You should read the following discussion and analysis in conjunction with our audited combined financial statements included in "Appendix I – Accountant's Report" to this document, together with the accompanying notes. Our combined financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountant's Report and not merely rely on the information contained in this section.

This discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and our financial performance and involves risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Our actual results may differ materially from those anticipated in these forward looking statements as a result of any number of factors. In evaluating our business, you should carefully consider the information provided in this document, including "Risk Factors" and "Business" in this document.

For the purpose of this section, unless the context otherwise requires, references to 2020, 2021 and 2022 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a global logistics service provider with the leading express delivery business in Southeast Asia, a competitive position in China and an expanding footprint in Latin America and the Middle East. Our express delivery services span 13 countries, which include the largest and fastest-growing emerging express delivery markets globally. We commenced operations in 2015 in Indonesia, and leveraged our success there to expand into other Southeast Asian countries, including Vietnam, Malaysia, the Philippines, Thailand, Cambodia and Singapore, and became the number one express delivery operator in Southeast Asia, with a 22.5% market share in 2022 by parcel volume, according to Frost & Sullivan. In Southeast Asia, we handled 2,513.2 million domestic parcels in 2022, representing a CAGR of 47.6% from 1,153.8 million in 2020, and we handled 1,438.3 million domestic parcels in the six months ended June 30, 2023, representing an increase of 18.4% from 1,215.0 million domestic parcels in the six months ended June 30, 2022. We tapped into the express delivery market in China in 2020, and handled 12,025.6 million domestic parcels in 2022, achieving a market share of 10.9% by parcel volume, according to Frost & Sullivan. In China, we handled 6,445.6 million parcels in the six months ended June 30, 2023, representing an increase of 15.1% from 5,602.3 million parcels in the six months ended June 30, 2022. As of June 30, 2023, we had full network coverage across the seven Southeast Asia countries and a geographic coverage of over 99% by counties and districts in China. We are also the first Asian express delivery operator of scale to have expanded into Saudi Arabia, UAE, Mexico, Brazil and Egypt, according to Frost & Sullivan, supporting our e-commerce partners as they expand into new markets. To better capture cross-border logistics opportunities and enhance the connectivity among the countries we serve, we have expanded our cross-border logistics services, which include small parcels, freight forwarding and warehousing solutions.

We provide express delivery services to leading e-commerce platforms enabling the rapid development of our partners as they expand into new markets. We have historically helped e-commerce platforms access regions that were underserved by traditional logistics service providers. We provide a suite of express delivery services to merchants and consumers on leading e-commerce platforms, such as Shopee, Lazada, Tokopedia, Pinduoduo, Taobao, Tmall, Shein and Noon, as well as short video and live streaming platforms, such as TikTok, Douyin and Kuaishou. As e-commerce continues to evolve, we believe that we are well positioned to enable further development of the e-commerce markets in which we operate by leveraging our broad network, extensive know-how and strong execution capabilities. We expect to provide services to cross-border logistics with our ever expanding global footprint.

We have built an adaptive business model by leveraging our partners whom we refer to as our regional sponsors, and we are currently the only player in Southeast Asia and China that has successfully adopted this model at scale. By employing this model in geographically diverse countries with unique operational challenges in each of the countries where we provide express delivery services, we have expanded rapidly, serving a geographically dispersed base of merchants and consumers across the regions and enabling the growth of e-commerce transactions. Regional sponsors play an important role by working with our country headquarters to execute our strategies in various markets. Our regional sponsors typically hold equity interest in our country headquarters and/or regional operating entities. Our country headquarters formulate the overall operational strategy and execution plans in each market, including density and geographic locations of sorting centers, line-haul routes and network capacity, of which regional sponsors assume the role of managing regional daily operations. Regional sponsors manage our network partners through the relevant regional operating entities. Regional sponsors in certain locations also undertake the management of directly operated pickup and delivery outlets and service stations through the relevant regional operating entities. The management responsibilities of regional sponsors encompass the set-up of local operations, sales and marketing, customer service, and employee and network partner training.

As of June 30, 2023, we had a portfolio of 104 regional sponsors and approximately 8,700 network partners. We operated 265 sorting centers and over 8,400 line-haul vehicles, including more than 4,400 self-owned line-haul vehicles, with approximately 3,900 line-haul routes, as well as over 18,600 pickup and delivery outlets as of June 30, 2023. Through collaboration with international and local partners, we also provide cross-border services across Asia, North America, South America, Europe, Africa and Oceania.

BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with IFRS and interpretations issued by the International Accounting Standards Board ("**IASB**"). The historical financial information has been prepared on a historical cost basis, except for certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 4 to the Accountant's Report in Appendix I to this document. Regarding the change in accounting policy and disclosures, see Note 2 to the Accountant's Report in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are affected by general factors affecting the overall economic growth and level of per capita disposable income, the growth of e-commerce, governmental policies and initiatives affecting express and delivery companies in the regions where we operate, and competition from various competitors globally. Unfavorable changes in any of these general industry conditions could negatively affect demand for our services and materially and adversely affect our results of operations. Our results of operations are affected by certain company-specific factors.

Macroeconomic trends and demand for express delivery and other logistics services in the regions where we operate

Our results of operations and financial condition are affected by the factors driving the economies in the jurisdictions where we operate, particularly in Southeast Asia and China, the e-commerce industry and the express delivery service market. These factors include levels of per capita disposable income, levels of consumer spending, rate of Internet and smartphone penetration, adoption of e-commerce and other general economic conditions that affect consumption and business activities in general in the jurisdictions where we operate.

We anticipate additional growth in the express delivery industry driven by, among other things, further adoption of e-commerce in Southeast Asia and the New Markets, new retail trends in China, and the rise of social e-commerce, such as emerging short video and live streaming social e-commerce platforms. According to Frost & Sullivan, the Southeast Asia express delivery market grew from 3.3 billion in parcel volume in 2018 to 11.1 billion in 2022, representing a CAGR of 36.0%, and is expected to reach 23.5 billion in parcel volume by 2027 from 13.2 billion in 2023, representing a CAGR of 15.5%. According to Frost & Sullivan, the express delivery market in China has been growing at a CAGR of 21.5% over the past five years (from 2018 to 2022) in terms of parcel volume. The China express delivery market is expected to reach 188.0 billion parcels in 2027 from 125.1 billion parcels in 2023, representing a CAGR of 10.7%, according to Frost & Sullivan. In addition, the express delivery market in the New Markets is also expected to reach 7,137.7 million in parcel volume in 2027 from 3,733.5 million in 2023, at a CAGR of 17.6%, according to Frost & Sullivan.

