
INDUSTRY OVERVIEW

This section contains certain information, statistics and data which are derived from a commissioned report from Frost & Sullivan, an Independent Third Party. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. For discussion of risks related to our industry, please see “Risk Factors – Risks Related to our Business and Industry”.

SOURCE OF INFORMATION

We engaged Frost & Sullivan to conduct market research and prepare a report concerning the global express delivery market (the “Frost & Sullivan Report”). We believe that Frost & Sullivan has specialized research capabilities and experience in this industry. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report.

FROST & SULLIVAN REPORT

Frost & Sullivan is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including the express delivery industry. We have agreed to pay a commission fee of approximately US\$455,000 for the Frost & Sullivan Report. The Frost & Sullivan Report was compiled using both primary and secondary research conducted in markets where we operate.

Frost & Sullivan’s projection on the size of each of the markets in the Frost & Sullivan Report takes into consideration various factors, such as (i) primary research including interviews with industry participants, competitors, downstream customers and recognized third-party industry associations; and (ii) secondary research including reviews of corporate annual reports, databases of relevant official authorities, as well as (iii) utilizing the exclusive database established by Frost & Sullivan over the past decades. Frost & Sullivan has prepared the Frost & Sullivan Report on the assumptions that (i) the social, economic and political conditions in the major overseas countries and China markets currently discussed will remain stable during the forecast period; (ii) government policies on express delivery industries in China and major overseas countries discussed will remain consistent during the forecast period; and (iii) the global and China express delivery markets will be driven by the factors which are stated in this report. The reliability of the Frost & Sullivan Report may be affected by the accuracy of the foregoing assumptions and factors.

Frost & Sullivan also conducted a consumer survey of the express delivery markets in the five main country markets of Southeast Asia (Indonesia, Vietnam, Malaysia, the Philippines and Thailand) and collected 1,500 valid replies (300 for each of the five main country markets) from respondents including business merchants and individual consumers. The results of the survey are included in the Frost & Sullivan Report.

We confirm that after taking reasonable care, there has been no adverse change in the market information since the date of the report prepared by Frost & Sullivan which may qualify, contradict or have an impact on the information set forth in this section in any material respect.

INDUSTRY OVERVIEW

REGIONAL MARKET DEFINITIONS

Our core operations, express delivery services, span across primarily seven Southeast Asian countries and China. We define our region of Southeast Asia (“SEA”) as the combined markets of Indonesia, Vietnam, Malaysia, the Philippines, Thailand, Cambodia and Singapore. We have also expanded globally into Saudi Arabia, UAE, Mexico, Brazil, and Egypt, all of which we define as our New Markets.

EXPRESS DELIVERY BUSINESS MODELS

Express delivery operators are primarily divided into three main business models, namely direct operation model, network partner model and regional sponsor model.

Direct operation model. Under a direct operation model, the express delivery operator controls the entire process of parcel pickup, transportation and delivery, and builds its own sorting centers, pickup and delivery outlets and delivery teams. Under this model, express delivery operators take on all revenues and costs in the express delivery process. The direct operation model typically allows for direct operational control and a higher price, but imposes a significant demand on capital which may slow the growth of the operations.

Network partner model. Under the network partner model, the express delivery operator is only responsible for the sorting and line haul transportation process, while network partners are primarily responsible for first- and last-mile pickup and delivery. Express delivery operators under a network partner model typically collect waybill fees from network partners and take on all costs in sorting and transportation. Such model is more demanding upon management and come with difficulties in controlling service quality.

Regional sponsor model. Under the regional sponsor model, which is currently employed by J&T, the express delivery operator partners with regional sponsors that assist country headquarters in operating local delivery networks in designated geographies. Critical parts of the network, including sorting and line-haul, are operated by country headquarters and the regional sponsors through regional operating entities, while local pickup and delivery outlets and service stations are typically either managed directly by regional sponsors or by network partners. In areas where the express delivery operator engages network partners, such network partners function similarly to network partners under a network partner model. Advantages of the regional sponsor model include aligned interest and culture, high flexibility and adaption, strong operational control and low cost and capital requirement.

Differences between express delivery models

Flexibility is one of the advantages of regional sponsor model over network partners model. Under the regional sponsor model, once the regional sponsors are appointed, they could, at their discretion, choose to directly operate their pickup and delivery outlets without any network partners or engage network partners to expand the network, depending on which is suitable for the respective market. The split between pickup and delivery outlets operated by the regional sponsors and by the independent network partners is an outcome reflecting the operational decision of each regional sponsor across markets.

Under a regional sponsor model, an express delivery operator relies on and partners with regional sponsors to expand and operate its network. In contrast, under a traditional network partners model, an express delivery operator predominantly expands the network via network partners, such express delivery operator directly manages these network partners, and network partners are their most important business partners.

INDUSTRY OVERVIEW

Additionally, the relationship between regional sponsors and the express delivery operator is closer and more binding than that between the thousands of network partners and express delivery companies using a network partner model, because the regional sponsor is fundamentally different from a network partner due to their investment into the network, scope of responsibility and alignment of interest. The regional sponsor model is only similar to the traditional network partner model when the operator under the regional sponsor model engages network partners for similar obligations (i.e., first-mile pickup and last-mile delivery) as under the network partner model.

Under a direct operation model, the express delivery operator is responsible for entire express delivery process. In different stages, the network partner model and regional sponsor model are different in the following aspects:

	<u>Network partner/franchise model</u>	<u>Regional sponsor model</u>
Ramp-up stage	<ul style="list-style-type: none"> • If the express delivery operator plans to enter into a new market, it needs to spend time and efforts in searching for every network partner locally to build the network. • The express delivery operators directly contract with and manage its network partners. 	<ul style="list-style-type: none"> • When the express delivery operator enters into a new market, it first engages the regional sponsors. The headquarters authorize regional sponsors to execute and tailor strategies based on local market requirements. Regional sponsors exercise discretions to invest resources, time and energy to expand the network.
Operation stage	<ul style="list-style-type: none"> • Express delivery operators predominantly rely on network partners to perform pickup and delivery obligations. • Network partners perform limited functions within a limited designated area. Network partners do not operate sorting centers or line-haul vehicles. • Network partners can use the express delivery operators’ brand and logos, software and system. 	<ul style="list-style-type: none"> • Subject to local conditions, the express delivery operator and regional sponsors may decide to (i) directly operate pickup and delivery outlets, or (ii) engage network partners. • In regions where network partners are engaged, regional sponsors manage the network partners. • Regional sponsors are responsible for the overall operation. Regional sponsors together with country headquarters operate sorting centers and line-haul vehicles. • Regional sponsors and network partners in the network can access to the express delivery operators’ brand, logos, software and system.

