,924	6,809	7,540
Share-based payments	53,448	38,214	30,046
Pension cost - defined contribution plans	213	200	192
Welfare, medical and other benefits	264	300	319
Total	59,849	45,523	38,097

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Year ended December 31,		
	2018	**2019**	**2020**
	No. of employees	**No. of employees**	**No. of employees**
Emolument bands (in HKD)			
HKD9,000,001 to HKD12,000,000	—	2	4
HKD12,000,001 to HKD15,000,000	1	1	—
HKD15,000,001 to HKD18,000,000	2	1	—
HKD21,000,001 to HKD24,000,000	1	—	—
Total	4	4	4

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. Loss per share

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

16. Property and equipment

	Buildings	Logistics equipment	Vehicles	Leasehold improvement	Electronic equipment	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
As of January 1, 2018	—	2,675,636	1,129,790	623,082	399,701	25,859	330,569	5,184,637
Additions	—	861,361	176,077	329,848	140,436	11,553	1,226,401	2,745,676
Transfer from construction in progress	—	361,975	7,460	—	—	—	(369,435)	—
Disposals	—	(54,709)	(114,730)	—	(21,684)	(109)	—	(191,232)
As of December 31, 2018	—	3,844,263	1,198,597	952,930	518,453	37,303	1,187,535	7,739,081
Additions	16,778	558,891	59,238	205,696	184,657	11,715	728,184	1,765,159
Transfer from construction in progress	—	1,572,554	8,346	—	624	—	(1,581,524)	—
Disposals	—	(78,259)	(48,159)	—	(57,908)	(507)	—	(184,833)
As of December 31, 2019	16,778	5,897,449	1,218,022	1,158,626	645,826	48,511	334,195	9,319,407
Additions	—	746,561	311,536	275,163	296,449	41,926	521,180	2,192,815
Acquired on acquisition of a subsidiary	21,705	105,319	319,980	162,074	45,546	3,153	—	657,777
Transfer from construction in progress	—	358,260	3,075	4,290	836	—	(366,461)	—
Disposals	—	(145,757)	(118,958)	(484)	(83,606)	(4,663)	—	(353,468)
As of December 31, 2020	38,483	6,961,832	1,733,655	1,599,669	905,051	88,927	488,914	11,816,531
Depreciation								
As of January 1, 2018	—	814,131	588,828	274,331	209,481	8,549	—	1,895,320
Provided for the year	—	579,185	214,246	210,260	146,192	4,722	—	1,154,605
Disposals	—	(30,906)	(99,336)	—	(18,347)	(30)	—	(148,619)
As of December 31, 2018	—	1,362,410	703,738	484,591	337,326	13,241	—	2,901,306
Provided for the year	493	651,331	201,135	242,634	139,558	7,998	—	1,243,149
Disposals	—	(62,875)	(42,122)	—	(57,498)	(460)	—	(162,955)
As of December 31, 2019	493	1,950,866	862,751	727,225	419,386	20,779	—	3,981,500
Provided for the year	793	789,105	219,879	218,007	207,934	21,687	—	1,457,405
Disposals	—	(113,568)	(82,685)	(484)	(73,964)	(4,098)	—	(274,799)
As of December 31, 2020	1,286	2,626,403	999,945	944,748	553,356	38,368	—	5,164,106
Carrying values								
As of December 31, 2018	—	2,481,853	494,859	468,339	181,127	24,062	1,187,535	4,837,775
As of December 31, 2019	16,285	3,946,583	355,271	431,401	226,440	27,732	334,195	5,337,907
As of December 31, 2020	37,197	4,335,429	733,710	654,921	351,695	50,559	488,914	6,652,425

The above items of property and equipment, except for construction in progress, after taking into account the residual values, are depreciated on a straight-line basis at the following rates per annum:

Electronic equipment	20% to 33.33%
Office equipment	20%
Vehicles	20% to 33.33%

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. Property and equipment—continued

Logistics equipment	10% to 20%
Buildings	2.5%
Leasehold improvement	Over the shorter of the expected life of leasehold improvement or the lease term

17. Right-of-use assets

	RMB'000
Carrying value	
As of January 1, 2019	5,926,087
Additions	5,379,334
Depreciation charge	(2,685,562)
As of December 31, 2019	8,619,859
Additions	5,706,257
Acquired on acquisition of a subsidiary	1,451,216
Depreciation charge	(3,591,729)
As of December 31, 2020	12,185,603
For the year ended December 31, 2019	
Expense relating to short-term leases	1,361,306
Total cash outflow for leases	3,679,337
For the year ended December 31, 2020	
Expense relating to short-term leases	2,072,608
Total cash outflow for leases	5,900,684

The Group leases various warehouses, delivery stations and pickup stations, offices, and staff quarters for its operations. Lease contracts are entered into for fixed term of 1 to 15 years but may have extension and termination options. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group regularly entered into short-term leases for warehouses, delivery stations and pickup stations, offices, and staff quarters. As of December 31, 2019 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During each of the two years ended December 31, 2020, there is no such triggering event.

Lease liabilities of RMB8,676,817,000 and RMB12,463,677,000 are recognized with related right-of-use assets of RMB8,619,859,000 and RMB12,185,603,000 as of December 31, 2019 and 2020, respectively. The lease agreements do not impose any covenants other than the security interests

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. Right-of-use assets—continued

in the leased assets that are held by the lessors. Leased assets may not be used as security for borrowing purposes.

18. Goodwill

	Acquisition of Kuayue Express
	RMB'000
Cost	
As of January 1, 2018, December 31, 2018 and 2019	—
Arising on acquisition of a subsidiary	1,499,142
As of December 31, 2020	1,499,142
Carrying value	
As of December 31, 2020	1,499,142

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 of the Group has been conducted by the 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. The management leveraged their extensive experience in the industry and provided forecast based on past performance and expectation of future business plans and market developments.

The management 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. 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.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. Goodwill—continued

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

19. Other intangible assets

	Software	Domain names and trademarks	Customer relationship	License and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
As of January 1, 2018	12,407	1,340	—	210	13,957
Additions	2,233	1,160	—	5,339	8,732
As of December 31, 2018	14,640	2,500	—	5,549	22,689
Additions	90	95	—	6,198	6,383
As of December 31, 2019	14,730	2,595	—	11,747	29,072
Additions	20,478	421	—	—	20,899
Acquired on acquisition of a subsidiary	370,479	—	2,549,400	—	2,919,879
As of December 31, 2020	405,687	3,016	2,549,400	11,747	2,969,850
Amortization					
As of January 1, 2018	6,302	—	—	11	6,313
Provided for the year	2,025	430	—	1,350	3,805
As of December 31, 2018	8,327	430	—	1,361	10,118
Provided for the year	1,485	504	—	2,723	4,712
As of December 31, 2019	9,812	934	—	4,084	14,830
Provided for the year	37,230	542	106,225	3,236	147,233
As of December 31, 2020	47,042	1,476	106,225	7,320	162,063
Carrying values					
As of December 31, 2018	6,313	2,070	—	4,188	12,571
As of December 31, 2019	4,918	1,661	—	7,663	14,242
As of December 31, 2020	358,645	1,540	2,443,175	4,427	2,807,787

The above intangible assets have finite useful lives. Such intangible assets are amortized on a straight-line basis over the following periods:

Software	3-5 years
Domain names and trademarks	10 years
Customer relationship	9 years
License and others	3-10 years

20. Interest in an associate

	As of December 31,	
	2019	2020
	RMB'000	RMB'000
Cost of listed investment in an associate	357,350	357,350
Share of post-acquisition loss and other comprehensive loss	(69,418)	(133,329)
	287,932	224,021
Fair value of listed investment in an associate	410,952	330,548

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Interest in an associate—continued

In June 2019, the Group entered into a series of agreements with Jiangsu Xinning Modern Logistics Co., Ltd. ("Xinning Logistics") and its shareholders, pursuant to which the Group acquired 10% of equity interest in Xinning Logistics.

Details of the associate of the Group at the end of each reporting period during the Track Record Period are as follows:

Entity	Place of incorporation and principal place of operation	Principal activities	Percentage of equity interest			Percentage of voting rights		
			2018	2019	2020	2018	2019	2020
Xinning Logistics	PRC	Warehouse logistics	—	10%	10%	—	10%	10%

The Group is able to exercise significant influence over Xinning Logistics because it has the power to appoint two out of the six directors of Xinning Logistics under the articles of association of Xinning Logistics.

The associate of the Group has been accounted for by using the equity method based on the financial information of the associate prepared under the accounting policies consistent with the Group.

As the associate of the Group is not individually material to the combined financial statements, no additional financial information of the associate is disclosed.