Our results of operations are also affected by the growth and increasing demand in other logistics services, such as cross-border services, warehousing and other logistics solutions. These trends may affect the demand for our services and our business opportunities going forward.

Competition, further penetration in existing markets and expansion in the New Markets

We have maintained a competitive edge and driven growth in the markets where we operate. For instance, according to Frost & Sullivan, we are the number one express delivery operator in Southeast Asia by parcel volume from 2020 to 2022, delivering 1,153.8 million domestic parcels with a 16.4% market share in 2020 and 2,160.8 million domestic parcels with a 22.3% market share in 2021, and further extending our leading position to a 22.5% market share with a parcel volume of 2,513.2 million in 2022. We entered into the China market in March 2020 and are the fastest among our peers to achieve an industry milestone of 50 million daily parcel volume. We have become a leading express delivery operator with a market share of 10.9% in China by total parcel volume in 2022, according to Frost & Sullivan. We also have recently expanded operations into the New Markets including Saudi Arabia, UAE, Mexico, Brazil, and Egypt. Our revenue and operating income are affected by the competitive landscape, market environment and our market position. In each of our regions of operations, we compete with the leading domestic express delivery companies in those regions. We also compete with international carriers operating in the jurisdictions where we operate in connection with our cross-border services.

Our competitive position also depends on our ability to maintain relationships with and expand the scope of our customers and partners, which depends on our capabilities to differentiate ourselves through our continuous innovation, operational capabilities, and service quality. For instance, we serve merchants and consumers on leading e-commerce platforms, such as Shopee, Lazada, Tokopedia, Pinduoduo, Taobao, Tmall, Shein and Noon, as well as short video and live streaming platforms, such as TikTok, Douyin and Kuaishou. Our ability to compete for and maintain a leading market position in our regions of operations, as well as to maintain cooperation with and expand our customer base will depend on our ability to differentiate through innovation, operational capabilities and service quality.

Effectiveness of our unique regional sponsor model

We have adopted a unique regional sponsor model which provides us with effective management over our network, aligned incentives and a shared culture among regional sponsors while maintaining competitiveness, flexibility and excellent operating leverage. Our results of operations are affected by our ability to take full advantage of our regional sponsor model to expand our operations in a cost-effective manner, leverage the resources and operating capabilities of our regional sponsors, while maintaining effective management over our network. Our regional sponsor model enables us to expand and capture market share rapidly, reaching markets that have limited express delivery alternatives rapidly and efficiently, while minimizing capital expenditures. Through this adaptive business model, we have improved and will continue to improve our unit cost structure, and we will increase our operating leverage to maintain market-leading positions in Southeast Asia, compete effectively with longer-established players in China, and continue to grow in the New Markets.

Costs efficiency

Our results of operations are affected by our ability to control costs, which may be subject to factors such as fluctuations in wage rates, fuel prices, toll fees, and leasing costs, among other things. For example, our cost of revenue significantly increased in 2021 and 2022 primarily due to the launch and ramping-up of our service offerings in China and the New Markets. The continued growth of our business and expansion of our market shares in countries where we operate will impact our ability to benefit from economies of scale, including optimization of our delivery service network, reduction of unit costs and the strengthening of our bargaining power with suppliers and service providers. Furthermore, as we continue to expand our business, we apply our best practices in markets where we operate, which affects our ability to enhance and expand our services at optimized costs and efficiency.

Effective investment in network and technology

We have made investments in developing our express delivery network, proprietary technology and infrastructure. We believe our ability to provide quality services across multiple geographic regions, as well as our ability to provide tailored services to meet the needs of e-commerce partners, have been a key factor for our success. We have rapidly scaled our network while satisfying the local needs in each of the markets we operate in through organic growth as well as strategic acquisitions. As of June 30, 2023, we had a portfolio of 104 regional sponsors and approximately 8,700 network partners. We operated 265 sorting centers and over 8,400 line-haul vehicles with approximately 3,900 line-haul routes, as well as over 18,600 pickup and delivery outlets as of June 30, 2023.

We believe continuous enhancement of our network and technology infrastructure is important to our future performance. We expect to continue to make investments in the development and implementation of new technologies. We believe these investments will improve our parcel handling capacity, IT system efficiency, market penetration and customer experience, which ultimately affect our results of operations and drive overall long-term growth.

Strategic relationships, partnerships and investment acquisitions

We have, in the past, pursued strategic acquisitions and made strategic investments to grow our business. For example, in 2021, we completed the acquisitions of the SEA entities, which allowed us to achieve synergies under our regional sponsor business model through these acquisitions. In December 2021, we completed the acquisition of BEST Express China, and in May 2023, we entered into a share transfer agreement to acquire Fengwang Information. See "History and Corporate Structure – Major Acquisitions, Disposals and Mergers – Acquisition of Fengwang Information." Our financial performance was and will continue to be impacted by our acquisitions and investments. Additionally, our ability to successfully integrate sorting centers, supply chains and service offerings will affect the synergies we are able to achieve through relevant acquisitions.

Going forward, we may continue to selectively pursue acquisitions, investments, and other forms of cooperation that we believe are strategic and complementary and technology, all of which may affect our results of operations.

Foreign exchange rate fluctuations

We operate in multiple jurisdictions, which exposes us to the effects of fluctuations in foreign exchange rates. Our historical financial information is presented in U.S. dollars, our presentation currency. For each Group entity, items included in its financial statements are generally recorded in the currency of the country where such Group entity operates, which may be, among others, Renminbi, Indonesian Rupiah, Malaysian Ringgit, Vietnamese Dong, Thai Baht, Philippine Pesos, Singapore dollars, Brazilian Real or Mexican Peso. Our financial information as expressed in U.S. dollars may be significantly affected by fluctuations in foreign exchange rates, and the figures may be materially higher or lower than would be the case if exchange rates were stable.

MAJOR BUSINESS COMBINATIONS

In June 2021, to encourage regional sponsors in Thailand to share our vision of long-term growth and value propositions, we acquired the majority interest of 13 entities from Thai regional sponsors (the "**Thai entities**"). Similarly, in August 2021, we made capital increases in 25 entities established by Indonesian regional sponsors (the "**Indonesian entities**" and, together with the Thai entities, the "**SEA entities**") and acquired 70% of their equity interests in these Indonesian entities.