INDUSTRY OVERVIEW

OVERVIEW OF SEA EXPRESS DELIVERY MARKET

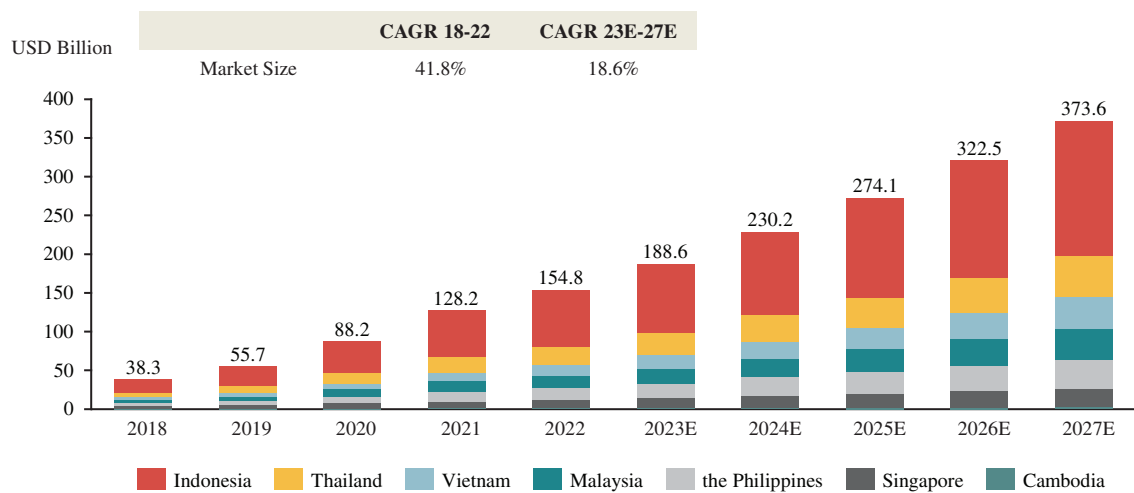
SEA economy

SEA is one of the fastest-growing regions in the world, with significant growth in GDP and per capita income in the historical period from 2018 to 2022. Nominal GDP of SEA grew from US\$2,959.7 billion in 2018 to US\$3,525.7 billion in 2022, representing a CAGR of 4.5% over the period. The SEA region is expected to maintain fast growth at a CAGR of 7.9% and reach US\$5,188.8 billion by 2027. Nominal GDP per capita of SEA is expected to increase from US\$6,216.9 in 2023 to US\$8,143.1 in 2027 at a CAGR of 7.0%, which will further drive the development of the e-commerce retail and express delivery markets in SEA. Among the SEA countries, Indonesia, the largest country in SEA, had nominal GDP of US\$1,289.4 billion in 2022, accounting for 36.6% of SEA’s nominal GDP in 2022, and will continue to be the largest GDP contributor in the region through 2027. Compared to the 65.2% urbanization rate of China in 2022, the urbanization rate of SEA was 54.4% in 2022 but is expected to reach 68.1% in 2027 due to continued urbanization and development of infrastructure in SEA. In terms of demographic structure, SEA has a relatively young population, indicating future growth potential for new technology and new retail markets including the e-commerce retail industry. For example, the percentage of the population aged 15 to 29 in SEA was approximately 25%, which is comparatively higher than the percentage in developed countries such as the United States, in which approximately 20% of the population was aged 15 to 29 in 2022.

SEA e-commerce retail market

With strong economic growth and increasing Internet and smartphone penetration rates, the e-commerce retail market in SEA experienced rapid growth from 2018 to 2022. An increasing number and variety of companies from multiple industries have applied omni-channel retail strategies that have boosted growth of e-commerce. In addition, social restrictions due to the COVID-19 pandemic have also contributed to the growth of e-commerce and associated parcel volumes in recent years. The total transaction value of the e-commerce retail market grew from US\$38.3 billion in 2018 to US\$154.8 billion in 2022, representing a CAGR of 41.8% during the period. In 2022, an estimated 11.1 billion parcels were delivered (including e-commerce and regular commerce) across SEA, representing year-over-year growth of 15.1%. Concurrently, demand for fast, high-quality express delivery services has increased.

Market Size of E-commerce Retail Market (by Transaction Value), Southeast Asia, 2018-2027E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Indonesia has the largest e-commerce retail market in SEA. The size of Indonesia’s e-commerce retail market, measured by transaction value, grew at a CAGR of 44.1% from US\$17.1 billion in 2018 to US\$73.8 billion in 2022, which represented a 47.7% market share in SEA in 2022. The number of active e-commerce users in Indonesia increased from 100.4 million in 2018 to 168.6 million in 2022. Other SEA countries have experienced similar growth. The e-commerce retail market in terms of transaction value in Malaysia, Vietnam, the Philippines and Thailand have been growing at a CAGR of 44.1%, 41.7%, 37.1%, 42.2%, respectively, over the same period.

Leading e-commerce platforms in SEA, such as Shopee, Lazada, and Tokopedia, are expected to maintain fast growth rates, as the improvement of Internet infrastructure and smartphone penetration in SEA is expected to further facilitate transitions from offline retail into the e-commerce channel. In a leading market such as Indonesia, the e-commerce penetration rate is expected to increase from 23.6% in 2023 to 33.3% in 2027, with growth driven by increasing numbers of online shoppers and product categories. For Thailand, the second largest e-commerce retail market in SEA, the e-commerce penetration rate was only 14.2% in 2022, leaving significant room for future growth, and is expecting to reach 29.0% in 2027. The e-commerce penetration rate in SEA is expected to increase from 17.9% in 2023 to 29.8% in 2027.

As a result, the e-commerce retail market in SEA is expected to reach US\$373.6 billion in 2027 from US\$188.6 billion in 2023, representing a CAGR of 18.6%. The e-commerce retail market in Indonesia is expected to continue its leading position, and reach US\$175.2 billion by 2027 from US\$90.3 billion in 2023, representing a CAGR of 18.0%. The e-commerce retail market in Vietnam, Malaysia, the Philippines and Cambodia are expected to grow approximately 20% year over year to 2027.

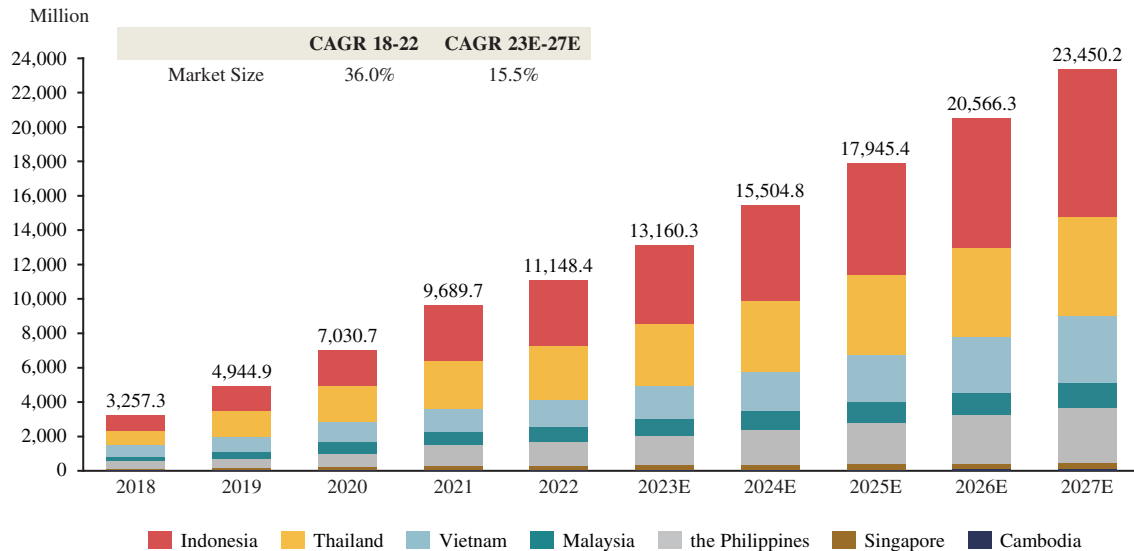
Social e-commerce is an emerging mode of e-commerce, adopted by companies such as TikTok and Facebook, which integrates e-commerce with social networks, leveraging on mobile internet technology, social networking, online payments, logistics and other tools, in order to sell merchandise online through social group sharing and interaction. Social e-commerce, as a subset of the e-commerce retail market in SEA, in terms of transaction value, increased rapidly from US\$9.2 billion in 2018 to US\$60.2 billion in 2022, representing a CAGR of 59.9%, and is expected to reach US\$179.8 billion in 2027, representing a CAGR of 22.2% from 2023 to 2027. As a percentage of the e-commerce retail market in SEA in terms of transaction value, social e-commerce grew from 24.0% in 2018 to 38.9% in 2022, and is expected to grow to 48.1% in 2027.

Historical trends and opportunities in the SEA express delivery market

The express delivery industry in SEA is at a nascent stage and is rapidly growing. Driven by continuous growth of per capita income, rapidly increasing internet penetration and growth of e-commerce, the SEA express delivery market grew from 3,257.3 million in parcel volume in 2018 to 11,148.4 million in 2022, representing a CAGR of 36.0%, and is expected to reach 23,450.2 million in parcel volume by 2027 from 13,160.3 million in 2023, representing a CAGR of 15.5%.