Reconciliation to the carrying amount of the interest in the associate recognized in the combined financial statements is presented as follows:

	As of December 31,	
	2019	2020
	RMB'000	RMB'000
Equity attributable to owners of Xinning Logistics	807,978	286,987
Proportion of the Group's ownership interest in Xinning Logistics	10%	10%
The Group's share of net assets of Xinning Logistics	80,798	28,699
Adjustments:		
- Goodwill	134,382	134,382
- Other intangible assets	79,658	65,175
- Property and equipment	4,613	3,348
- Investments accounted for using the equity method	9,548	9,548
- Deferred tax liabilities	(21,067)	(17,131)
Carrying amount of the Group's interest in Xinning Logistics	287,932	224,021

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

21. Interests in joint ventures

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cost of investments in unlisted entities	150,000	150,000	158,000
Share of post-acquisition loss and other comprehensive loss	—	—	(258)
Impairment provision	—	(150,000)	(150,000)
	150,000	—	7,742

In May 2018, the Group subscribed 51% of equity interest in Suqian Jingdong Aosheng Corporation Management Co., Ltd. ("Aosheng").

In November 2020, the Group made capital contribution of RMB8,000,000 for the establishment of Jingxin Intelligence Manufacture Co., Ltd. ("Jingxin").

Details of the joint ventures of the Group at the end of each reporting period during the Track Record Period are as follows:

Entity	Place of incorporation and principal place of operation	Principal activities	Percentage of equity interest			Percentage of voting rights		
			2018	2019	2020	2018	2019	2020
Aosheng	PRC	Management and consulting	51%	51%	51%	51%	51%	51%
Jingxin	PRC	Warehouse logistics	—	—	40%	—	—	40%

Although the Group has more than 50% voting rights in Aosheng, pursuant to the articles of association of Aosheng, the board resolutions of Aosheng need the unanimous consent of the directors appointed by each shareholder. Accordingly, the Group accounts for the investment in Aosheng as a joint venture.

The Group accounts for the investment in Jingxin as a joint venture due to the veto rights that the Group entitled in making significant decisions in the board and shareholder meetings, which enable the Group to share the control with other shareholders of Jingxin.

The joint ventures of the Group have been accounted for by using the equity method based on the financial information of the joint ventures prepared under the accounting policies consistent with the Group.

Aosheng has not engaged in any business operations since its incorporation, other than making a prepayment for acquiring minority equity interest of an unlisted company during the year ended December 31, 2018. For the year ended December 31, 2019, the investment in Aosheng amounting to RMB150,000,000 was fully impaired, since the recoverable amount of the prepayment on the investment was estimated to be nil due to the investee's bankruptcy.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22. Financial assets at fair value through profit or loss

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Non-current:			
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
	1,101,545	1,026,599	1,057,358
Current:			
Wealth management products	—	—	947,738

Equity securities in listed entities

The fair values of equity securities in listed entities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs.

Preferred shares investments in unlisted entities

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. The major assumptions used in the valuation for investment in these unlisted entities are set out in Note 40.3.

Equity investments in unlisted entities

These investments represent equity investments in unlisted entities, in the form of ordinary shares without significant influence. The major assumptions used in the valuation for investment in these unlisted entities are set out in Note 40.3.

Wealth management products

Wealth management products purchased by the Group are issued by major and reputable commercial banks without guaranteed returns. The expected rates of return for such wealth management products held by the Group as of December 31, 2020 range from 1.35% to 3.65%. The Group managed and evaluated the performance of investments on a fair value basis in accordance with the Group's risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

23. Trade receivables

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Trade receivables from third parties	1,602,005	3,246,423	5,517,630
Trade receivables from related parties* (Note 37)	95,512	94,160	93,473
Less: allowance for credit losses	(56,701)	(110,920)	(239,780)
	1,640,816	3,229,663	5,371,323

* Trade receivables from related parties do not include trade receivables from JD Group in relation to the provision of integrated supply chain solutions and logistics services by the Group.

As of January 1, 2018, trade receivables amounted to RMB669,655,000.

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

The Group allows a credit period of 30 to 180 days to its trade customers. The following is an aging analysis of trade receivables presented based on the billing date.

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Within 3 months	1,605,095	3,138,218	5,337,485
3 to 6 months	53,663	104,191	100,283
6 to 12 months	35,767	57,154	61,987
Over 12 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)
	1,640,816	3,229,663	5,371,323

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

As of December 31, 2018, 2019 and 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB206,852,000, RMB261,322,000 and RMB213,092,000, respectively, which are past due but not credit-impaired as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables are set out in Note 40.2.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. Prepayments, other receivables and other assets

The Group

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Non-current:			
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
	240,862	491,117	1,101,033
Current:			
Amounts due from related parties (Note 37)	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
Interest receivables	38,825	13,146	16,802
Loans to related parties[1]	—	3,854	42,084
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)
	963,240	11,461,194	12,376,832

The Company

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Current:			
Amounts due from fellow subsidiaries[2]	18,517,665	19,190,958	18,164,077
Amounts due from related parties	50,202	22,621	163,345
Others	50	24	3,496
	18,567,917	19,213,603	18,330,918

Notes:

1. As of December 31, 2020, loans to related parties were secured by unlisted equity interest in debtors, of which RMB7,084,000 were with interest rate at 12% per annum and RMB35,000,000 were interest-free, respectively.
2. Amounts due from fellow subsidiaries were non-trade in nature, unsecured, interest free, repayable on demand, and fully eliminated upon combination.

Details of impairment assessment of other receivables are set out in Note 40.2.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Cash and bank balances

25.1 Cash and cash equivalents

The Group

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cash and bank balances	19,249,997	9,274,203	6,346,869

The Company

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Cash and bank balances	80	3,039	1,389,955

25.2 Restricted cash

As of December 31, 2020, restricted cash represents deposits held in designated bank accounts for issuance of bank guarantee.

25.3 Term deposits

The Group's term deposits are bank deposits denominated in USD with original maturities over three months and redeemable on maturity. The weighted average interest rate of the term deposits was 1.11% per annum for the year ended December 31, 2020.

26. Share capital

Authorized

	Number of ordinary shares	Nominal value of ordinary shares	Number of preference shares	Nominal value of preference shares
		USD		USD
As of January 1, 2018	1,000,000	1,000,000	—	—
Split of shares[1]	999,000,000	—	—	—
Split of shares[3]	39,000,000,000	—	—	—
Reclassification and re-designation upon issuance of the Series A Preference Shares[3]	(1,037,200,000)	(25,930)	1,037,200,000	25,930
As of December 31, 2018, 2019 and 2020	38,962,800,000	974,070	1,037,200,000	25,930

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

26. Share capital—continued

Issued and fully paid

The Company was incorporated in the Cayman Islands as an exempted company registered under the laws of the Cayman Islands in January 2012. Upon incorporation of the Company, one share was issued at par value of USD1.00. On the same day, additional 49,999 shares were issued at the same par value.

	Number of ordinary shares	Nominal value of ordinary shares	Nominal value of ordinary shares
		USD	RMB
As of January 1, 2018	50,000	50,000	306,000
Split of shares[1]	49,950,000	—	—
Issuance of ordinary shares[2]	48,100,000	48,100	304,000
Split of shares[3]	3,825,900,000	—	—
As of December 31, 2018 and 2019	3,924,000,000	98,100	610,000
Issuance of ordinary shares[4]	8,467,879	212	1,000
As of December 31, 2020	3,932,467,879	98,312	611,000

Notes:

1. In February 2018, each authorized and issued share at par value of USD1.00 was subdivided into 1,000 shares, such that the share capital of the Company was USD50,000 divided into 50,000,000 ordinary shares of a nominal or par value of USD0.001 each.
2. In February 2018, the Company allotted and issued 48,100,000 ordinary shares of par value of USD0.001 each, at a consideration of RMB1,499,998,000, whereas RMB304,000 was accounted for as share capital and RMB1,499,694,000 was accounted for as share premium.
3. In March 2018, the Company underwent another 1:40 share split to each authorized and issued shares, such that the share capital of the Company was USD98,100 divided into 3,924,000,000 ordinary shares of a nominal or par value of USD0.000025 each. In addition, the Company re-designated and reclassified 1,037,200,000 ordinary shares in its authorized share capital into Series A Preference Shares with details set out in Note 34.
4. In August 2020, the Company issued 8,467,879 ordinary shares as part of the consideration for acquisition of Kuayue Express. Details are set out in Note 39.

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Presented as	610	610	611

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Reserves

	Reserves of the Company
	RMB'000
As of January 1, 2018	207
Share-based payments	532,802
Share premium	1,499,694
Currency translation differences	490,996
As of December 31, 2018	2,523,699
Share-based payments	690,949
Repurchase of share options	(3,346)
Currency translation differences	(90,729)
As of December 31, 2019	3,120,573
Share-based payments	401,632
Repurchase of share options	(8,528)
Share premium	115,856
Currency translation differences	651,636
As of December 31, 2020	4,281,169

28. Non-controlling interests

	Share of net assets of subsidiaries	Share options reserve of subsidiaries	Total
	RMB'000	RMB'000	RMB'000
As of January 1, 2018 and December 31, 2018	—	—	—
Share of loss for the year	(3,586)	—	(3,586)
Capital injection from non-controlling shareholders	36,032	—	36,032
As of December 31, 2019	32,446	—	32,446
Share of profit for the year	96,706	—	96,706
Acquisition of a non-wholly owned subsidiary (Note 39)	1,960,692	—	1,960,692
Additional non-controlling interests arising on partial disposal of a subsidiary	149,305	—	149,305
Share options of a subsidiary	—	8,891	8,891
As of December 31, 2020	2,239,149	8,891	2,248,040

29. Share-based payments

During the Track Record Period, the employees of the Group are eligible for the JD Group Share Incentive Plan, which includes share options and RSUs. In addition, share options were granted to eligible employees and non-employees pursuant to the JD Logistics Share Incentive Plan. Furthermore, eligible employees of Kuayue Express are eligible to the Kuayue Express Share Incentive Plan.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Share-based payments—continued

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

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Share options	435,684	598,938	661,603
RSUs	474,701	398,974	215,991
Total	910,385	997,912	877,594

29.1 JD Group Share Incentive Plan

The share-based awards to the Group's employees are granted under the JD Group Share Incentive Plan as historically the Group did not have its own share incentive plan. The Historical Financial Information includes allocation of the expenses recorded at JD Group based on the Group's employees participating under the JD Group Share Incentive Plan.