On December 8, 2021, we completed our acquisition of the 100% equity interest in BEST Express China, at an enterprise value of approximately RMB6.8 billion with a cash consideration of US$715.5 million paid by us in 2021. We used cash on hand to finance the transaction.

The above acquisitions were accounted for as a business combination using the acquisition method of accounting in accordance with IFRS. For more information regarding our acquisitions of the SEA entities and the acquisition of BEST Express China, see Notes 36 to 38 to the Accountant's Report in Appendix I to this document, and "History and Corporate Structure – Major Acquisitions, Disposals and Mergers – Acquisition of BEST Express China."

IMPACT OF COVID-19 PANDEMIC ON OPERATIONS

Our results of operations and financial condition have been affected by the COVID-19 pandemic during the Track Record Period. Countries where we have our operations were subject to the impact of the COVID-19 pandemic and various governmental measures from time to time. Our facilities in all Southeast Asia countries were under sporadic closures and reopening in 2020 and 2021. In addition, our facilities are spread out across China and the pickup and delivery outlets across cities experienced different levels of labor shortages, closures or capacity reductions due to the pandemic in many cities from 2020 to 2022. Our offices, sorting centers and outlets closed and opened in accordance with applicable measures. The timelines for business resumption varied across different localities and countries. On a global level, our business operations started to return to normal levels in the first quarter of 2023.

The temporary, periodic closure of our facilities, labor shortages or delay in the delivery process did not have material adverse impact on our operational results given our vast network. Despite an initial drop in our business activities at the start of the COVID-19 outbreak due to restrictive measures across different jurisdictions, many consumers, especially those in Southeast Asia, started to shop on e-commerce platforms to minimize exposure to public premises and potential spread of virus during the COVID-19 pandemic. Consequently, we experienced certain surge in demand for express delivery services across the countries where we operate. In addition, certain impacts from the COVID-19 pandemic on our financial performance might be one-off and non-recurring. For example, after the COVID-19 pandemic ends, we may not be able to receive benefits from the COVID-19 related government policy support, such as one-off subsidies for social insurance or tax relief, which we believe are not material to our results of operations.

Despite the impact of the COVID-19 pandemic, our revenue increased by 216.0% from US$1,535.4 million in 2020 to US$4,851.8 million in 2021, and further increased by 49.8% to US$7,267.4 million in 2022. In addition, our revenue increased by 18.5% from US$3,402.5 million for the six months ended June 30, 2022 to US$4,030.4 million for the six months ended June 30, 2023.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified the accounting policies that we believe are the most significant to the preparation of our consolidated financial statements. Some of our critical accounting policies involve subjective assumptions and estimates and complex judgments by our management relating to accounting items. Our significant accounting policies are set out in detail in the Accountant's Report in Appendix I to this document.

The estimates and associated assumptions, which we believe are reasonable under the circumstances, are based on our historical experience and other factors, and form the basis of our judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in future periods, and as a result, actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized 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.

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

- The customer simultaneously receives and consumes the benefits provided by our performance as we perform;

- Our performance creates or enhances an asset that the customer controls as we perform; or

- Our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

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

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

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

(1) Express delivery services

(i) Services provided to pick-up outlets of network partners

We offer express delivery services to network partners in China and other countries, including sorting, line-haul transportation, delivery and other relevant network management services. We generally involve other network partners in delivery. We act as principal in providing the entire express delivery service as we control the dispatching services from other network partners to integrate into one complete express delivery service and are primarily responsible for the fulfilment of the express delivery service.

We charge pickup outlets fees based on the parcel's weight and route to the end recipient's destination, and generally require prepayment of such service fees. We satisfy the performance obligation of express delivery service and recognize revenue over time and use an output method of progress based on time-in-transit for express delivery service.

In addition, we also charge network partners fees for initial operating training and other initial services to network partners, and such fees are generally recognized as revenue when the services are completed.

(ii) Services provided to unconsolidated operating entities of regional sponsors

We provide network services to unconsolidated operating entities of regional sponsors, which include technology system support, training, access to our logos and brand names, and general network arrangement services. We are not responsible or acting as principal for relevant express delivery services regarding orders made by the operating entities of regional sponsors through the network and performed by other operating entities of regional sponsors. We charge fees from operating entities of regional sponsors based on parcel volumes. The network service is considered as a series of network management and oversight services as they are substantially the same and have the same pattern of transfer to the customers. The revenue from the network service is recognized on a monthly basis according to monthly fees chargeable to the operating entities of regional sponsors.

In some routes, the unconsolidated operating entities of regional sponsors will use the sorting centers operated by us, and in such situations, we are responsible for the express delivery service provided by our sorting centers, including parcel sorting, line-haul transportation and other services contained in the service contracts, and charge for such service based on the size, weight, route to the end recipient's destination and other factors of a parcel. Such express delivery service is considered a separated performance obligation in addition to the network service. We satisfy the performance obligation of such express delivery service and recognize revenue over time and use an output method of progress based on time-in-transit for the express delivery service.

We issue billings on a monthly basis and grant certain credit periods to such operating entities of regional sponsors.

During the Track Record Period, we provided services to unconsolidated regional operating entities in Indonesia, Thailand and other countries. As of December 31, 2022, we had acquired all of the unconsolidated regional operating entities in Indonesia and Thailand, and after such acquisitions, we directly and substantially provide our integrated express delivery service to our enterprise and individual customers in these countries.

(iii) Services provided to enterprise customers/individual customers

We also provide an integrated express delivery service directly to certain enterprise customers and directly to individual customers. We involve outlets of network partners or operating entities of regional sponsors in pickup, dispatching and other services. We act as principal in providing the entire express delivery service as we control the relevant services provided by other outlets of network partners or operating entities of regional sponsors to integrate into one complete express delivery service, and we are primarily responsible for the fulfilment of the express delivery service.

We charge the customers based on the size, weight, route to the end recipient's destination and other factors of a parcel. We generally issue billings on a regular basis and grant certain credit periods to such customers. We satisfy the performance obligation of such express delivery service and recognize revenue over time and use an output method of progress based on time-in-transit for the express delivery service.