INDUSTRY OVERVIEW

Market Size of Express Delivery Market (by Parcel Volume), Southeast Asia, 2018-2027E



Source: Primary interviews, Frost & Sullivan

Drivers and opportunities for express delivery market in SEA

The following factors have historically contributed to and are expected to continue to fuel the growth of the SEA express delivery industry:

Growing GDP Per Capita and Consumer Purchasing Power

The rising level of GDP per capita in SEA has been a major force behind the booming retail market. The overall SEA market is expected to experience growth in GDP per capita from US\$6,216.9 in 2023 to US\$8,143.1 in 2027, representing a CAGR of 7.0%, which demonstrates growth in consumer purchasing power and will continue to support e-commerce development.

Improved Transportation and Local Infrastructure and Payment Systems

Along with improved transportation systems and infrastructure, express delivery services will see significant improvement in terms of service quality, coverage and timeliness, which will further stimulate the demand for e-commerce express logistics.

As online payments become more widely accepted by regional banks and timely settlement can be provided, this will encourage consumers to transact with e-commerce platforms. Additionally, express delivery service providers have begun to partner with local banks to offer cash on delivery (COD) services to resolve difficulties in payment where online payments are not available.

INDUSTRY OVERVIEW

Growth of E-commerce Platforms

The growth of major e-commerce platforms such as Shopee, Lazada, and Tokopedia, continues to support a shift in consumer behavior to online shopping, with more comprehensive services such as small value goods and community purchases, which depend heavily on express delivery services.

Growing popularity of social e-commerce will also lead to a shift in customer behaviors. Platforms such as Facebook and Tik Tok are typically more popular among younger consumers with stronger purchasing power. Social e-commerce has already grown to 38.9% as a percentage of the SEA e-commerce retail market in 2022.

Favorable Government Policies

To promote the sustainable development of express delivery industry in SEA, governments in the region have issued policies and guidelines to define the scope of express delivery activities and standardize the permitting processes to aid the orderly development of the express delivery industry. Favorable government policies and guidelines include The Logistics and Trade Facilitation Masterplan in Malaysia, which aims to provide the strategic framework to resolve bottlenecks in the logistics sector, and Indonesia’s digital roadmap 2021-2024, which aims to develop digital ecosystems covering logistics, governments, transportations and so on, as well as The Logistics Reform Development Policy Loan, which aims to improve logistics system, strengthen country’s connectivity and simplify current lengthy administrative procedures in Indonesia.

Competitive landscape

The SEA express delivery market historically had been relatively fragmented due to poor network coverage, underdeveloped transportation infrastructure, unavailability of settlement options, and difficulty in accessing remote locations. Many players in the express delivery industry have limited coverage across the region, while relatively few players offer delivery services across multiple countries in the region. In 2022, there were approximately 2,000 express delivery operators in SEA market, and the top five players in SEA had only 47.9% market share, compared to China where the top five players had over 70% market share. Furthermore, the Company has witnessed the exit of certain country level players due to competition in the past few years in SEA. Therefore, the SEA market presents significant potential for consolidation.

INDUSTRY OVERVIEW

Top 5 Express Delivery Operators (by Parcel Volume), SEA, 2022

Rank	Express Delivery Operators	Business Model	Country Coverage	Parcel Volume (Millions)	Market Share
1	J&T	Regional Sponsor Model (supported by network partner model)	Indonesia, Thailand, Malaysia, Singapore, Vietnam, Cambodia, the Philippines	2,513.2	22.5%
2	Company A	Direct Operation Model	Mainly Thailand	802.8	7.2%
3	Company B	Direct Operation and Network Partner Model	Mainly Indonesia	697.5	6.3%
4	Company C	Direct Operation Model	Mainly Thailand	668.5	6.0%
5	Company D	Direct Operation and Network Partner Model	Mainly Indonesia	657.6	5.9%

Source: Primary interviews, Frost & Sullivan

Notes:

Company A: Established in 1883 and headquartered in Bangkok, it is a state enterprise that provides postal services mainly in Thailand.

Company B: Established in 1990 and headquartered in Jakarta, it is an Indonesian express delivery and logistics courier that provides postal and delivery services mainly in Indonesia.

Company C: Established in 2006 and headquartered in Bangkok, it offers a comprehensive range of integrated parcel delivery services to customers in the C2C, B2C, and B2B segments mainly in Thailand.

Company D: Established in 2014 and headquartered in Jakarta, it offers shipping and logistics services for customers mainly in Indonesia.

The SEA express and parcel market had historically been supported by government with a focus on domestic mail and parcel delivery. However, this dynamic is changing due to (i) the inefficiencies of incumbent firms with higher costs and lower service quality, (ii) the impact from COVID-19 in the past three years, resulting in a shift of customer behavior and increasing reliance on online purchases and express delivery, (iii) government promotion of e-commerce and encouraging the collaboration between e-commerce and parcel delivery players to ensure that rural communities are covered, and (iv) the fact that SEA continues to serve as a major hub for cross-border e-commerce.

SEA presents multiple challenges for the development of the express delivery sector. The primary challenges are as follows:

- **Network coverage and difficulty of access.** Lack of network coverage, particularly outside of metropolitan areas, results in certain regions being underserved by express delivery service providers. Geographic features of certain regions such as Indonesia’s archipelagic geography also present a challenge for inter-island connectivity that often involves complex supply chain management.

INDUSTRY OVERVIEW

- **Infrastructure.** Many regions in SEA have poorly developed transport infrastructure, ambiguous location identification, as well as barriers caused by local languages and dialects, which requires address digitalization across jurisdictions to improve the accuracy and timeliness of deliveries.
- **Settlement.** Due to the more nascent developmental stage of the SEA e-commerce retail market, many regions require different modes of settlement. In particular, in certain regions such as the Philippines, many transactions are still settled in cash, which creates challenges for online transactions.
- **Data integration.** E-commerce platforms require real-time data to allow them to manage inventory and warehousing, as well as track shipments throughout the delivery process. However, many traditional delivery service providers in SEA only provide manual tracking.

These challenges leave great opportunities for players with coverage and standardized customer service across different countries. Competition in the express delivery market in SEA will continue to increase, with e-commerce platforms building their own express delivery teams and new players entering into the market. Despite increasing competition, existing top market players in the market are expected to maintain leadership supported by various competitive advantages.

Barriers to entry

New entrants into the SEA express delivery market face multiple major challenges that are increasing as the industry matures. These challenges are as follows:

- **Network.** SEA presents challenges in terms of the need to cover vast geographic regions with many remote locations. Many leading express enterprises have invested in and developed broad network coverage. It is difficult for new entrants to establish regional coverage and compete with more established enterprises in the short term.
- **Customized operations.** The diversity in levels of economic development in the region requires the adoption of customized operating modes, reducing economies of scale. For example, the Philippines, Vietnam and Cambodia are still cash-first markets which require express providers to offer additional services such as COD.
- **Capital.** New entrants require significant capital to build up adequate network coverage in a region and contracted volume that are vital to the survival in the early stage. Additionally, most markets in the region have underdeveloped transport infrastructure as well as location identification. Incumbents have invested significant resources to overcome these limitations by hiring local experts with knowledge of the region and building in-house databases to identify addresses.
- **Licensing and regulatory.** Several markets in SEA have unique licensing requirements to operate express delivery services. Within these markets the licensing structure requires a separate permit to operate within each region, further adding complexity to entering into and scaling in this market. Certain operators in the region are state-owned, creating conflicts of interest.

INDUSTRY OVERVIEW

OVERVIEW OF CHINA EXPRESS DELIVERY MARKET

China economy

China is one of the largest and fastest-growing economies in the world. The Chinese economy has experienced extraordinary growth over the past five years, with a nominal GDP increasing from US\$13,841.8 billion in 2018 to US\$17,994.9 billion in 2022, representing a CAGR of 6.8%. China’s nominal GDP is expected to further grow at a CAGR of 5.6% over the next five years. China’s GDP per capita increased from US\$9,849.0 in 2018 to US\$12,746.1 in 2022, and is expected to increase further to US\$16,961.4 by 2027.