The Group accounted for the JD Group Share Incentive Plan by measuring the services received from the grantees in accordance with the requirement applicable to equity-settled share-based payment transactions in accordance with IFRS 2, and recognized a corresponding increase in equity as a deemed contribution from JD Group.

The RSUs and share options are generally service-based and scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of the JD Group Share Incentive Plan, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Share-based payments—continued

29.1 JD Group Share Incentive Plan—continued

Share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2018	1,299,456	8.24	
Exercised	(90,744)	3.96	
Forfeited or cancelled	(1,000)	3.96	
Transferred*	(5,000)	3.96	
Outstanding as of December 31, 2018	1,202,712	8.59	5.9
Exercised	(164,114)	8.40	
Forfeited or cancelled	(74,130)	12.75	
Transferred*	(112,466)	11.49	
Outstanding as of December 31, 2019	852,002	7.88	4.7
Exercised	(601,736)	7.20	
Forfeited or cancelled	(50,000)	13.03	
Transferred*	(41,500)	12.70	
Outstanding as of December 31, 2020	158,766	7.58	3.7

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

The number of exercisable share options as of December 31, 2018, 2019 and 2020 was 777,890, 688,666 and 112,096 respectively.

The fair value of share options was estimated using the binominal option-pricing model. Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The determination of estimated fair value of share-based payment awards on the grant date is affected by the fair value of JD.com, Inc.'s ordinary shares as well as assumptions regarding a number of complex and subjective variables. These variables include the expected volatility of the shares of JD.com, Inc. over the expected term of the awards, actual and projected employee share option exercise behaviors, the risk-free interest rate and expected dividends, if any.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Share-based payments—continued

29.1 JD Group Share Incentive Plan—continued

RSUs

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

	Number of RSUs	Weighted average grant-date fair value
		USD
Outstanding as of January 1, 2018	19,889,806	13.65
Granted	1,899,870	19.18
Vested	(3,047,322)	12.75
Forfeited or cancelled	(2,998,776)	13.74
Transferred*	(279,810)	13.90
Outstanding as of December 31, 2018	15,463,768	14.49
Granted	1,435,570	14.10
Vested	(2,922,242)	14.43
Forfeited or cancelled	(1,888,678)	15.09
Transferred*	(724,396)	7.77
Outstanding as of December 31, 2019	11,364,022	14.78
Granted	518,978	26.04
Vested	(2,516,906)	14.76
Forfeited or cancelled	(1,347,932)	14.14
Transferred*	(527,970)	14.35
Outstanding as of December 31, 2020	7,490,192	15.72

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

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

29.2 JD Logistics Share Incentive Plan

The Group granted share-based awards to eligible employees and non-employees pursuant to the JD Logistics Share Incentive Plan, which governs the terms of the awards. On March 31, 2018, the Company adopted the JD Logistics Share Incentive Plan, to attract and retain the best available personnel, provide additional incentives to employees and non-employees, and promote the success of the Group.

As of December 31, 2018, 2019 and 2020, the Group had reserved 304,934,947, 291,856,615 and 310,968,071 ordinary shares, respectively, available to be granted as share-based awards under the JD Logistics Share Incentive Plan.

The share options are generally scheduled to be vested over six years. One-sixth of the awards shall be vested upon the first anniversary dates of the grants or the end of the calendar year, and the remaining of the awards shall be vested on straight line basis at the anniversary years or the end of the remaining calendar year.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Share-based payments—continued

29.2 JD Logistics Share Incentive Plan—continued

Share options

(a) Service-based share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2018	—	—	
Granted	144,244,000	0.01	
Forfeited or cancelled	(3,138,947)	0.01	
Outstanding as of December 31, 2018	141,105,053	0.01	9.4
Granted	68,022,500	0.01	
Repurchased	(1,363,273)	0.01	
Forfeited or cancelled	(14,168,495)	0.01	
Outstanding as of December 31, 2019	193,595,785	0.01	8.7
Granted	224,511,105	0.01	
Repurchased	(1,230,830)	0.01	
Forfeited or cancelled	(132,830,214)	0.01	
Outstanding as of December 31, 2020	284,045,846	0.01	8.7

In October 2020, with the approvals of the board of directors, options were granted to Mr. Richard Qiangdong Liu for acquiring 99,186,705 ordinary shares of the Company with an exercise price of USD0.01 per share according to the JD Logistics Share Incentive Plan, subject to a six-year vesting schedule. The grant was awarded to Mr. Richard Qiangdong Liu to motivate him to continue leading the future success of the Group.

The number of exercisable share options as of December 31, 2018, 2019 and 2020 was nil, 21,904,313 and 37,409,445, respectively.

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The estimated fair value of each option grant is estimated on the date of grant using the binominal option-pricing model with the following assumptions:

	Year ended December 31,		
	2018	2019	2020
Expected volatility	43.0%	43.0%	41.0% to 43.0%
Risk-free interest rate (per annum)	3.4%	3.2%	1.3% to 3.2%
Expected dividend yield	—	—	—
Expected term (in years)	10	10	10
Fair value of the underlying shares on the date of option grants (USD)	1.56	1.68	1.68 to 2.37

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The expected life

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Share-based payments—continued

29.2 JD Logistics Share Incentive Plan—continued

used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The weighted average grant date fair value of options granted for the years ended December 31, 2018, 2019 and 2020 were USD1.55, USD1.67 and USD2.00 per share, respectively.

(b) Performance-based share options

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2019	—	—	
Granted	15,454,000	0.01	
Forfeited or cancelled	(690,000)	0.01	
Outstanding as of December 31, 2019	14,764,000	0.01	9.3
Repurchased	(26,666)	0.01	
Forfeited or cancelled	(10,903,334)	0.01	
Outstanding as of December 31, 2020	3,834,000	0.01	8.3

The number of exercisable share options as of December 31, 2018, 2019 and 2020 was nil, nil and 598,987, respectively. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on performance conditions, with the impact of the revision to original estimates, if any, in profit or loss, along with a corresponding adjustment to equity.

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The estimated fair value of each option grant is estimated on the date of grant using the binominal option-pricing model with the following assumptions:

	Year ended December 31, 2019
Expected volatility	43.0%
Risk-free interest rate (per annum)	3.2%
Expected dividend yield	—
Expected term (in years)	10
Fair value of the underlying shares on the date of option grants (USD)	1.68

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The weighted average grant date fair value of options granted for the year ended December 31, 2019 was USD1.67 per share.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Share-based payments—continued

29.2 JD Logistics Share Incentive Plan—continued

(c) Market-based share options

The 43,600,000 share options awarded to the former CEO in April 2018 are subject to service condition and market condition, and vest only if the market condition determined by the board of directors of the Company has been satisfied.

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

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2018	—	—	
Granted	43,600,000	0.01	
Outstanding as of December 31, 2018	43,600,000	0.01	9.2
Outstanding as of December 31, 2019	43,600,000	0.01	8.2
Forfeited or cancelled	(43,600,000)	0.01	
Outstanding as of December 31, 2020	—	—	

The number of exercisable share options as of December 31, 2018, 2019 and 2020 was nil.

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The estimated fair value of each option grant is estimated on the date of grant using the binominal option-pricing model with the following assumptions:

	Year ended December 31, 2018
Expected volatility	43.0%
Risk-free interest rate (per annum)	3.4%
Expected dividend yield	—
Expected term (in years)	10
Fair value of the underlying shares on the date of option grants (USD)	0.47 to 1.25

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The weighted average grant date fair value of options granted for the year ended December 31, 2018 was USD0.85 per share.

29.3 Other share-based payments allocation

The share-based payments of JD Group's employees in the headquarters, including service-based RSUs and share options, were allocated to the Group based on corresponding drivers, amounting to RMB161,394,000, RMB162,816,000 and RMB85,942,000 for the years ended December 31, 2018, 2019 and 2020, respectively, which were treated as deemed contribution from JD Group and recorded in other reserves.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Share-based payments—continued

29.4 Kuayue Express Share Incentive Plan

In October 2019, Kuayue Express granted share-based awards to eligible employees to attract and retain the best available personnel, provide additional incentives to employees and directors and promote the success of Kuayue Express under the Kuayue Express Share Incentive Plan. The Kuayue Express Share Incentive Plan consists of service-based share options, which are generally scheduled to be vested over 1 to 3 years.