(iv) Cash on delivery services

For cash on delivery services, we are generally engaged by customers (normally online shopping e-commerce platforms or online merchants) to collect cash payments for the merchandise from end users, then disburse the cash to such customers, and charge certain proportion of the cash payments as service fees as a value-added service on top of the express delivery services. Generally all of such service contracts include only one performance obligation as normally the abovementioned or other relevant promises contained in the service contracts are not considered to be separately identifiable due to the fact that such promises are highly interrelated, and generally the customer expects us to deliver services with integration of such promises.

For cash on delivery services, we generally satisfy a performance obligation and recognize revenue at a point in time once such services are completed.

We provide customers with certain volume-based incentives in relation to express delivery services, which represent variable considerations and are recorded as reductions to the related revenue. We estimate the variable considerations to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As the incentives are generally determined on a monthly basis, the uncertainty in estimating the variable considerations to be recorded is very limited.

(2) Cross-border services

For our cross-border services provided to customers, we are generally acting as principal in providing cargo or parcel collection, customs clearances, and dispatching services to such customers as we are primarily responsible for and have control over the services. A substantial part of such service contracts includes only one performance obligation as normally the abovementioned or other relevant promises contained in the service contracts are considered to be not separately identifiable due to the fact that such promises are highly interrelated, and generally the customer expects us to deliver services with integration of such promises.

For such service, we generally satisfy a performance obligation and recognize revenue over time as we transfer control of such service over time, since the customers receive the benefit of the service as the goods are transported from one location to another. Revenue is recognized based on the extent of progress towards completion of the performance obligation. We use an output method of progress based on time-in-transit as it best depicts the transfer of control to the customers.

(3) Other services

Revenue also includes sales of accessories, such as J&T-branded packing supplies and apparel. Revenue is recognized when control of the product is transferred to the customer and in an amount we expect to earn in exchange for the product.

Subsidiaries and controlled affiliated entities

Subsidiaries and controlled affiliated entities are all entities under our control. We control an entity where our Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to our Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by us.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

There are entities controlled by us under certain contractual arrangements. We do not have legal ownership in equity of these entities or their subsidiaries. There are also entities controlled by us where we hold less than 50% of their equity interests respectively due to certain local restrictions on foreign ownership of companies that provide express delivery services. Nevertheless, under certain contractual arrangements or shareholder's agreements entered into with the registered owners or together with other local owners of these entities, we control these entities by way by controlling their major corporate governance and decision-making processes and directing the results of such processes, governing their major operating, investment, and financing policies and etc.

Although we indirectly own only 40% equity interests in PH GJE during certain periods in the Track Record Period, through certain agreements and arrangements, PH GJE's major business activities are carried out under our discretion, we have rights to exercise power over PH GJE, receives variable returns from its involvement in PH GJE, have the ability to affect those returns through its power over PH GJE. As a result, we are considered, from an accounting perspective, to have control over PH GJE.

Contract assets and liabilities

Contract assets mainly include unbilled receivables resulting from uncompleted services and contract liabilities mainly include deferred revenue.

Share-based compensation

We operate share incentive plans, under which we receive services from employees as consideration for our equity instruments. The fair value of the equity instruments received in exchange for the services is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

In terms of the equity instruments awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments granted. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied if applicable.

At the end of each reporting period, we revise our estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting and service conditions. We recognize the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between the service commencement period and grant date.

Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by us,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. We recognize any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the: (i) consideration transferred, (ii) amount of any non-controlling interest in the acquired entity, and (iii) acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as of the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Buildings and warehouses	10-20 years
Logistics equipment	3-10 years
Vehicles	3-10 years
Office equipment	2-5 years
Lands	Infinite useful life
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Financial liabilities at fair value through profit or loss

Before and during the Track Record Period, we entered into a series of share purchase agreements with certain investors and issued Series Pre-A1 Preferred Shares, Series Pre-A2 Preferred Shares, Series A Preferred Shares, Series B Preferred Shares. Series B+ Preferred Shares, Series C1 Preferred Shares, Series C2 Preferred Shares and Jet Global Series A Preferred Shares.

We designated the convertible preferred shares as financial liabilities, of which the host contracts are financial liabilities, at fair value through profit or loss, which are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

The component of fair value changes relating to our own credit risk is recognized in other comprehensive income/(loss). Amounts recorded in other comprehensive income/(loss) related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognized in profit or loss.

The convertible preferred shares are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Impairment of investments and other financial assets

We assess on a forward-looking basis the expected credit loss associated with our debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 26 to the Accountant's Report in Appendix I to this document.

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Fair value measurement of level 3 financial instruments

Our level 3 financial instruments mainly represent both assets and liabilities at fair value through profit or loss, including (i) investments in the convertible bonds of Huisen Global Limited (assets), (ii) investments in Windfall T&L SPC (assets), (iii) convertible preferred shares of our Company (liabilities), (iv) certain preferred shares or redeemable shares of our subsidiaries (liabilities), and (v) liabilities related to commitment to repurchase our preferred shares. As these instruments are not traded in active markets, their fair values have been determined by using applicable valuation techniques, which involve a significant degree of management judgment and are inherently uncertain.

We applied the discounted cash flow method to determine the underlying equity value and adopted option pricing method and equity allocation model (if applicable) to determine the value of the abovementioned level 3 financial instruments. Considerable judgment is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In relation to the valuation of our financial assets and financial liabilities measured within level 3 fair value measurement, our Directors adopted the following procedures: (i) engaged independent external valuer, provided necessary financial and nonfinancial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (ii) carefully considered all information especially those non-market related information input, which require management team's assessments and estimates; and (iii) reviewed the valuation results prepared by the valuer and inquire to understand whether methodology is in compliance with valuation standards established by the International Valuation Standards Council. Based on the above procedures, our Directors are of the view that the value of our level 3 financial assets and financial liabilities is fair and reasonable, and our financial statements are properly prepared.

The Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewed the relevant notes in the Accountant's Report as set out in Appendix I to this document for the valuation of certain financial assets and financial liabilities categorized as level 3 fair value measurement; (ii) conducted interviews with us and the independent valuer of our Company (the "**Independent Valuer**") about the valuation methodology, the key basis and assumptions for the valuation of financial assets and financial liabilities categorized as level 3 fair value measurement; (iii) conducted interview with PricewaterhouseCoopers to understand the work they have performed in relation to the valuation of the level 3 financial assets and financial liabilities for the purpose of reporting on the historical financial information, as a whole, of us; (iv) obtained and reviewed the valuation report prepared by the Independent Valuer; and (v) obtained and reviewed the credentials of the Independent Valuer.