E-commerce as the main driver of China express delivery market

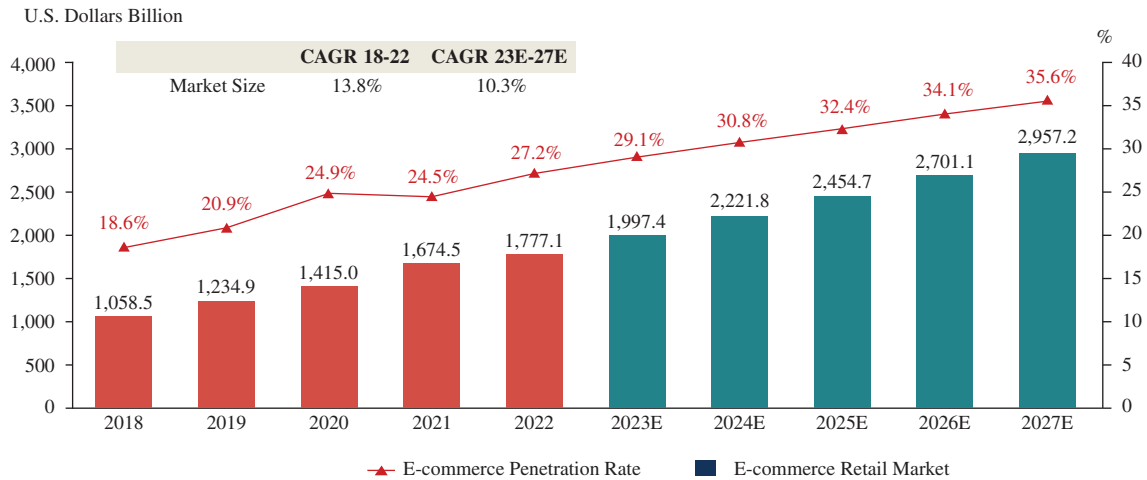
China has the largest e-commerce retail market in the world in terms of e-commerce retail value, amounting to US\$1,777.1 billion in 2022, which represented over 40% of the US\$3.9 trillion global market in 2022. The development of e-commerce in China has reshaped and promoted the development of the logistics sector as well as the express delivery industry.

The number of e-commerce users in China increased from 610.1 million in 2018 to 934.3 million in 2022 at a CAGR of 11.2% while the e-commerce user coverage ratio in China increased from 43.4% to 66.2% as a percentage of the total population during the same period due to the improvement of internet infrastructure under government support alongside continued development of mobile internet technology, social networking, online payment and logistics in China. As a result, the total e-commerce retail market in China, measured by transaction value, has grown from US\$1,058.5 billion in 2018 to US\$1,777.1 billion in 2022, representing a CAGR of 13.8%. With an increasing use of the Internet, smart devices, and associated suite of functionalities such as electronic payment and live streaming, e-commerce penetration is expected to further increase.

The COVID-19 pandemic has also contributed to an accelerated shift from offline consumption to online, advancing the development of the e-commerce industry, and thus supporting the development of the express delivery industry. Consumers in China are expected to become increasingly receptive to online shopping and generate larger demand for online shopping, and the number of e-commerce users is expected to grow from 1,000.7 million in 2023 to 1,202.1 million in 2027, representing a CAGR of 4.7%. The e-commerce retail market of China is expected to grow from US\$1,997.4 billion in 2023 to US\$2,957.2 billion in 2027, representing a CAGR of 10.3%.

INDUSTRY OVERVIEW

Market Size of E-commerce Retail Market (by Transaction Value) and Penetration Rate, Mainland China, 2018-2027E



Source: National Statistics Bureau, Frost & Sullivan

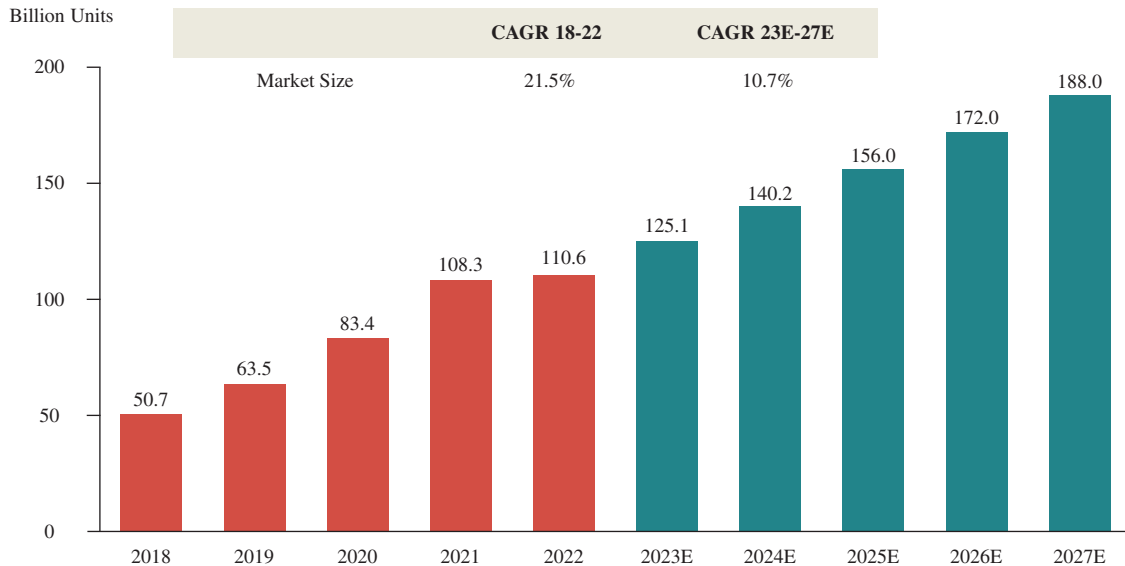
The dynamics of the e-commerce industry in China have been evolving rapidly in recent years and social e-commerce has become the new growth engine. From 2018 to 2022, with the rapid expansion of e-commerce user scale, a solid foundation has been placed for the development of the social e-commerce retail market in China. Rapid growth of social e-commerce has been witnessed alongside the development of social media platforms such as Kuaishou, WeChat and Douyin. Leading e-commerce platforms such as Tmall, Taobao, JD and Pinduoduo have also built up their social e-commerce and live-streaming businesses, which greatly expanded their online product categories and improved the efficiency of traffic conversion. The social e-commerce retail market in China increased from US\$98.5 billion in 2018 to US\$626.5 billion in 2022 at a CAGR of 58.8% and is expected to reach US\$1,660.4 billion in 2027 from US\$839.7 billion in 2023 at a CAGR of 18.6%. The number of social e-commerce users in China increased from 486.4 million in 2018 to 794.2 million in 2022, representing a CAGR of 13.0%, and is expected to further grow to 1,178.1 million in 2027 from 879.2 million in 2023 at a CAGR of 7.6%. Additionally, social e-commerce is expected to increase from 42.0% in 2023 to 56.1% in 2027, as a percentage of the e-commerce retail market in China. Driven by the fast growth of the social e-commerce sector, the express delivery market in China is expected to maintain sustainable growth in the forecasted period.

Historical trends and opportunities in China express delivery market

China is the largest express delivery market in the world in terms of parcel volume in 2022. The China express market has been growing at a CAGR of 21.5% over the past five years (from 2018 to 2022) in terms of parcel volume, and the market is expected to further grow at a CAGR of 10.7% from 2023 to 2027. The China express market is expected to reach 188.0 billion parcels by 2027 from 125.1 billion parcels in 2023.