As of December 31, 2020, Kuayue Express has granted accumulative 10,417,390 options of Kuayue Express to its employees. For the year ended December 31, 2020, total share-based payments of RMB8,891,000 was recognized in the Group's combined statement of profit or loss and included in non-controlling interests for the share options granted under the Kuayue Express Share Incentive Plan.

30. Dividends

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

31. Trade payables

The following is an aging analysis of trade payables presented based on the recognition date:

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Within 3 months	2,119,493	3,937,357	5,092,371
3 to 6 months	529,537	4,884	501,446
6 to 12 months	3,383	6,911	122,484
Over 12 months	535	8,264	95,318
	2,652,948	3,957,416	5,811,619

The credit period of trade payables is mainly ranging from 30 to 120 days.

Certain reputable financial institutions offer supply chain financing services to the Group's suppliers. Suppliers can sell one or more of the Group's payment obligations at their sole discretion to the financial institutions to receive funds ahead of time from the financial institutions to meet their cash flow needs. The Group's rights and obligations to suppliers are not impacted. The original payment terms, timing and amount, remain unchanged. As of December 31, 2018, 2019 and 2020, nil, RMB120,073,000 and RMB472,981,000, respectively, of the outstanding payment obligations were elected by the suppliers and sold to the financial institutions.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Accrued expenses and other payables

The Group

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Amounts due to related parties (Note 37)	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
Deposits	193,308	369,207	626,567
Packing materials payables	229,465	465,968	812,589
Property and equipment payables	98,728	361,260	612,408
Other tax payables	76,470	181,827	314,738
Amount due to non-controlling shareholder*	—	—	104,640
Temporary receipts	305,060	92,004	109,903
Others	185,367	187,806	636,920
	9,232,110	11,186,020	15,410,593

* Amount due to non-controlling shareholder of RMB104,640,000 and long-term payables of RMB200,000,000 were originated from the interest-bearing borrowings provided by non-controlling shareholder of Kuayue Express. Long-term payables had a term of 3 years.

The Company

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Accrued expenses	—	—	9,233

33. Lease liabilities

	As of December 31,	
	2019	2020
	RMB'000	RMB'000
Lease liabilities payable:		
Within one year	3,103,550	4,619,073
Within a period of more than one year but not exceeding two years	2,121,042	3,154,657
Within a period of more than two years but not exceeding five years	3,111,922	3,906,885
Within a period of more than five years	340,303	783,062
	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

The weighted average discount rates applied by the Group were 5.67% and 5.17% for the years ended December 31, 2019 and 2020, respectively.

34. Convertible redeemable preferred shares

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Financial liability at FVTPL			
Series A Preference Shares	17,462,915	18,069,639	21,918,414

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Convertible redeemable preferred shares—continued

Series A Preference Shares

In February 2018, the Group entered into definitive agreements with third-party investors to raise financing, with the total amount of USD2,510,000,000 (equivalent to RMB15,973,564,000) by issuance of 1,004,000,000 Series A Preference Shares, representing approximately 19% of the ownership of the Company on a fully diluted basis. The Series A Preference Shares are contingently redeemable by the holders 5 years from the issuance date in the event that a qualified initial public offering (the "Qualified IPO") has not occurred and the Series A Preference Shares have not been converted. The Qualified IPO is defined as an initial public offering that (i) has been approved by the board of directors of the Company, or (ii) with the offering price per share that values the Company at no less than USD20,000,000,000 on a fully diluted basis immediately following the completion of such offering.

In August 2020, the Company issued 22,867,347 Series A Preference Shares to third-party investors in exchange for USD64,029,000 (equivalent to RMB443,039,000).

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

Dividend Rights

As regards to dividends, the Series A Preference Shares shall rank pari passu with the ordinary shares and the holders of the Series A Preference Shares shall be entitled to the same amount of dividends as the holders of the ordinary shares on an as converted basis as if they were a single class. No dividend or distribution shall be payable except out of any funds legally available.

Voting Rights

The holder of each ordinary share issued and outstanding should have one vote in respect of each ordinary share held and the holder of each Series A Preference Share shall carry such number of votes as is equal to the number of votes of ordinary shares then issuable upon the conversion of such Series A Preference Shares. The holders of the Series A Preference Shares and the holders of ordinary shares shall vote together and not as a separate class.

Liquidation Preferences

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, all assets and funds of the Company legally available for distribution (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed ratably among the holders according to their relative number of ordinary shares held by such holders (all the Series A Preference Shares as if they had been converted into ordinary shares immediately prior to such liquidation, dissolution or winding up of the Company).

Redemption Rights

From and after the fifth anniversary of the Series A Preference Shares' original issuance date, and prior to the consummation of a Qualified IPO, each holder of the Series A Preference Shares shall have the rights at any time to require and demand the Company to redeem all or any portion of the Series A Preference Shares held by such holder.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Convertible redeemable preferred shares—continued

The initial redemption price payable on each Series A Preference Share is the total of:

(i) any dividend relating to each Series A Preference Share which has been declared by the Company but unpaid, to be calculated up to and including the date of the redemption; plus

(ii) the Series A Preference Shares purchase price, that is USD2.50 per share, subject to appropriate adjustments in the event of any share dividend, share combination or similar recapitalization events.

Conversion Rights

Each Series A Preference Share shall be convertible, at the option of the holder of the Series A Preference Shares, at any time after the date of issuance of such Series A Preference Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preference Shares purchase price by the conversion price then applicable to such Series A Preference Shares. The conversion price of each Series A Preference Share is the same as its original issuance price if no adjustments to conversion price have occurred. As of December 31, 2020, each Series A Preference Share is convertible into one ordinary share.

Each Series A Preference Share shall automatically be converted into ordinary shares (i) upon the consummation of a Qualified IPO; or (ii) in the event that the holders of the Series A Preference Shares holding at least 50% of the Series A Preference Shares in issue elect to convert the Series A Preference Shares.

The movements of the Series A Preference Shares issued by the Company are set out as below:

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of the year	—	17,462,915	18,069,639
Issuance of Series A Preference Shares	15,973,564	—	443,039
Changes in fair value	239,142	315,477	4,861,109
Currency translation differences	1,250,209	291,247	(1,455,373)
Carrying amount at the end of the year	17,462,915	18,069,639	21,918,414

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

	As of December 31,		
	2018	2019	2020
Discount rate	18%	17%	16%
Risk-free interest rate	1.97% to 3.72%	1.71% to 3.71%	0.54% to 3.73%
DLOM	25%	25%	10%
Expected volatility	45%	38%	38%

Discount rate was estimated by weighted average cost of capital as of each valuation date. The Group estimated the risk-free interest rate based on the yield of government bond with maturity

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. Convertible redeemable preferred shares—continued

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

35. Equity instruments with preference rights

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Financial liability at amortized cost			
Equity instruments with preference rights issued by Kuayue Express	—	—	597,380

Equity instruments with preference rights issued by Kuayue Express

In August and October 2018, Kuayue Express entered into definitive agreements with third-party investors and issued equity instruments of Kuayue Express with preference rights ("Kuayue Express Series A and A+ Preference Equity Instruments").

The primary preference rights of Kuayue Express Series A and A+ Preference Equity Instruments are as follows:

Voting rights

Each of the Kuayue Express Series A and A+ Preference Equity Instrument has voting rights equivalents to the number of ordinary equity securities into which such equity instrument with preference rights could be then convertible.

Dividends rights

The holders of Kuayue Express Series A and A+ Preference Equity Instruments are entitled to receive dividends, out of any assets legally available, as and if declared by the board of directors of Kuayue Express. Such distributions shall not be cumulative. To the extent any dividend is declared and paid, such dividend shall be paid ratably to all holders of equity securities in Kuayue on a fully diluted basis. The dividend right is considered as an equity component included in the equity instruments with preferential rights and will not be remeasured in subsequent periods.

Liquidation Preferences

In the event of any liquidation, dissolution or winding up of Kuayue Express, either voluntary or involuntary, distributions to shareholders of Kuayue Express shall be made in the following manner (after satisfaction of all creditors' claims and claims that may be preferred by law):

Each holder of Kuayue Express Series A and A+ Preference Equity Instrument shall be entitled to receive the amount equal to 100% of the applicable purchase price of such Kuayue Express Series A

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35. Equity instruments with preference rights—continued

and A+ Preference Equity Instruments, plus the corresponding share of retained profits of Kuayue Express, prior and in preference to any distribution of any of the assets or surplus funds of Kuayue Express to the holders of ordinary equity securities.

If the assets and funds available for distribution shall be insufficient to permit the payment to such holders of the full preferred preference amount, the liquidation preference amount will be distributed ratably to the holders of Kuayue Express Series A and A+ Preference Equity Instruments in accordance with their relative shareholding.

After distributing or paying in full the liquidation preference amount to all of the holders of Kuayue Express Series A and A+ Preference Equity Instruments, the remaining assets of Kuayue Express available for distribution, if any, shall be distributed to the holders of ordinary equity securities on a pro-rata basis, based on the number of equity securities then held by each holder on a fully diluted basis.