Details of the fair value measurement of financial instruments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Notes 3, Note 24 and Note 29 of the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole in Appendix I to this document. The Reporting Accountant's opinion on our historical financial information for the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

RESULTS OF OPERATIONS

The following table sets forth our consolidated income statements, both in absolute amounts and as percentages of our total revenue, for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this document. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)									
							(Unaudited)			
Revenue	1,535,425	100.0	4,851,800	100.0	7,267,428	100.0	3,402,543	100.0	4,030,439	100.0
Cost of revenue	(1,796,913)	(117.0)	(5,396,544)	(111.2)	(7,537,666)	(103.7)	(3,468,602)	(101.9)	(3,836,899)	(95.2)
Gross (loss)/profit	**(261,488)**	**(17.0)**	**(544,744)**	**(11.2)**	**(270,238)**	**(3.7)**	**(66,059)**	**(1.9)**	**193,540**	**4.8**
Selling, general and administrative expenses	(365,869)	(23.8)	(1,129,024)	(23.3)	(1,095,528)	(15.1)	(526,328)	(15.5)	(1,767,875)	(43.9)
Research and development expenses	(14,129)	(0.9)	(41,031)	(0.8)	(44,483)	(0.6)	(20,912)	(0.6)	(18,874)	(0.5)
Net impairment losses on financial assets	(9,488)	(0.6)	(41,320)	(0.9)	(37,219)	(0.5)	(25,033)	(0.7)	(11,814)	(0.3)
Other income	17,056	1.1	82,542	1.7	98,149	1.4	48,080	1.4	12,228	0.3
Other gains/(losses), net	27,474	1.8	26,370	0.5	(40,246)	(0.6)	(31,659)	(0.9)	(43,423)	(1.1)
Operating loss	**(606,444)**	**(39.5)**	**(1,647,207)**	**(34.0)**	**(1,389,565)**	**(19.1)**	**(621,911)**	**(18.3)**	**(1,636,218)**	**(40.6)**
Finance income	1,965	0.1	9,476	0.2	22,002	0.3	8,025	0.2	11,367	0.3
Finance costs	(13,831)	(0.9)	(99,077)	(2.0)	(99,499)	(1.4)	(44,647)	(1.3)	(56,002)	(1.4)
Finance cost, net	(11,866)	(0.8)	(89,601)	(1.8)	(77,497)	(1.1)	(36,622)	(1.1)	(44,635)	(1.1)
Fair value change of financial assets and liabilities at fair value through profit or loss	–	–	(4,383,532)	(90.3)	3,050,694	42.0	2,028,151	59.6	1,020,747	25.3
Share of results of associates	(323)	(0.0)	1,208	(0.0)	(302)	(0.0)	(222)	0.0	(84)	0.0
(Loss)/profit before income tax	**(618,633)**	**(40.3)**	**(6,119,132)**	**(126.1)**	**1,583,330**	**21.8**	**1,369,396**	**40.2**	**(660,190)**	**(16.4)**
Income tax (expense)/credit	(45,530)	(3.0)	(73,126)	(1.5)	(10,763)	(0.2)	2,876	0.1	(6,579)	(0.1)
(Loss)/profit for the year/period	**(664,163)**	**(43.3)**	**(6,192,258)**	**(127.6)**	**1,572,567**	**21.6**	**1,372,272**	**40.3**	**(666,769)**	**(16.5)**
Attributable to:										
Owners of the Company	(564,836)	(36.8)	(6,046,983)	(124.6)	1,656,168	22.8	1,413,479	41.5	(640,967)	(15.9)
Non-controlling interests	(99,327)	(6.5)	(145,275)	(3.0)	(83,601)	(1.2)	(41,207)	(1.2)	(25,802)	(0.6)
	(664,163)	**(43.3)**	**(6,192,258)**	**(127.6)**	**1,572,567**	**21.6**	**1,372,272**	**40.3**	**(666,769)**	**(16.5)**

NON-IFRS MEASURES

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we use adjusted (loss)/profit (a non-IFRS measure) and adjusted EBITDA (a non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating the potential impact of items, such as certain non-cash items, transactions and items associated with the [**REDACTED**]. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, as a substitute for, or superior to, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies, and may not be comparable to other similarly titled measures used by other companies.

We define our adjusted loss for the year/period (a non-IFRS measure) as (loss)/profit for the year/period adjusted by adding back (i) share-based payments and expenses, (ii) fair value change of financial liabilities at fair value through profit or loss, and (iii) [**REDACTED**] expenses. We define our adjusted EBITDA (a non-IFRS measure) as (loss)/profit for the year/period) adjusted by adding back (i) share-based payments and expenses, (ii) fair value change of financial liabilities at fair value through profit or loss, (iii) [**REDACTED**] expenses, (iv) depreciation and amortization, (v) finance income, (vi) finance costs, and (vii) income tax expense/(credit). Specifically, (i) fair value change of financial liabilities at fair value through profit or loss are non-cash in nature, because all the preferred shares of the Company will be automatically converted into ordinary shares upon the completion of the [**REDACTED**], (ii) share-based compensation expenses relating to employee benefits, share-based payments relating to equity transactions and other share-based compensation expenses are non-cash expenses, (iii) [**REDACTED**] expenses are related to [**REDACTED**], and (iv) depreciation and amortization, finance income, finance costs and income tax expense/(credit) are items that we believe should be adjusted for when assessing our underlying core performance, especially in making period-to-period comparisons of, and assessing the profile of, our operating and financial performance.

The following table sets forth a reconciliation of our non-IFRS financial measures for the years ended December 31, 2020, 2021 and 2022 and for the six months ended June 30, 2022 and 2023 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	(in US$ thousands)				
				(Unaudited)	
(Loss)/Profit for the year/period	(664,163)	(6,192,258)	1,572,567	1,372,272	(666,769)
Add					
Share-based payments and expenses(1)	188,302	619,012	281,366	260,594	1,426,868
Fair value change of financial liabilities at fair value through profit or loss(2)	–	4,383,532	(3,352,590)	(2,061,022)	(1,029,661)
[**REDACTED**] expenses	–	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted loss for the year/period (a non-IFRS measure)	**(475,861)**	**(1,177,666)**	**(1,488,297)**	**(418,983)**	**(264,026)**

Notes:

(1) Include share-based compensation expenses related to employee benefits, share-based payments related to equity transactions and other share-based compensation expenses.