INDUSTRY OVERVIEW

Market Size of Express Delivery Market (by Parcel Volume), Mainland China, 2018-2027E



Source: State Post Bureau, Frost & Sullivan

Drivers and opportunities for China express delivery market

Multiple drivers are expected to create additional opportunities in the China express delivery industry. These include:

- **Robust demand from e-commerce.** The rapid development of e-commerce business is the most crucial driver of the express delivery industry, as the majority of express delivery parcel demand comes from e-commerce.
- **Favorable government policies.** To promote the healthy and orderly development of express delivery industry and create a sound business environment, the government has issued policies and reforms to modernize the express delivery industry, encourage innovation, enhance branding of express delivery and logistics companies, and stabilize express delivery pricing. Favorable government policies and guidelines include Plan for the Development of Modern Logistics during the “14th Five-Year Plan” period 《“十四五”現代物流發展規劃》, which aims to develop and improve both domestic and cross-border logistic network, Implementation Plan for the Domestic Demand Expansion Strategy (2022-2035) 《擴大內需戰略規劃綱要(2022–2035年)》 which aims to improve the logistics infrastructure network, coordinate national logistics hubs and increase cross-regional logistics service capacity, and Special Action Plan for the High-quality Development of Trade Logistics (2021-2025) 《商貿物流高質量發展專項行動計劃(2021-2025年)》, which aims to build a smooth, efficient, collaborative modern commercial logistics system.
- **Advanced technology applications.** Successful applications of innovative technologies in the express delivery industry enable express delivery operators to further improve operational efficiency, shorten delivery times and optimize the logistics supply chain.

INDUSTRY OVERVIEW

- **Improving infrastructure and facilities.** Improvements in national transportation infrastructure lay out a solid foundation for the express delivery industry. Additionally, the focus on new infrastructure and new energy vehicles in the coming years will further enable the express delivery industry to achieve technological innovation and improve service.
- **Emerging cross-border e-commerce and express delivery demand.** Cross-border e-commerce is another growth opportunity for the express delivery industry in mainland China. As mentioned in 14th Five Year plan, the government encourages cross-border e-commerce development, expanding China’s established successful e-commerce and logistics experiences overseas, bridging domestic producers and suppliers directly with overseas consumers and selling domestically manufactured goods to them. Revenue of cross-border small parcels is anticipated to grow at a CAGR of 21.6% from 2023 to 2027, reaching approximately US\$92.0 billion by 2027.

Competitive landscape

In 2022, the express delivery industry in China was relatively concentrated and there were approximately 80 express delivery operators in China, with the top five players accounting for approximately 76.6% of the total business volume. In March 2020, J&T Global tapped into the China express market.

Top Express Delivery Operators (by Parcel Volume), China, 2022

Rank	Express Delivery Operators	Business Model	Parcel Volume (Billions)	Market Share
1	Company E	Network Partner Model	24.4	22.1%
2	Company F	Network Partner Model	17.6	15.9%
3	Company G	Network Partner Model	17.5	15.8%
4	Company H	Network Partner Model	12.9	11.7%
5	Company I	Direct Operation Model	12.3	11.1%
6	J&T Express	Regional Sponsor Model (supported by network partner model)	12.0	10.9%
7	Company J	Direct Operation Model	11.1	10.0%

Source: Company Reports, primary interviews, Frost & Sullivan

Notes:

Company E: Established in 2002 and headquartered in Shanghai, it is a express delivery operator that principally involved in the provision of express delivery services through its nationwide network as well as other value-added logistics services.

Company F: Established in 1999 and headquartered in Shanghai, it is a express delivery operator that offers delivery services, warehousing and international logistics.

Company G: Established in 2000 and headquartered in Shanghai, it is a large express enterprise in China and offers express delivery, general cargo warehousing, domestic air transportation and other related services.

Company H: Established in 1993 and headquartered in Shanghai, it is a express delivery service provider offering express services and other value-added services.

INDUSTRY OVERVIEW

Company I: Established in 2019 and headquartered in Beijing, it is a state-owned enterprise engaged in the delivery of parcels and postal items in China.

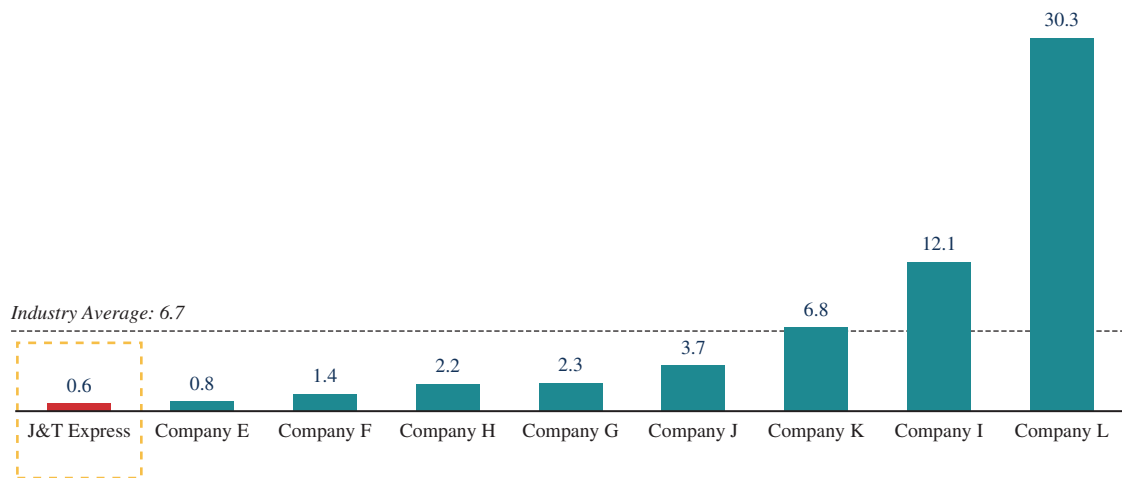
Company J: Established in 1993 and headquartered in Shenzhen, it is a multinational delivery services and logistics company and provides domestic and international express delivery.

Service Quality

Complaint rate, complaint handling composite index and 72 hours on-time rate disclosed by the State Post Bureau of the PRC are three metrics that can represent the service quality of the express delivery operators. Complaint rate refers to the units of parcels for which the State Post Bureau of the PRC receive complaints from customers related to specific express delivery operators per million units of parcels that they have delivered. The evaluation parameters of complaint handling composite index include one-time settlement rate, overdue rate, non-standard response rate of enterprise, false response rate of enterprise, and job satisfaction rate. 72 hours on-time rate refers to the percentage of parcels delivered within 72 hours over total sample domestic cross-city parcels.

The two comparison graphs set below are based on the available period data in 2023. For average complaint rate, the Company ranked as the first among major players in China in the first half of 2023 per available data, significantly better than the industry average level during the period. During the Track Record Period, the Company’s average complaint rate was 1.5, which was lower than the average level of 2.5 for other six top express delivery operators in China. The average complaint rate of Company E, Company F, Company H, Company G, Company J and Company I during the period was 0.5, 1.1, 1.7, 2.4, 4.1 and 5.1, respectively. Only complaint rate data from September 2020 to February 2022 are disclosed and available and such data are used for the comparison above. For complaint handling composite Index, the Company ranked as the first among major players in China in the first half of 2023 per available data. In addition, the State Post Bureau of the PRC arranged a survey regarding the on-time rates of major express delivery operators in China in the first half of 2023. The industry average 72 hours on-time rate is 79.81%, and the leading three players include Company J, Company E, and the Company as disclosed by the State Post Bureau of the PRC.

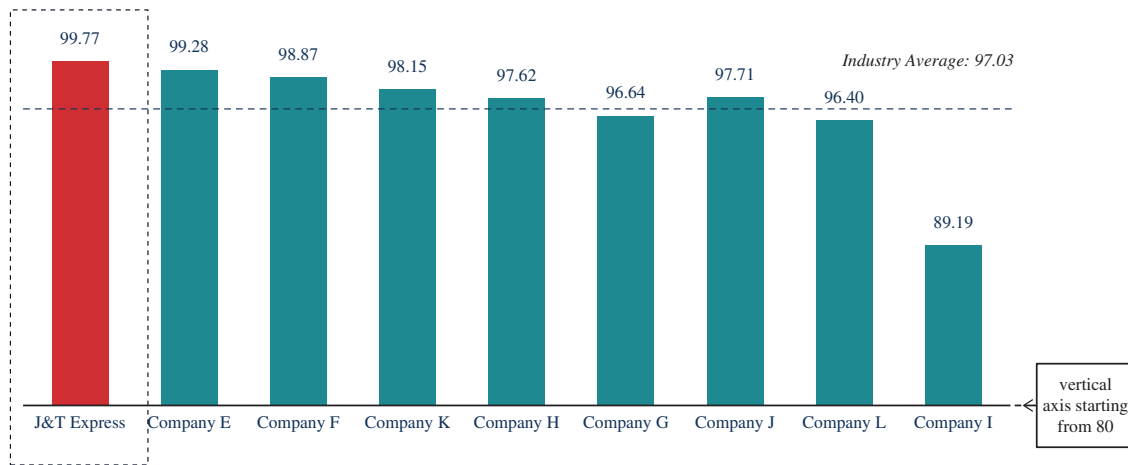
Average Complaint Rate of Top Express Delivery Operators, China, 2023H1