Redemption Rights

Upon the earlier to occur of (i) Kuayue Express has not completed an initial public offering following the ninth anniversary of the issuance date of Kuayue Express Series A or A+ Preference Equity Instruments, or (ii) any material breach of any transaction agreement by Kuayue Express or any founder party of Kuayue Express, any holder of Kuayue Express Series A or A+ Preference Equity Instruments may require Kuayue Express to redeem any or all of the then outstanding equity securities held by such holders at the redemption price which represent the purchase price, plus an interest at an annual rate of 5% calculating from the issuance date to the payment date, less any retained profits collected by such holder.

The effective interest rate of the liability component is 5.63%. The movements of the liability component of Kuayue Express Series A and A+ Preference Equity Instruments are set out as below:

	From August 17, 2020 to December 31, 2020
	RMB'000
Carrying amount at the acquisition date	585,774
Accreted interest	11,606
Carrying amount as of December 31, 2020	597,380

36. Deferred tax assets/liabilities

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

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Deferred tax assets	—	—	43,112
Deferred tax liabilities	—	(42,054)	(717,285)
	—	(42,054)	(674,173)

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. Deferred tax assets/liabilities—continued

The movements in deferred tax assets and liabilities during the Track Record Period are as follows:

	Tax losses	ECL provision and others	Accelerated depreciation	Other intangible assets acquired in business combinations	Changes in fair value of financial instruments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2018 and December 31, 2018	—	—	—	—	—	—
Charge to profit or loss	—	—	(41,488)	—	(566)	(42,054)
As of December 31, 2019	—	—	(41,488)	—	(566)	(42,054)
Acquisition of a subsidiary	—	—	—	(727,888)	—	(727,888)
Credit/(charge) to profit or loss	35,730	7,382	19,925	33,287	(555)	95,769
As of December 31, 2020	35,730	7,382	(21,563)	(694,601)	(1,121)	(674,173)

Deferred tax assets have not been recognized in respect of the following items:

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Tax losses	3,251,304	3,962,956	3,137,575
Deductible temporary differences	110,153	760,417	896,570
	3,361,457	4,723,373	4,034,145

Due to the unpredictability of future profit streams, no deferred tax assets had been recognized for these unused tax losses and deductible temporary differences.

As of December 31, 2018, 2019 and 2020, these unrecognized tax losses primarily arising from the Company's subsidiaries and consolidated affiliated entities established in the PRC, which can be carried forward to offset future taxable income and will expire during the period from 2019 to 2023, the period from 2020 to 2024 and the period from 2021 to 2025, respectively.

37. Related party transactions

Other than as disclosed elsewhere in the Historical Financial Information, the following significant transactions and balances were carried out between the Group and its related parties during the Track Record Period. In the opinion of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. Related party transactions—continued

37.1 Names and relationships with related parties

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

Name of related parties	Relationship
JD.com, Inc.	Ultimate parent company of the Company
Jingdong Technology Group Corporation	Immediate parent company of the Company
JD Group	Controlled by JD.com, Inc.
Tencent Holdings Limited and its subsidiaries ("Tencent Group")	A shareholder of the ultimate parent company
AiHuiShou International Co. Ltd. and its subsidiaries ("AiHuiShou Group")	An associate of JD Group
JD Logistics Properties Core Fund, L.P. and JD Logistics Properties Core Fund II, L.P. ("Core Funds")	Associates of JD Group
Dada Nexus Limited and its subsidiaries ("Dada Group")	An associate of JD Group
Jingdong Technology Holding Co., Ltd. and its subsidiaries ("JD Technology")*	An associate of JD Group, and controlled by Mr. Richard Qiangdong Liu

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

37.2 Significant transactions with related parties

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 the JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Pricing Policies Effective Date of the Series A Preference Shares financing, these transactions have been recorded in the Historical Financial Information based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were the revenue and expenses of the Group.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. Related party transactions—continued

37.2 Significant transactions with related parties—continued

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

	Notes	Year ended December 31,		
		2018	2019	2020
		RMB'000	RMB'000	RMB'000
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) The Group provides integrated supply chain solutions and logistics services to JD Group in exchange for service fees, including but not limited to warehousing and distribution services, express and freight delivery services, after sales and maintenance services, and other related ancillary services.

The Group provides advertising services to JD Group in return for the advertising fees.

(ii) The Group is primarily engaged in providing supply chain solutions and logistics services to Tencent Group and AiHuiShou Group.

(iii) The Group is primarily engaged in providing installation and maintenance services, and advertising services to JD Technology.

Receiving of services:

(iv) JD Group provides back-office administrative support services to the Group, including but not limited to cloud service, provision of servers, information technology support service, certain human resources services, in addition to certain shared services, including office premises sharing, transportation and canteen facilities for staff, administrative purchases and various support services. The Group pays JD Group the actual costs incurred during the service process.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. Related party transactions—continued

37.2 Significant transactions with related parties—continued

JD Group grants RSUs and share options to the Group's eligible employees under JD Group Share Incentive Plan. In addition, the share-based payments of JD Group's employees in the headquarters are allocated to the Group based on corresponding drivers.

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

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

Lease arrangements:

(vii) During the year ended December 31, 2019, the Group entered into several lease agreements for operational purposes with Core Funds for 4 to 7 years. Right-of-use assets and lease liabilities amounted to RMB3,040,868,000 and RMB3,100,714,000 as of December 31, 2019, respectively.

During the year ended December 31, 2020, the Group entered into a lease agreement for operational purposes with Core Funds for 4 years. Right-of-use assets and lease liabilities amounted to RMB2,532,697,000 and RMB2,711,907,000 as of December 31, 2020, respectively.

(viii) The Group leases warehouses from JD Group for operational purposes.

(ix) During the year ended December 31, 2019, the Group entered into several lease agreements with JD Group for 2 to 6 years. Right-of-use assets and lease liabilities amounted to RMB261,617,000 and RMB266,010,000 as of December 31, 2019, respectively.

During the year ended December 31, 2020, the Group entered into several lease agreements with JD Group for 1 to 6 years. Right-of-use assets and lease liabilities amounted to RMB796,811,000 and RMB799,943,000 as of December 31, 2020, respectively.

Receiving or payment of interest:

(x) To better utilize the excessive cash for higher returns, the Group participates in the treasury management scheme administrated by JD Group, through transferring excessive cash to JD Group and charges interest accordingly, while JD Group charges the Group with interest expenses on amount due to JD Group. The Group is entitled to receive interest income and obligated to make payments of interest expenses with JD Group based on the terms stipulated in the Series A Share Subscription Agreement.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. Related party transactions—continued

37.3 Significant balance with related parties

The Group had the following significant balances with related parties:

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Due from related parties:			
Amount due from JD Group	—	10,486,252	10,538,555
Amount due from JD Technology	72,940	143,584	199,821
Amount due from Tencent Group	83,121	38,806	63,202
Amount due from AiHuiShou Group	892	15,536	7,199
Amount due from Dada Group	23,925	11,579	3,438
Amounts due from other related parties	7,579	5,187	3,630
	188,457	10,700,944	10,815,845
Due to related parties:			
Amount due to JD Group	6,016,874	6,474,480	6,951,957
Amount due to Dada Group	146,586	228,456	507,274
Amount due to Core Funds	—	20,308	39,831
Amounts due to other related parties	—	152,124	154,017
	6,163,460	6,875,368	7,653,079

Other than amount due from JD Group, amounts due from related parties of RMB95,512,000, RMB94,160,000 and RMB93,473,000 as of December 31, 2018, 2019 and 2020, respectively, were trade in nature; and RMB92,945,000, RMB120,532,000 and RMB183,817,000 respectively, were non-trade in nature, which will be settled prior to the date on which the ordinary shares of the Company are to be listed on the Main Board of the Hong Kong Stock Exchange ("Listing Date"). Amount due from JD Group as of December 31, 2019 and 2020 primarily includes (i) trade receivables resulting from the Group's integrated supply chain solutions and logistics services provided to JD Group, and (ii) non-trade related balances with JD Group. It is expected that all the outstanding receivables due from JD Group will be settled prior to the Listing Date, 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 RMB146,586,000, RMB230,580,000 and RMB511,291,000 as of December 31, 2018, 2019 and 2020, respectively, were trade in nature; and nil, RMB170,308,000 and RMB189,831,000 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 the reporting period. Other than amount due from/due to JD Group, the above amounts due from/due to related parties are non-interest bearing.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. Related party transactions—continued

37.4 Key management personnel compensation

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

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Salaries and bonuses	1,926	3,793	3,679
Share-based payments	134,056	127,469	143,884
Pension costs—defined contribution plans	53	100	103
Welfare, medical and other benefits	315	602	844
Total	136,350	131,964	148,510

38. Commitments

Capital commitments

	As of December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Contracted for but not provided in the Historical Financial Information			
Purchase of property and equipment	514,041	25,192	107,175

Operating lease commitments

As of December 31, 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of warehouses, delivery stations and pickup stations, offices, and staff quarters, with lease terms between 1 and 12 years, which fall due as follows:

	As of December 31, 2018
	RMB'000
Within one year	2,442,605
In the second to fifth year, inclusive	3,573,798
Over five years	419,066
Total	6,435,469

39. Acquisition of a subsidiary

On August 17, 2020, the Group acquired 60.2% of ordinary shares (55.1% of equity interest on a fully diluted basis) in Kuayue Express. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	2,850,000
Equity instruments issued less cash proceeds received	115,856
Total	2,965,856

Acquisition-related costs were insignificant and had been recognized as an expense during the year ended December 31, 2020.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39. Acquisition of a subsidiary—continued

Assets acquired and liabilities recognized at the date of acquisition

	Fair value
	RMB'000
Other intangible assets	2,919,879
Including: Customer relationship	*2,549,400*
Technology systems	*357,000*
Property and equipment	657,777
Right-of-use assets	1,451,216
Prepayments, deposits and other assets	260,286
Inventories	33,661
Trade receivables	829,752
Amount due from a related party	2,460
Financial assets at fair value through profit or loss	638,000
Restricted cash	97,567
Cash and cash equivalents	1,375,710
Lease liabilities	(1,425,238)
Long-term borrowings	(123,296)
Short-term Borrowings	(862,812)
Trade payables	(835,202)
Accrued expenses and other payables	(278,692)
Deferred tax liabilities	(727,888)
Equity instruments with preference rights	(585,774)
	3,427,406

The trade receivables acquired with a fair value of RMB829,752,000 at the date of acquisition had gross contractual amounts of RMB923,608,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB93,856,000.