(2) Includes financial instruments which will be converted into equity upon [**REDACTED**].

	Year ended December 31,			Six months ended June 30,	
	2020	**2021**	**2022**	**2022**	**2023**
			(in US$ thousands)		
				(Unaudited)	
(Loss)/Profit for the year/period	(664,163)	(6,192,258)	1,572,567	1,372,272	(666,769)
Add					
Share-based payments and expenses[(1)]	188,302	619,012	281,366	260,594	1,426,868
Fair value change of financial liabilities at fair value through profit or loss[(2)]	–	4,383,532	(3,352,590)	(2,061,022)	(1,029,661)
Depreciation and amortization	97,302	220,489	505,947	246,512	251,981
[**REDACTED**] expense	–	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Finance income	(1,965)	(9,476)	(22,002)	(8,025)	(11,367)
Finance costs	13,831	99,077	99,499	44,647	56,002
Income tax expense	45,530	73,126	10,763	(2,876)	6,579
Adjusted EBITDA (a non-IFRS measure)	(321,163)	(794,450)	(894,090)	(138,725)	39,169
Southeast Asia	266,561	427,436	331,582	156,737	184,060
China	(616,227)	(1,206,014)	(722,658)	(222,158)	(44,967)
Others[(3)]	1,652	(14,028)	(168,789)	(45,613)	(66,431)
Unallocated[(4)]	26,851	(1,844)	(334,225)	(27,691)	(33,493)

Notes:

(1) Include share-based compensation expenses related to employee benefits, share-based payments related to equity transactions and other share-based compensation expenses.

(2) Includes financial instruments which will be converted into equity upon [**REDACTED**].

(3) Include our cross-border services and express delivery services in the New Markets.

(4) Represents (i) certain expenses, gains and losses, including general and administrative expenses, and exchange gains and losses incurred at the group and holding company levels, and (ii) fair value change of financial assets and liabilities of other group entities that will not be re-designated from liabilities to equity upon the completion of the [**REDACTED**], which amounted to US$301.9 million, US$32.9 million, and US$8.9 million for the year ended December 31, 2022, and the six months ended June 30, 2022 and 2023.

MAJOR COMPONENTS OF RESULTS OF OPERATIONS

Revenue

The following table sets forth breakdown of our revenue by type in absolute amount and as a percentage of our total revenue, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Express delivery services	1,481,921	96.5	4,513,597	93.0	6,482,977	89.2	3,109,156	91.4	3,546,178	88.0
Cross-border services	10,074	0.6	291,896	6.0	707,773	9.8	252,644	7.4	448,536	11.1
Sale of accessories	34,166	2.2	30,350	0.6	23,730	0.3	14,105	0.4	8,465	0.2
Others[1]	9,264	0.7	15,957	0.4	52,948	0.7	26,638	0.8	27,260	0.7
Total	**1,535,425**	**100.0**	**4,851,800**	**100.0**	**7,267,428**	**100.0**	**3,402,543**	**100.0**	**4,030,439**	**100.0**

Note:

(1) Include our rental income and other revenue.

During the Track Record Period, we generated most of our revenues from express delivery services we provided to our customers including our network partners, e-commerce platforms, other enterprise customers and individual customers. Our customers also include our unconsolidated regional operating entities, such as the SEA entities before we acquired the controlling interest in them in 2021. In general, our revenue from express delivery services is driven by our parcel volume and revenue per parcel. For parcels from our network partners, we collect service fees for the use of our delivery network. Our network partners generally charge each end customer a delivery service fee directly, and they can determine the price to end customers based on their own costs which include the service fees paid to us and their own operating costs. For parcels from unconsolidated regional operating entities, we charge these entities for the use of our system and network. We also directly provide express delivery services to certain enterprise customers and e-commerce platforms. In connection with such services to major customers, we may also provide volume discounts based on various factors such as seasonality and mix of services they use. Pricing for express delivery services is generally determined based on parcel size and weight, shipping distance, speed of service and market conditions. For regional operating entities, whether consolidated or unconsolidated, we charge network service fees with respect to our technical services and their use of the J&T brand and platform, among others, for the parcels picked up and delivered by these entities. While such fees from consolidated regional operating entities are counted as "intra-group" by nature, network service fees from unconsolidated regional operating entities are recognized as our revenue. Network service fee per parcel we charge unconsolidated regional operating entities in Indonesia and Thailand prior to the acquisition of SEA entities was broadly around US$0.20 to US$0.24, subject to adjustment based on local market conditions and foreign exchange impact.

Our revenues also include (i) revenues from our cross-border services, which include cross-border small parcel shipments, freight forwarding, and international warehousing solutions, (ii) revenues from sale of accessories, such as our J&T branded packing supplies and apparel, and (iii) other revenues, primarily comprised of rental income from the lease of reusable materials and logistics properties.

Revenue by geographic segment

The table below sets forth a breakdown of our revenue by geographic segment, in absolute amount and as a percentage of our total revenue, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Southeast Asia	1,046,504	68.2	2,377,544	49.0	2,381,726	32.8	1,177,929	34.6	1,246,076	30.9
China	478,847	31.2	2,181,368	45.0	4,096,177	56.4	1,960,145	57.6	2,203,070	54.7
Others[(1)]	10,074	0.6	292,888	6.0	789,525	10.8	264,469	7.8	581,293	14.4
Total	**1,535,425**	**100.0**	**4,851,800**	**100.0**	**7,267,428**	**100.0**	**3,402,543**	**100.0**	**4,030,439**	**100.0**

Note:

(1) Include revenue from our cross-border services and revenue from express delivery services in the New Markets.