Source: State Post Bureau of the PRC, Frost & Sullivan

INDUSTRY OVERVIEW

Complaint Handling Composite Index of Top Express Delivery Operators, China, 2023H1



Source: State Post Bureau of the PRC, Frost & Sullivan

Barriers to entry

New entrants into the China express delivery market face multiple challenges that are increasing as the industry matures. These challenges are as follows:

- **Capital.** Fixed assets such as sorting centers and transportation vehicles, the basis for express delivery operators to achieve economies of scale, require heavy capital expenditures at early stages of market entry and continual investment as to expand capacity. Most new entrants lack stable operating cash flow while they face the substantial capital demand for capacity expansion, which creates difficulties in capital management and market penetration.
- **Network.** The express industry has experienced a period of rapid growth. As the industry competition intensifies, express delivery operations become less attractive to potential entrants, indirectly contributing to a rise in the cost of network expansion. Most leading express enterprises have nationwide logistics networks and continually consolidate their infrastructure in order to maintain competitiveness. New entrants are unable to compete in terms of network coverage with more established enterprises in the short term.
- **Economies of scale.** Economies of scale have become the key to profitability in the express delivery industry. Economies of scale enhance express delivery operators' ability to control costs. The costs of express delivery mainly consist of waybill cost, transportation cost, sorting center cost and delivery cost. Currently the line-haul transportation and transit costs are the main focal points in cost reduction for most operators. Most leading express delivery operators are ahead of the industry in line-haul transportation and transit costs due to their large volumes, number of sorting centers and line-haul vehicles, which reduce the unit cost of a parcel and also enhance the competitiveness of service. New entrants without adequate scale face challenges in effectively reducing line-haul transportation and transit costs, which results in higher unit cost.

INDUSTRY OVERVIEW

- Technology.** The design and application of technologies tailored for the challenges of each geography are key for express delivery operators to offer competitive services to cater to diverse and personalized customer needs while maintaining high service quality. Going forward, intelligent automation will become the core competitiveness of express delivery operators as it can significantly improve the parcel sorting efficiency and customer service quality of express delivery operators, and effectively reduce the labor and operation costs.

OVERVIEW OF NEW MARKETS

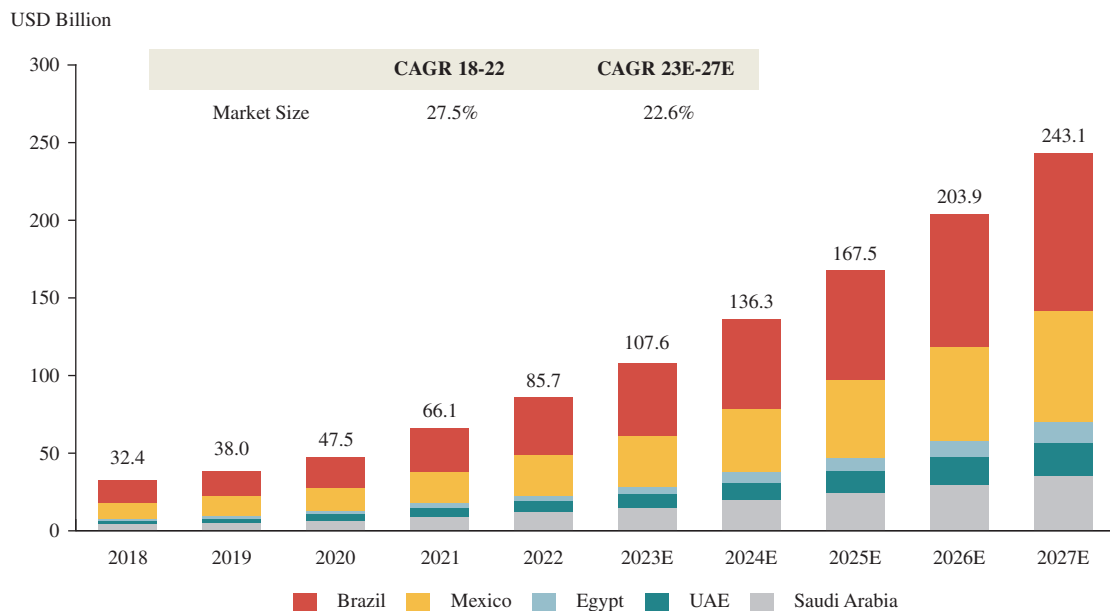
New Markets economies

Total nominal GDP of the New Markets including Saudi Arabia, UAE, Mexico, Brazil, and Egypt was US\$5,302.8 billion in 2022. Nominal GDP of the New Markets is expected to reach US\$7,217.9 billion in 2027, representing a CAGR of 6.3% from 2023 to 2027. Egypt, as a developing country, is expected to become the fastest-growing economy among the New Markets, growing at a CAGR of 16.0% during the same period. In addition, GDP per capita in the New Markets is expected to reach US\$13,785.1 in 2027, which is significantly higher than expected GDP per capita of US\$8,143.1 in SEA in 2027, representing a CAGR of 5.1% from 2023 to 2027.

E-commerce retail markets in New Markets

Retail markets in Saudi Arabia, UAE, Mexico, Brazil, and Egypt have been on the verge of a pivotal transition as consumers shift to online shopping. In the past years, these countries have all experienced significant growth in their e-commerce retail markets. The following chart sets forth a breakdown of the e-commerce retail markets in these countries for the period indicated:

**Market Size of E-commerce Retail Market (by Transaction Value),
New Markets, 2018-2027E**



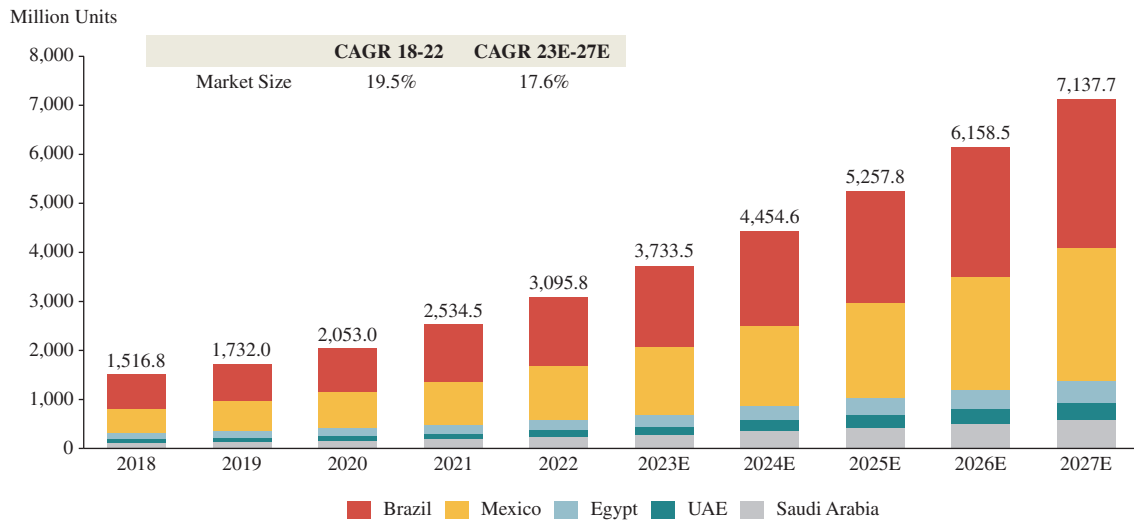
Source: Frost & Sullivan

INDUSTRY OVERVIEW

Each of Saudi Arabia, UAE, Mexico, Brazil, and Egypt is an important economy in their respective regions. The e-commerce markets in these countries have been growing rapidly and are expected to maintain the momentum due to fast developing internet infrastructure, growing national economies and evolving consumer behavior. E-commerce penetration rates have been growing in recent years. The e-commerce retail markets in Saudi Arabia, UAE, Mexico, Brazil, and Egypt have collectively grown from US\$32.4 billion in 2018 to US\$85.7 billion in 2022 in terms of transaction value, representing a CAGR of 27.5%, and are expected to further grow at a CAGR of 22.6% from 2023 to 2027 and reach US\$243.1 billion in 2027. The overall penetration rate for e-commerce of the New Markets is expected to increase from 14.6% in 2023 to 27.5% in 2027.