Non-controlling interests

The non-controlling interests (39.8%) in Kuayue Express recognized at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to RMB1,960,692,000. This fair value was estimated by applying an income approach. The following were the key model inputs used in determining the fair value:

- assumed discount rate of 18.5%; and
- assumed long-term sustainable growth rate of 3%.

In addition, the non-controlling interests recognized at the acquisition date include the outstanding share options granted by Kuayue Express to its employees under Kuayue Express Share Incentive Plan.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	2,965,856
Plus: non-controlling interests (39.8% in Kuayue Express)	1,960,692
Less: fair value of net assets acquired	(3,427,406)
Goodwill arising on acquisition	1,499,142

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39. Acquisition of a subsidiary—continued

Goodwill arose on the acquisition of Kuayue Express because the acquisition included the assembled workforce of Kuayue Express, benefit of expected synergies, revenue growth and future market development as of the date of acquisition. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition

	RMB'000
Cash consideration paid	2,850,000
Less: cash and cash equivalents acquired	(1,375,710)
	1,474,290

Impact of acquisition on the results of the Group

Included in the loss for the year ended December 31, 2020 is a profit of RMB349,817,000 attributable to the additional business generated by Kuayue Express. Revenue for the year ended December 31, 2020 includes RMB3,734,255,000 generated from Kuayue Express.

Had the acquisition of Kuayue Express been completed on January 1, 2020, revenue for the year ended December 31, 2020 of the Group would have been RMB77,569,431,000, and loss for the year ended December 31, 2020 would have been RMB3,857,908,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2020, nor is it intended to be a projection of future results. In determining the pro-forma revenue and profit of the Group had Kuayue Express been acquired at the beginning of the year of 2020, depreciation of property and equipment and amortization of other intangible assets is calculated based on the recognized amounts of property and equipment and other intangible assets at the date of the acquisition.

40. Financial instruments

40.1 Financial instruments by categories

The Group

		As of December 31,		
	Notes	2018	2019	2020
		RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value:				
Financial assets at FVTPL	22	1,101,545	1,026,599	2,005,096
Financial assets at amortized cost		21,194,901	23,441,971	26,942,193
Financial liabilities				
Financial liabilities at fair value:				
Convertible redeemable preferred shares	34	17,462,915	18,069,639	21,918,414
Payables to interest holders of consolidated investment funds		—	109,239	116,950
Financial liabilities at amortized cost		9,501,354	11,958,865	16,275,755

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.1 Financial instruments by categories—continued

The Company

	Note	As of December 31, 2018	2019	2020
		RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at amortized cost		18,567,997	19,216,642	19,720,873
Financial liabilities				
Financial liabilities at fair value:				
Convertible redeemable preferred shares	34	17,462,915	18,069,639	21,918,414

40.2 Financial risk management

The Group's major financial instruments include financial assets at FVTPL, trade and other receivables, term deposits, restricted cash, cash and cash equivalents, trade and other payables, advances from customers, convertible redeemable preferred shares, equity instruments with preference rights, payables to interest holders of consolidated investment funds, long-term payables, and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, and, to a lesser extent, other currencies. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currency which also expose the Group to foreign currency risk.

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

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed rate instruments expose the Group to fair value interest risk.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.2 Financial risk management—continued

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, amounts due from/due to JD Group, and borrowing from non-controlling shareholder. The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank balances and lease liabilities.

Sensitivity analysis

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, the Group's post-tax loss for the years ended December 31, 2018, 2019 and 2020 would decrease/increase by RMB12,983,000, RMB21,679,000 and RMB4,744,000, respectively.

Other price risk

The Group is mainly exposed to price risk through its investments in listed equity security investments measured at FVTPL and convertible redeemable preferred shares. The price risk of these financial assets may arise due to changes in market price. The change may be caused by factors relating to the financial instrument itself or the issuer, and it may also be caused by market factors. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group has designated a team to monitor the price risk and will consider hedging the risk exposure should the need arises.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to equity price risk at the end of each reporting period during the Track Record Period.

If the prices of the respective listed financial instruments had increased/decreased by 5% with all other variables held constant, the post-tax loss for the years ended December 31, 2018, 2019 and 2020 would decrease/increase by RMB21,210,000, RMB13,795,000 and RMB14,912,000, respectively.

(b) Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, bank balances and preferred shares investments in unlisted entities. The Group does not hold any collateral or other credit enhancements to cover its credit risks

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.2 Financial risk management—continued

associated with its financial assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

Trade receivables and contract assets

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL for these items. The Group estimates the amount of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

Bank balances and debt securities at FVTPL

To manage risk arising from bank balances and wealth management products, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

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. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant.

Other receivables 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, the management of the Group continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. Before granting the loan advances, the management of the Group has obtained an understanding to the credit background of the debtors and undertaken an internal credit approval process. The management of the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.2 Financial risk management—continued

Group has taken into account the economic outlook of the industries in which the debtors operate and reviewed the recoverable amount of each amount at the end of the reporting period to ensure that adequate impairment losses were recognized for irrecoverable debts. After assessment, the directors of the Company have not identified any items experienced a significant increase in credit risk since initial recognition. In addition, the Group performs periodic individual assessment on 12m ECL of other receivables and amounts due from related parties with non-trade nature based on historical settlement records and past experience.

Preferred shares investments in unlisted entities

The Group invests in debt securities. In order to minimize the credit risk of these investments in preferred shares, the management regularly reviews and assesses the financial performance of the unlisted investees. The management of the Company considers that the credit risk is monitored and significantly reduced.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables and contract assets
Performing	The counterparty has a low risk of default and does not have any past-due amounts or debtor repays after due dates but usually settle in full	Lifetime ECL—not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL—credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The following table provides information about the exposure to credit risk for trade receivables which were assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired). Credit-impaired with gross carrying amounts of RMB16,765,000, RMB43,891,000 and RMB87,732,000 as of December 31, 2018, 2019 and 2020, respectively, were assessed individually.

	As of December 31, 2018		As of December 31, 2019		As of December 31, 2020	
	Average loss rate	Trade receivables	Average loss rate	Trade receivables	Average loss rate	Trade receivables
		RMB'000		RMB'000		RMB'000
Within 3 months	0.9%	1,508,610	0.5%	3,031,403	1.4%	5,228,439
3 to 6 months	15.0%	45,166	10.0%	96,714	17.7%	100,242
6 to 12 months	63.0%	27,500	51.8%	41,261	53.7%	50,448
Over 12 months	100.0%	2,992	100.0%	20,841	100.0%	35,157
	2.5%	1,584,268	2.1%	3,190,219	2.8%	5,414,286

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.2 Financial risk management—continued

As of December 31, 2018, 2019 and 2020, the Group provided RMB39,936,000, RMB67,029,000 and RMB152,048,000 accumulated impairment allowance for trade receivables, respectively, based on the provision matrix. Accumulated impairment allowance of RMB16,765,000, RMB43,891,000 and RMB87,732,000, were made on credit-impaired debtors as of December 31, 2018, 2019 and 2020, respectively.

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

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
As of January 1, 2018	3,774	1,079	4,853
Impairment losses recognized, net of reversal	33,170	18,678	51,848
As of December 31, 2018	36,944	19,757	56,701
Impairment losses recognized, net of reversal	9,244	118,208	127,452
Write-offs	—	(73,233)	(73,233)
As of December 31, 2019	46,188	64,732	110,920
Impairment losses recognized, net of reversal	70,703	138,519	209,222
Write-offs	—	(80,362)	(80,362)
As of December 31, 2020	116,891	122,889	239,780

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action against the debtors to recover the amount due.

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

(c) Liquidity risk

As of December 31, 2018, 2019 and 2020, the Group was in a net liability position of RMB916,605,000, RMB2,084,996,000 and RMB2,893,632,000, respectively. The net liability position primarily arises from the convertible redeemable preferred shares classified as non-current liabilities amounting RMB17,462,915,000, RMB18,069,639,000 and RMB21,918,414,000 as of December 31, 2018, 2019 and 2020, respectively. The convertible redeemable preferred shares can be automatically converted into ordinary shares of the Company upon the initial public offering, details of which are set out in Note 34. Under any circumstances, no significant cash flow impact is expected in the next twelve months from the date of the report for the convertible redeemable preferred shares.