We generate substantially all of our revenue in Southeast Asia and China from express delivery services. In Southeast Asia, we generated substantial amount of our revenue from Indonesia, the Philippines, Malaysia and Thailand, aggregating to approximately 89.5% of our total revenues from Southeast Asia during the Track Record Period. The table below illustrates the growth in our parcel volume from express delivery services in Southeast Asia and China for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
			(in millions)		
Southeast Asia	1,153.8	2,160.8	2,513.2	1,215.0	1,438.3
China	2,083.5	8,334.3	12,025.6	5,602.3	6,445.6

The following table sets forth our revenue per parcel for express delivery services in Southeast Asia and China for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
			(US$ per parcel)		
Southeast Asia	0.91	1.10	0.95	0.97	0.87
China	0.23	0.26	0.34	0.35	0.34

During the Track Record Period, our revenue per parcel in Southeast Asia was influenced by the growth of the e-commerce industry in countries where we operate, market conditions, our ability to improve pricing terms, the mix of parcel volumes from different countries across Southeast Asia and fluctuation of foreign exchange rate against U.S. dollars, and our acquisition of the SEA entities. See "– Period to Period Comparison of Results of Operations – Year ended December 31, 2021 Compared to Year ended December 31, 2020 – Revenue" in this section.

During the Track Record Period, the increase in our revenue per parcel in China was primarily driven by our expanding network and reach to customers, our ability to provide quality services and our ability to improve pricing terms, as well as a pricing stabilization trend as a result of the PRC government's policy guidance of fair competition in 2021.

Cost of Revenue

Our cost of revenue primarily consists of (i) fulfillment costs, (ii) line-haul costs, (iii) staff costs, (iv) other labor costs, (v) depreciation and amortization, (vi) impairment losses, and (vii) other cost of revenue.

The following table sets forth the components of our cost of revenue in absolute amount and as a percentage, for the periods indicated:

	Year ended December 31,						Six months ended June 30			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Fulfillment costs	820,139	45.6	2,385,225	44.2	3,320,187	44.0	1,582,047	45.6	1,790,771	46.7
Line-haul costs	368,172	20.5	1,341,433	24.9	2,221,664	29.5	995,370	28.7	1,137,526	29.6
Staff costs	306,000	17.0	701,196	13.0	645,682	8.6	349,397	10.1	313,364	8.2
Other labor costs	93,149	5.2	308,451	5.7	382,250	5.1	179,712	5.2	206,453	5.4
Depreciation and amortization	82,554	4.6	192,207	3.6	443,466	5.9	219,137	6.3	219,137	5.7
Impairment losses	–	–	250,292	4.6	219,080	2.9	–	–	–	–
Others	126,899	7.1	217,740	4.0	305,337	4.0	142,939	4.1	169,648	4.4
Total	**1,796,913**	**100.0**	**5,396,544**	**100.0**	**7,537,666**	**100.0**	**3,468,602**	**100.0**	**3,836,899**	**100.0**

Fulfillment costs mainly include delivery cost we pay to our network partners and pick-up, transit, sorting and delivery cost we pay to unconsolidated regional operations. Line-haul costs include costs paid to third-party transportation service providers for additional capacity utilized during peak periods, vehicle fuel costs and tolls, and air transportation expenses. Staff costs include salary and benefits of our employees involved in warehousing, sorting, picking up, packaging, shipping and delivery. Other labor costs primarily include costs in relation to external labor forces that we use to supplement our internal capacity across our business processes. Depreciation and amortization include expenses in relation to right of use assets in relation to the operating lease of our logistics facilities and certain equipment under IFRS 16. Impairment losses mainly include impairment of redundant property, plant and equipment that we identified after the acquisition of BEST Express China. Other cost of revenue mainly includes (i) cost of packaging materials, (ii) rental costs, comprised of costs for short-term leases of certain warehouses and vehicles that are not capitalized, (iii) utility costs such as water and electricity charges, and (iv) other miscellaneous operating costs and maintenance expenses.

Cost of revenue by geographic segment

The following table sets forth our cost of revenue by geographic segment, in absolute amount and as a percentage of our total cost of revenue, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Southeast Asia	734,551	40.9	1,715,413	31.8	1,905,724	25.3	954,892	27.5	1,025,958	26.7
China	1,055,581	58.7	3,400,061	63.0	4,760,937	63.2	2,228,024	64.2	2,220,155	57.9
Others[(1)]	6,781	0.4	281,070	5.2	871,005	11.5	285,686	8.2	590,786	15.4
Total	**1,796,913**	**100.0**	**5,396,544**	**100.0**	**7,537,666**	**100.0**	**3,468,602**	**100.0**	**3,836,899**	**100.0**

Note:

(1) Include cost of revenue for our cross-border services and express delivery services in the New Markets.

Gross Profit/(Loss)

Gross profit/(loss) represents the difference between revenue and cost of revenue. We had a gross loss of US$261.5 million in 2020, US$544.7 million in 2021 and US$270.2 million in 2022. Our negative gross margin was 17.0% in 2020, 11.2% in 2021 and 3.7% in 2022, respectively. We had a gross profit of US$193.5 million for the six months ended June 30, 2023, compared to a gross loss of US$66.1 million for the six months ended June 30, 2022. Our gross margin for the six months ended June 30, 2023 was 4.8%, compared to a negative gross margin of 1.9% for the same period in 2022.

The following table sets forth our gross profit/(loss) and (negative) gross margin of our express delivery services and our cross-border services for the period indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Express delivery services	(212,113)	(14.3)	(99,220)	(2.2)	106,286	1.6	(44,299)	(1.4)	237,360	6.7
Cross-border services	3,293	32.7	11,945	4.1	(62,397)	(8.8)	(10,590)	(4.2)	5,718	1.3

In 2022, we incurred a gross loss in connection with our cross-border service primarily due to our initiatives to expand our market shares and geographic coverage, which led to an increase in our revenue and, to a greater extent, an increase in our cost of revenue for the cross-border operations (mainly including an increase in air transportation expenses and fuel costs).