Strong development of express delivery markets in these countries presents significant opportunities. From 2018 to 2022, the express delivery markets in terms of parcel volume in Saudi Arabia, UAE, Mexico, Brazil, and Egypt grew at a CAGR of 20.2%, 18.5%, 22.3%, 18.7% and 12.7%, respectively. The express delivery markets in Saudi Arabia, UAE, Mexico, Brazil, and Egypt are expected to grow further from 2023 to 2027 at a CAGR of 20.6%, 21.0%, 18.7%, 16.1% and 15.3%, respectively. The growth is expected to benefit from a range of key trends including the development of the economy, infrastructure and e-commerce retail markets, as well as the emergence of cross-border logistics with supportive government policies, in these countries. Due to the early stage of development, express delivery service pricing in the New Markets are relatively higher compared to more developed markets.

Market Size Express Delivery Market (by Parcel Volume), New Markets, 2018-2027E



Source: Primary interviews, Frost & Sullivan

Competitive landscape and entry barriers of New Markets

The express delivery industry in the New Markets is relatively fragmented. Competition remains split between local players and cross-regional players such as FedEx, UPS, DHL and Aramex Express. Revenue per parcel remains relatively high in these markets as compared to revenue per parcel in SEA or China due to fewer competition. Top local players include Braspress, TNT Express and RTE Rodonaves in Brazil, Estafeta Express in Mexico, Egypt Express in Egypt, Emirates Post in UAE and Saudi Post in Saudi Arabia.

INDUSTRY OVERVIEW

Major barriers to entry in the New Markets include:

- **Customers.** Large-scale express delivery operators such as DHL and FedEx have established strong and sustainable partnerships with leading e-commerce platforms in the New Markets, and some e-commerce platforms have built self-operated delivery centers. For example, the Mexico express delivery market is dominated by Estafeta and international express delivery operators such as FedEx, UPS, and DHL. With relatively mature logistics centers, distribution networks and other infrastructure, large-scale express delivery operators have established strong reputations and relationships with their customers. It is difficult for new entrants to establish close partnerships with e-commerce platforms in a short timeframe.
- **Capital.** Sorting centers, logistics infrastructure, and transportation vehicles are the foundations for express delivery operators to ensure the sustainable developments of their business, which require significant capital investments in the early development stages. Leading operators can continue to invest in and explore business opportunities in New Markets at limited profit margin to establish competitive advantages.
- **Technology.** With the rapid development of big data, artificial intelligence and new infrastructure such as 5G and IoT, most leading express operators are now improving their technological strengths in providing customized services and improving efficiency, which help meet diverse and personalized customer needs and enhance service differentiation to improve business competitiveness. In the future, intelligence and automation will become core competencies for express delivery operators, but the application of technology in the business requires operators to accurately capture and understand consumer needs in different scenarios. The leading players have acquired accurate and relevant data through years of experience in the industry, which will be a challenge for new entrants.
- **Network.** The logistics and distribution networks in the New Markets are scattered. Companies are required to build sufficient logistics infrastructure to cover the rural areas in the market. However, as price competition intensifies, express delivery operators are becoming less attractive to potential entrants, while the cost of network expansion is gradually rising. Even if new entrants can successfully establish and operate their networks, their coverage will not be able to compete with most of the established players in the short term.

OVERVIEW OF CROSS-BORDER LOGISTICS MARKET

China’s import and export markets

China, one of the major economies in the world, plays a vital role in global trade. Taking advantage of domestic scaled industry clusters and abundant resources, China is supplying the world with a great amount of goods. For both export and import goods value, China accounted for more than 10% in global trade, with CAGR of around 9.5% and 6.5% respectively from 2018 to 2022. Frequent and significant trade between China and the world create great demand for cross-border logistics services, and in the forecast period, it will remain as the fundamental driver for the cross-border logistics service industry.

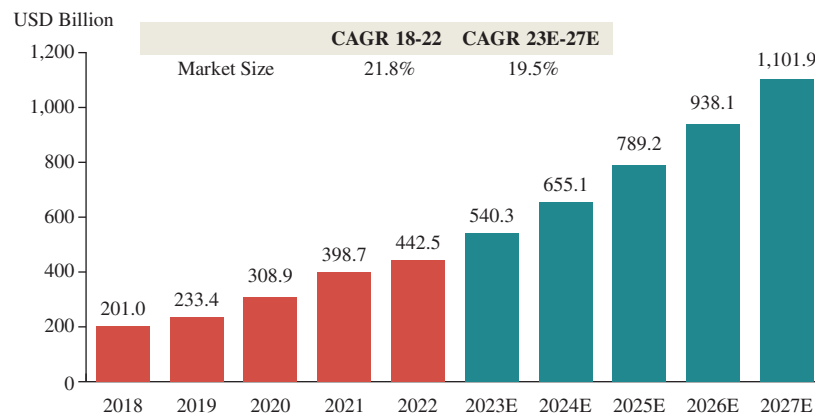
INDUSTRY OVERVIEW

Cross-border e-commerce retail market

China is the world’s largest exporter in terms of merchandise trade value in 2022, and China’s cross-border e-commerce retail business has competitive advantages in terms of policies environment, supply chains infrastructure, sources of supply and so on. Chinese manufacturers and merchants are shifting from OEM business models to direct sales via international e-commerce platforms such as Amazon and Ebay, or independent cross-border e-commerce platforms such as SHEIN and Temu. At the same time, overseas brands and retailers are establishing direct access to the Chinese retail market through China’s e-commerce platforms, such as Tmall Global, Kaola and JD Global.

The market size of cross-border e-commerce retail market in China increased from US\$201.0 billion in 2018 to US\$442.5 billion in 2022, representing a CAGR of 21.8% from 2018 to 2022. Driven by favorable policies toward cross-border e-commerce business, partnerships between e-commerce platforms and overseas brands, and development of international delivery express services, the cross-border e-commerce retail market is expected to reach US\$1,101.9 billion in 2027, with a CAGR of 19.5% from 2023 to 2027.

Market Size of Cross-border E-commerce Retail Market (by Transaction Value), Mainland China, 2018-2027E

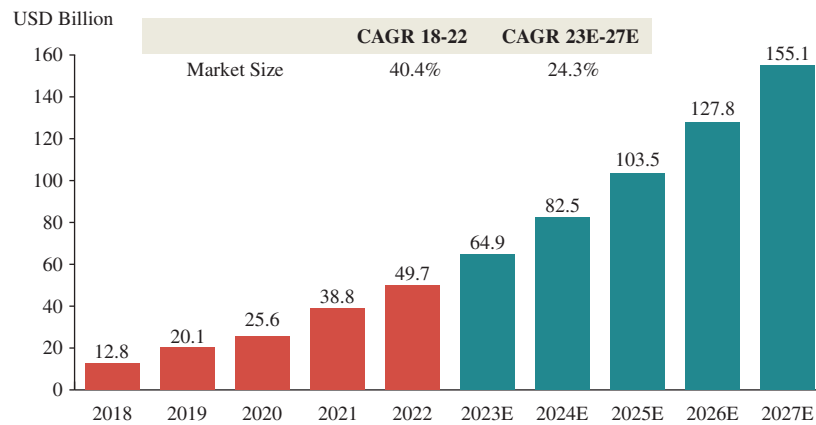


Source: Frost & Sullivan

The Chinese government has been ensuring the continuity and stability of supportive policies on the cross-border e-commerce retail market, including the promotion of the building of international warehouses serving cross-border e-commerce and streamlining the return and refund process for cross-border e-commerce transactions. Driven by the continuous development of cross-border e-commerce retail market in China, cross-border logistics market is expected to develop rapidly with the increasing service demands.