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.2 Financial risk management—continued

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates. 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
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2018							
Trade payables		2,652,948	—	—	—	2,652,948	2,652,948
Advances from customers		4,971	—	—	—	4,971	4,971
Financial liabilities included in accrued expenses and other payables		6,843,435	—	—	—	6,843,435	6,843,435
Convertible redeemable preferred shares		—	—	17,223,773	—	17,223,773	17,462,915
		9,501,354	—	17,223,773	—	26,725,127	26,964,269
As of December 31, 2019							
Trade payables		3,957,416	—	—	—	3,957,416	3,957,416
Advances from customers		68,222	—	—	—	68,222	68,222
Lease liabilities	5.67%	3,188,247	2,303,967	3,800,475	483,953	9,776,642	8,676,817
Financial liabilities included in accrued expenses and other payables		7,933,227	—	—	—	7,933,227	7,933,227
Convertible redeemable preferred shares		—	—	17,515,020	—	17,515,020	18,069,639
Payables to interest holders of consolidated investment funds		109,239	—	—	—	109,239	109,239
		15,256,351	2,303,967	21,315,495	483,953	39,359,766	38,814,560
As of December 31, 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
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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.2 Financial risk management—continued

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

(d) Capital risk management

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

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

40.3 Fair value measurement of financial instruments

(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The tables below analyze the Group's financial instruments carried at fair value as of December 31, 2018, 2019 and 2020, by level of the inputs to valuation techniques used to measure fair value.

Fair value hierarchy as of December 31, 2018

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Equity securities in listed entities	565,611	—	—	565,611
Equity investments in unlisted entities	—	1,200	—	1,200
Preferred shares investments in unlisted entities	—	316,553	218,181	534,734
	565,611	317,753	218,181	1,101,545
Financial liabilities				
Convertible redeemable preferred shares	—	—	17,462,915	17,462,915

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.3 Fair value measurement of financial instruments—continued

Fair value hierarchy as of December 31, 2019

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Equity securities in listed entities	367,867	—	—	367,867
Equity investments in unlisted entities	—	—	159,960	159,960
Preferred shares investments in unlisted entities	—	223,911	274,861	498,772
	367,867	223,911	434,821	1,026,599
Financial liabilities				
Convertible redeemable preferred shares	—	—	18,069,639	18,069,639
Payables to interest holders of consolidated investment funds	—	—	109,239	109,239
	—	—	18,178,878	18,178,878

Fair value hierarchy as of December 31, 2020

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Equity securities in listed entities	397,649	—	—	397,649
Equity investments in unlisted entities	—	—	162,180	162,180
Preferred shares investments in unlisted entities	—	178,895	318,634	497,529
Wealth management products	—	947,738	—	947,738
	397,649	1,126,633	480,814	2,005,096
Financial liabilities				
Convertible redeemable preferred shares	—	—	21,918,414	21,918,414
Payables to interest holders of consolidated investment funds	—	—	116,950	116,950
	—	—	22,035,364	22,035,364

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.3 Fair value measurement of financial instruments—continued

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used). The determination of the fair value for convertible redeemable preferred shares is set out in Note 34.

Financial assets/financial liabilities	Fair value as of December 31, 2018	2019	2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	RMB'000	RMB'000	RMB'000			
Equity securities in listed entities	565,611	367,867	397,649	Level 1	Quoted bid prices in an active market	N/A
Equity investments in unlisted entities	1,200	—	—	Level 2	Recent transaction price	N/A
Equity investments in unlisted entities	—	159,960	162,180	Level 3	A combination of observable and unobservable inputs	Discount for lack of marketability; market multiples
Preferred shares investments in unlisted entities	316,553	223,911	178,895	Level 2	Recent transaction price	N/A
Preferred shares investments in unlisted entities	218,181	274,861	318,634	Level 3	A combination of observable and unobservable inputs	Discount for lack of marketability; market multiples
Wealth management products	—	—	947,738	Level 2	Cash flow discounted using the expected return based on observable market inputs	N/A
Payables to interest holders of consolidated investment funds	—	109,239	116,950	Level 3	Net assets value of the investment funds	Net assets value of the investment funds

As of December 31, 2018, 2019 and 2020, there is no financial asset at FVTPL of the Company, and the financial liability with fair value measurement of the Company is convertible redeemable preferred shares in Level 3 fair value hierarchy.

During the Track Record Period, fair value changes arose from the financial assets and financial liabilities at FVTPL classified within Level 3 as listed in the table above were insignificant. The directors of the Company consider that any reasonable changes in the significant unobservable inputs would not result in a significant change in the Group's results. Accordingly, no sensitivity analysis is presented.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.3 Fair value measurement of financial instruments—continued

As the convertible redeemable preferred shares are not traded in an active market, its fair values have been determined by using the income approach. Major assumptions used in the valuation for the convertible redeemable preferred shares are presented in Note 34.

Fair value of the convertible redeemable preferred shares is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 5% with all other variables held constant, the loss before income tax for the years ended December 31, 2018, 2019 and 2020 would have been approximately RMB444,643,000, RMB388,469,000 and RMB1,005,434,000 higher/lower, respectively.

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

(b) Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL	Convertible redeemable preferred shares	Payables to interest holders of consolidated investment funds
	RMB'000	RMB'000	RMB'000
As of January 1, 2018	123,333	—	—
Purchased	47,852	—	—
Issued	—	15,973,564	—
Changes in fair value	39,118	239,142	—
Currency translation differences	7,878	1,250,209	—
As of December 31, 2018	218,181	17,462,915	—
Purchased	157,697	—	—
Capital contribution	—	—	115,750
Changes in fair value	54,731	315,477	(6,511)
Currency translation differences	4,212	291,247	—
As of December 31, 2019	434,821	18,069,639	109,239
Purchased	25,000	—	—
Issued	—	443,039	—
Capital contribution	—	—	15,000
Changes in fair value	40,384	4,861,109	(7,289)
Currency translation differences	(19,391)	(1,455,373)	—
As of December 31, 2020	480,814	21,918,414	116,950

(c) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

For the financial assets and financial liabilities that are not measured at fair value on a recurring basis, the directors of the Company consider that the carrying amounts of financial assets and financial

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. Financial instruments—continued

40.3 Fair value measurement of financial instruments—continued

liabilities recorded at amortized cost in the combined financial statements approximate their fair values.

41. Note to combined statements of cash flows

41.1 Reconciliation of loss for the year to net cash inflow generated from operating activities

	Year ended December 31,		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Loss for the year	(2,764,547)	(2,237,486)	(4,037,289)
Adjustments for:			
Income tax	556	77,330	(12,007)
Finance costs	63,224	430,105	454,774
Finance income	(326,519)	(386,140)	(264,395)
Share of results of an associate and joint ventures	—	68,627	64,069
Depreciation of property and equipment	1,154,605	1,243,149	1,457,405
Depreciation of right-of-use assets	—	2,685,562	3,591,729
Amortization of other intangible assets	3,805	4,712	147,233
Impairment loss, net of reversal			
— financial assets under expected credit loss model	52,330	137,131	221,040
— interests in joint ventures	—	150,000	—
Share-based payments	910,385	997,912	877,594
Losses/(gains) on disposal of property and equipment	12,546	(4,610)	32,955
Fair value changes of financial assets at FVTPL	13,064	469,241	(68,456)
Investment losses attributable to interest holders of consolidated investment funds	—	(6,511)	(7,289)
Fair value changes of convertible redeemable preferred shares	239,142	315,477	4,861,109
Foreign exchange losses, net	240	21,641	41,979
Operating cash flows before movements in working capital	(641,169)	3,966,140	7,360,451
Increase in inventories	(178,244)	(41,854)	(105,906)
Increase in trade receivables	(1,023,008)	(1,716,299)	(1,521,130)
Increase in prepayments, other receivables and other assets	(455,991)	(6,223,643)	(195,816)
Increase in contract assets	(23,249)	(27,221)	(8,132)
Increase in trade payables	2,438,188	1,304,468	1,019,001
Increase in contract liabilities	7,170	4,765	55,613
Increase in accrued expenses and other payables	768,789	4,977,753	3,293,930
(Decrease)/increase in advances from customers	(1,453)	63,251	190,639
Cash generated from operations	891,033	2,307,360	10,088,650

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. Note to combined statements of cash flows—continued

41.2 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's combined statements of cash flows as cash flows from financing activities.

	Payables to interest holders of consolidated investment funds	Lease liabilities	Net amount (due from)/due to JD Group	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2018	—	—	7,714	—	7,714
Financing cash flows	—	—	1,317,869	15,958,791	17,276,660
Fair value adjustments	—	—	—	239,142	239,142
Exchange adjustments	—	—	—	1,250,209	1,250,209
Finance costs recognized	—	—	—	14,773	14,773
Interest income	—	—	(156,958)	—	(156,958)
Interest expenses	—	—	48,451	—	48,451
Net settlement for operating activities	—	—	(1,519,440)	—	(1,519,440)
Net settlement for investing activities	—	—	490,138	—	490,138
Effect arising from Series A Preference Shares financing	—	—	5,829,100	—	5,829,100
As of December 31, 2018	—	—	6,016,874	17,462,915	23,479,789
Adjustments upon application of IFRS 16	—	5,895,781	—	—	5,895,781
As of January 1, 2019	—	5,895,781	6,016,874	17,462,915	29,375,570
Financing cash flows	115,750	(2,614,192)	(7,429,912)	—	(9,928,354)
Investment losses attributable to interest holders of consolidated investment funds	(6,511)	—	—	—	(6,511)
New leases entered	—	5,339,145	—	—	5,339,145
Fair value adjustments	—	—	—	315,477	315,477
Exchange adjustments	—	—	(408,276)	291,247	(117,029)
Interest income	—	—	(69,824)	—	(69,824)
Interest expenses	—	370,137	59,968	—	430,105
Net settlement for operating activities	—	—	(2,243,949)	—	(2,243,949)
Net settlement for investing activities	—	—	(250,707)	—	(250,707)
Net settlement for lease payments	—	(314,054)	314,054	—	—
As of December 31, 2019	109,239	8,676,817	(4,011,772)	18,069,639	22,843,923

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. Note to combined statements of cash flows—continued

41.2 Reconciliation of liabilities arising from financing activities—continued

	Payables to interest holders of consolidated investment funds	Lease liabilities	Net amount (due from)/due to JD Group	Convertible redeemable preferred shares	Equity instruments with preference rights	Borrowings	Long-term payables	Amount due to non-controlling shareholder	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2019	109,239	8,676,817	(4,011,772)	18,069,639	—	—	—	—	22,843,923
Financing cash flows	15,000	(3,464,461)	(20,243)	443,039	—	(986,108)	200,000	100,000	(3,712,773)
Acquisition of a subsidiary	—	1,425,238	—	—	585,774	986,108	—	—	2,997,120
Investment losses attributable to interest holders of consolidated investment funds	(7,289)	—	—	—	—	—	—	—	(7,289)
New leases entered	—	5,662,489	—	—	—	—	—	—	5,662,489
Fair value adjustments	—	—	—	4,861,109	—	—	—	—	4,861,109
Exchange adjustments	—	—	715,925	(1,455,373)	—	—	—	—	(739,448)
Interest income	—	—	(102,047)	—	—	—	—	—	(102,047)
Interest expenses	—	424,766	—	—	11,606	—	—	4,640	441,012
Net settlement for operating activities	—	—	793,994	—	—	—	—	—	793,994
Net settlement for investing activities	—	—	(1,223,627)	—	—	—	—	—	(1,223,627)
Net settlement for lease payments	—	(261,172)	261,172	—	—	—	—	—	—
As of December 31, 2020	116,950	12,463,677	(3,586,598)	21,918,414	597,380	—	200,000	104,640	31,814,463

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

42. Particulars of principal subsidiaries and consolidated affiliated entities

42.1 General information of subsidiaries and consolidated affiliated entities

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

Name of subsidiaries**	Place of incorporation/ registration/operation	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company — As of December 31, 2018	2019	2020	As of the date of this report	Principal activities
JD Logistics Holding Limited	Hong Kong, China	HKD1,000,000	100%	100%	100%	100%	International supply chain business
Jingdong Logistics Supply Chain Co., Ltd.	Mainland China	RMB100,000,000	—	—	100%	100%	Logistics services business
Xi'an Jingdong Xuncheng Logistics Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	100%	100%	Freight transportation service
Xi'an Jingxundi	Mainland China	RMB980,000,000	100%	100%	100%	100%	Technology and consulting services
Beijing Jinghong Logistics Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	100%	100%	Freight transportation service
Guangdong Jingdong Xingyou Logistics Co., Ltd.	Mainland China	RMB60,000,000	—	—	100%	100%	Freight transportation service
Beijing Jingdong Zhenshi Information Technology Co., Ltd.	Mainland China	RMB100,000,000	100%	100%	100%	100%	Technology and consulting services

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

Name of consolidated affiliated entities*/**	Place of incorporation/ registration/operation	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company — As of December 31, 2018	2019	2020	As of the date of this report	Principal activities
Beijing Jingbangda	Mainland China	RMB1,000,000,000	100%	100%	100%	100%	Logistics services business
Guangdong Jingbangda Supply Chain Technology Co., Ltd.	Mainland China	RMB100,000,000	100%	100%	100%	100%	Courier and warehousing service
Shanghai Xunzan Supply Chain Technology Co., Ltd.	Mainland China	RMB100,000,000	100%	100%	100%	100%	Courier and warehousing service
Beijing Jingxundi Technology Co., Ltd.	Mainland China	RMB1,000,000	100%	100%	100%	100%	Courier and warehousing service
Beijing Yuanyi Freight Forwarder Co., Ltd.	Mainland China	RMB8,000,000	100%	100%	100%	100%	Freight forwarder business
Xi'an Jingdong Xincheng	Mainland China	RMB1,000,000	100%	100%	100%	100%	Technology and consulting services

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

42.1 General information of subsidiaries and consolidated affiliated entities—continued

Name of consolidated affiliated entities*/**	Place of incorporation/ registration/operation	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company: As of December 31, 2018	2019	2020	As of the date of this report	Principal activities
Shaanxi Jingdong Xincheng Supply Chain Technology Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	100%	100%	Courier and warehousing service
Liaoning Jingbangda Supply Chain Technology Co., Ltd.	Mainland China	RMB20,000,000	100%	100%	100%	100%	Courier and warehousing service
Sichuan Jingbangda Logistics Technology Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	100%	100%	Courier and warehousing service
Hubei Jingbangda Supply Chain Technology Co., Ltd.	Mainland China	RMB50,000,000	100%	100%	100%	100%	Courier and warehousing service
Beijing Jingdong Qianshi Technology Co., Ltd.	Mainland China	RMB100,000,000	100%	100%	100%	100%	Technology and consulting services
Jiangsu Jingdong Cargo Airlines Co., Ltd.	Mainland China	RMB600,000,000	—	100%	75%	75%	Air cargo business
Guangdong Hongbang Tuoxian Logistics Technology Co., Ltd.	Mainland China	RMB5,000,000	—	100%	100%	100%	Courier service
Suqian Jingdong Tonglian Logistics Co., Ltd.	Mainland China	RMB10,000,000	—	100%	100%	100%	Internet freight transportation
Kuayue Express (Note 39)	Mainland China	RMB661,271,496	—	—	55.1%	55.1%	Logistics services business

* As described in Note 1.2, the Company does not have direct or indirect legal ownership in equity of these affiliated entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the equity holders of these affiliated entities, the Company and its legally owned subsidiaries have power over these affiliated entities, have rights to variable returns from their involvement with these affiliated entities and have the ability to affect those returns through their power over these affiliated entities, and are considered to have control over these affiliated entities. Consequently, the Company regards these affiliated entities as its indirect subsidiaries.

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

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

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

No audited statutory financial statements for the period from date of incorporation or acquisition to December 31, 2020 have been prepared for the subsidiaries and consolidated affiliated entities incorporated in the PRC and BVI listed above, since there is no statutory audit requirement. No

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

42.1 General information of subsidiaries and consolidated affiliated entities—continued

audited statutory financial statements of JD Logistics Holding Limited for the years ended December 31, 2018, 2019 and 2020 have been prepared, since the statutory audits for the corresponding years have not been completed.

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

42.2 Details of consolidated affiliated entity that has material non-controlling interests

The table below shows details of the consolidated affiliated entity of the Group that has material non-controlling interests:

Name of consolidated affiliated entity	Place of incorporation and principal place of business	Proportion of ordinary shares held by non-controlling interests as of December 31, 2020	Proportion of equity interest on fully diluted basis and voting rights held by non-controlling interests as of December 31, 2020	Profit allocated to non-controlling interests for the year ended December 31, 2020	Accumulated non-controlling interests as of December 31, 2020
				RMB'000	RMB'000
Kuayue Express	Mainland China	39.8%	44.9%	98,060	2,067,643

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

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

42.2 Details of consolidated affiliated entity that has material non-controlling interests—continued

Summarized financial information of Kuayue Express is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	As of December 31, 2020
	RMB'000
Non-current assets	5,077,855
Current assets	2,824,203
Non-current liabilities	(2,559,501)
Current liabilities	(1,659,880)
	3,682,677
Equity attributable to owners of the Company	1,615,034
Non-controlling interests of Kuayue Express	2,067,643
	3,682,677

	From August 17, 2020 to December 31, 2020
	RMB'000
Revenue	3,734,255
Expenses	(3,487,874)
Profit for the period	246,381
Total comprehensive income for the period	246,381
Profit and total comprehensive income for the period attributable to:	
Owners of the Company	148,321
Non-controlling interests of Kuayue Express	98,060
	246,381
Net cash generated from/(used in):	
Operating activities	705,268
Investing activities	(410,753)
Financing activities	(1,075,272)
	(780,757)

43. Contingencies

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

44. Events after the reporting period

There are no significant subsequent events subsequent to December 31, 2020.

45. Subsequent financial statements

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to December 31, 2020.