INDUSTRY OVERVIEW

Market Size of Cross-border E-commerce Retail Market (by Transaction Value), Southeast Asia, 2018-2027E



Source: Frost & Sullivan

Global cross-border e-commerce retail players such as Amazon, eBay, Alibaba and JD have been continuously investing into cross-border sector in Southeast Asia, the cross-border e-commerce retail market is expected to reach US\$155.1 billion in 2027 from US\$64.9 billion in 2023, with a CAGR of 24.3%. Driven by the rapid development of e-commerce retail market, construction of international delivery service in Southeast Asia and continuous development of Free Trade Area between SEA and China, the cross-border e-commerce retail market (in terms of transaction value) has increased from US\$12.8 billion in 2018 to US\$49.7 billion in 2022, representing a CAGR of 40.4% during the period, and is expected to become the future growing point of overall e-commerce retail market in the Southeast Asia.

Cross-border logistics market

The broader cross-border logistics markets in China and SEA have also seen significant growth due to the rapid development of cross-border e-commerce and China’s central role as an importer and exporter in the region. The business models of most market players in the cross-border logistics market fall into four categories: (i) cross-border freight forwarding service, (ii) cross-border standard express, (iii) cross-border small parcels, and (iv) international warehousing solutions.

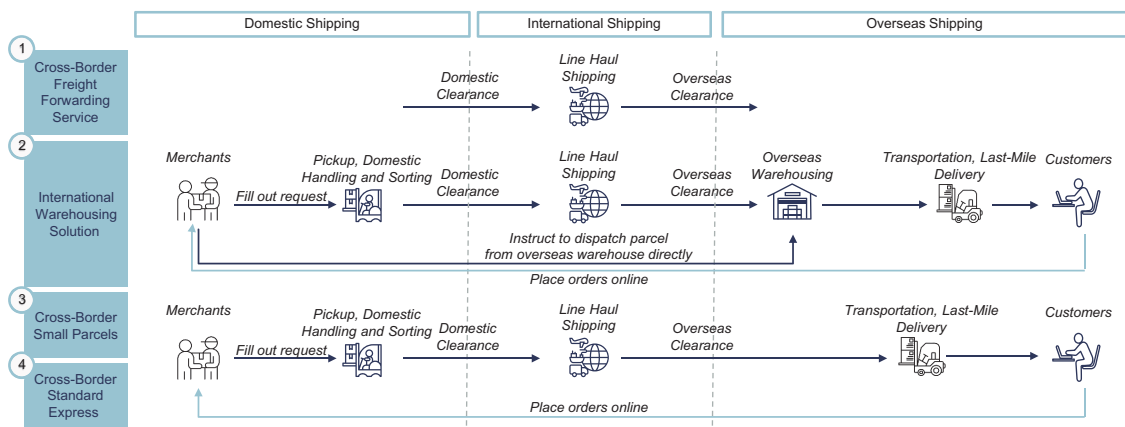
- **Cross-border freight forwarding service.** Cross-border freight forwarding services can be rendered through air, sea and rail freight forwarding. In addition to transport services, freight forwarding service providers also provide customs declaration and custom clearance services.
- **Cross-border standard express.** Cross-border Standard Express is a high-quality international express service typically provided by a single service provider to meet customers’ needs for sending urgent items, mainly for business purposes. Compared with cross-border small parcels, this service is typically more expensive and faster.
- **Cross-border small parcels.** Cross-border small parcels is currently the mainstream logistics solution for cross-border e-commerce item deliveries and involves multiple service providers partnering to serve consumers and business entities involved in cross-border e-commerce transactions. Compared with cross-border standard express, this service is more economical.

INDUSTRY OVERVIEW

- International warehousing solutions.** Primarily serves e-commerce businesses, especially for bulky items. After consumers make orders online, items will be sent out from a warehouse located in the same country. Warehousing services include safekeeping and storage, unloading and loading, inventory, packaging and disposal services.

Cross-border logistics involves complex processes with multiple parties such as local express delivery service providers, customs declaration and clearance service providers, freight forwarders and warehousing service providers. In order to ensure timeliness and delivery accuracy, the industry has been trending towards integration of the cross-border logistics supply chain. Companies with the capability to integrate the resources in the supply chain can streamline cross-border logistics services and improve operational efficiency and service quality.

Comparison of Different Business Models in Cross-Border Logistics Market



Benefiting from the robust growth in cross-border e-commerce, China’s cross-border logistics market witnessed growth of 43.3%, from US\$127.7 billion in 2018 to US\$538.4 billion in 2022. In 2022, cross-border logistics demonstrated a decline. Going forward, the market is gradually returning to normalcy, and driven by growing international trade, the cross-border logistic market is expected to reach US\$411.4 billion in 2027 from US\$260.9 billion in 2023, representing a CAGR of 12.1%.

Key growth drivers for cross-border logistics services

The rapid development of cross-border e-commerce has boosted consumer and business demand for cross-border logistics services. The cross-border logistics industry is primarily influenced by the factors below:

- Development of cross-border e-commerce.** The rapid development of cross-border e-commerce business is an important driver of cross-border logistics. Economic growth, improvements in quality of life, increase in consumer spending, rapid development of telecom services and internet quality, as well as convenience brought by emerging e-commerce platforms have contributed to increasing demand from local residents for goods and services in the global market. For instance, cross-border e-commerce platforms such as Temu have accelerated their business expansion and set up their footprints in North America, Brazil, Australia and Europe within one year, providing local residents with more shopping options and products to choose from.

INDUSTRY OVERVIEW

- **Favorable government policies.** In addition to robust economic growth, cross-border e-commerce business has been and is expected to further benefit from continued government support and favorable governmental policies in SEA, China, and the New Markets, such as the construction of Free Trade Area between SEA and China.
- **Development of cross-border logistics infrastructure.** With the rapid development of local economies and increasing scale of international trade, cross-border logistics infrastructure and facilities have also received local government attention is developing at a fast pace. The Chinese government is committed to innovate and upgrade the global supply chain, strengthening overseas warehouses and overseas logistics centers.
- **Advanced technology driving supply chain efficiency.** Cross-border logistics involves complex procedures. The application of advanced technology has greatly improved the service capability, timeliness and safety of cross-border logistics. Advanced technologies such as IoT, big data, AI and cloud computing can be utilized to support the operation of logistics systems.

Barriers to entry

New entrants in the cross-border express delivery market face significant competition from global players and associated entry barriers. These competitive factors include:

- **Supply chain coordination.** The entire cross-border logistics supply chain comprises multiple components such as parcel pickup, cross-border line-haul transportation, customs declaration and clearance, international freight, onshore and offshore warehousing and last-mile delivery, each of which requires certain expertise, knowledge and business licenses. As such, typically a large number of specialized agents and suppliers are involved in the process and complexity arises in the coordination among various parties. The capabilities to establish and maintain sound business relationships with business partners and to manage the complicated supply chain is crucial to ensure stability of service and timeliness of delivery.
- **Technology capability.** Due to the complicated and multiple procedures involved alongside the supply chain, it is essential for cross-border logistics players to accumulate modern information technology and application capabilities. Companies with advanced logistics information systems and proprietary and integrated technology platforms are better able to provide services, improve customer satisfaction and build customer trust.
- **Infrastructure and facilities.** Cross-border logistics is a capital intensive business that requires investment in logistics network, facilities and manpower. Self-built and self-owned logistics facilities enable the connection in between various business partners along the supply chain and smooths the entire cross-border logistics process. The industry is short of infrastructure and facilities, especially when faced with the COVID-19 pandemic. Companies that have invested in self-owned resources have greater advantages than new participants.
- **Qualification to carry out cross-border logistics.** Certain qualifications are required to conduct cross-border logistics businesses. Government authorities typically would require cross-border logistics companies to register and obtain related license to operate. Certain processes within the cross-border logistics supply chain require the service provider to either be a postal enterprise or an express operator that has completed the registration procedures with customs for cross-border items declaration.