The following table sets forth our gross profit/(loss) and (negative) gross margin by geographic segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin	Gross profit/ (loss)	(Negative) gross margin
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Southeast Asia	311,953	29.8	662,131	27.8	476,002	20.0	223,037	18.9	220,118	17.7
China	(576,734)	(120.4)	(1,218,693)	(55.9)	(664,760)	(16.2)	(267,879)	(13.7)	(17,085)	(0.8)
Others[1]	3,293	32.7	11,818	4.0	(81,480)	(10.3)	(21,217)	(8.0)	(9,493)	(1.6)
Total	**(261,488)**	**(17.0)**	**(544,744)**	**(11.2)**	**(270,238)**	**(3.7)**	**(66,059)**	**(1.9)**	**193,540**	**4.8**

Note:

(1) Include our cross-border services and express delivery services in the New Markets.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses primarily consist of (i) staff costs, including salaries, bonus, other compensation and share-based compensation expenses to our staff, (ii) share-based payments related to equity transactions, (iii) other share-based compensation expenses, (iv) office related expenses, (v) professional service fees including auditor's remuneration, listing-related service fees and fees for other consulting services, (vi) promotion and marketing expenses relating to branding initiatives and advertising activities, (vii) depreciation and amortization of our right-of-use assets in relation to the leases of our offices, (viii) one-off impairment of goodwill based on peers' performance and general industry trend, and (ix) other selling, general and administrative expenses. The following table sets forth the components of our selling, general and administrative expenses, in absolute amount and as a percentage of our total selling, general and administrative expenses, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Staff costs	288,059	78.8	722,309	64.0	695,065	63.4	427,376	81.2	232,979	13.2
Share-based payments related to equity transactions	27,228	7.4	236,416	20.9	37,262	3.4	16,490	3.1	1,258,131	71.2
Other share-based compensation expenses	–	–	–	–	–	–	–	–	158,442	9.0

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)									
							(Unaudited)			
Office related expenses	12,339	3.4	24,072	2.1	42,624	3.9	19,960	3.8	15,120	0.9
Professional service fees	2,530	0.7	23,146	2.1	29,228	2.7	23,243	4.4	28,577	1.6
Promotion and marketing expenses	15,509	4.2	18,036	1.6	24,709	2.3	3,775	0.7	24,795	1.4
Depreciation and amortization	14,189	3.9	27,493	2.4	59,566	5.4	26,143	5.0	30,878	1.7
Impairment of goodwill	–	–	–	–	117,502	10.7	–	–	–	–
Others	6,015	1.6	77,552	6.9	89,568	8.2	9,341	1.8	18,953	1.1
Total	**365,869**	**100.0**	**1,129,024**	**100.0**	**1,095,528**	**100.0**	**526,328**	**100.0**	**1,767,875**	**100.0**

Our staff costs during the Track Record Period included share-based compensation expenses related to employee benefits of US$161.1 million, US$367.3 million, US$244.1 million, US$244.1 million and US$10.3 million in 2020, 2021, 2022 and for the six months ended June 30, 2022 and 2023, respectively. These share-based compensation expenses included expenses related to share-based awards granted to employees and management under our share incentive plan and shares granted to certain regional sponsors outside of our share incentive plan in 2021. To determine the fair value of the shares granted, we appointed an external valuer to provide assistance in the valuation of the fair value of the ordinary shares and equity interests. The discounted cash flow method is adopted to determine the underlying equity fair value of our Group and the equity allocation model is applied to determine the fair value of the underlying ordinary share. See Note 26 to the Accountant's Report in Appendix I to this document for the key assumptions in determining the fair value of the ordinary shares and equity interests.

Our share-based payments related to equity transactions were US$27.2 million, US$236.4 million, US$37.3 million, US$16.5 million and US$1,258.1 million in 2020, 2021, 2022 and for the six months ended June 30, 2022 and 2023, respectively, which included expenses related to (i) repurchases of Class A Shares and Class B Shares from certain key management personnel and a shareholder in 2021, (ii) ordinary shares and preferred shares repurchased or to be repurchased accompanying Series C2 Preferred Share issuances in 2021 and 2022, and (iii) the fair value difference of certain preferred shares issued in financings and the total consideration received due to lengthy settlement periods during the Track Record Period.

In addition, in the six months ended June 30, 2023, we also incurred other share-based compensation expenses of US$158.4 million as we granted Class A Shares to certain regional sponsors. See Note 26 to the Accountant's Report in Appendix I for more details.

Research and Development Expenses

Our research and development expenses primarily consist of (i) staff cost, including salaries, bonuses and share-based compensation expenses to our research and development personnel, (ii) depreciation and amortization of intangible assets and (iii) others, primarily including utilities, rent and other expenses necessary to support our research and development activities. The following table sets forth the components of our research and development expenses, in absolute amount and as a percentage of our total research and development expenses, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Staff cost[1]	11,196	79.2	38,256	93.3	39,332	88.4	18,884	90.3	16,684	88.4
Depreciation and amortization	559	4.0	789	1.9	2,915	6.6	1,233	5.9	1,966	10.4
Others	2,374	16.8	1,985	4.8	2,236	5.0	795	3.8	224	1.2
Total	**14,129**	**100.0**	**41,031**	**100.0**	**44,483**	**100.0**	**20,912**	**100.0**	**18,874**	**100.0**

Note:

(1) Includes share-based compensation expenses related to employee benefits of nil, US$15.3 million, nil, nil and nil, respectively, in 2020, 2021, 2022 and for the six months ended June 30, 2022 and 2023.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets primarily consist of impairment losses on trade receivables and other receivables and impairment losses on other non-current assets. The following table sets forth the components of our net impairment losses on financial assets, in absolute amount and as a percentage of our total net impairment losses on financial assets, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Impairment losses recognized, net of reversal, on										
– trade receivables	3,694	38.9	39,004	94.4	34,997	94.0	29,539	118.0	9,225	78.1
– other receivables and other non-current assets	5,794	61.1	2,316	5.6	2,222	6.0	(4,506)	18.0	2,589	21.9
Total	**9,488**	**100.0**	**41,320**	**100.0**	**37,219**	**100.0**	**25,033**	**100.0**	**11,814**	**100.0**

Fair Value Change of Financial Liabilities at Fair Value Through Profit or Loss

Since our inception we have completed several rounds of financing by issuing different classes of convertible preferred shares. We accounted the preferred shares as financial liabilities at fair value through profit or loss. The convertible preferred shares are typically recognized at fair value, and subsequent to the initial recognition, the preferred shares are carried at fair value, with changes in fair value recognized in the consolidated income statements. Fair value change of financial liabilities at fair value through profit or loss was nil in 2020. We recorded a fair value loss of financial liabilities at fair value through profit or loss of US$4,383.5 million in 2021, compared to a fair value gain of financial liabilities at fair value through profit or loss of US$3,086.7 million in 2022 and US$2,032.0 million and US$1,027.5 million for the six months ended June 30, 2022 and 2023, respectively.

Prior to the [**REDACTED**], the preferred shares are not traded in any active market and the fair value at respective reporting dates is determined using valuation techniques with the assistance from an external valuer. We applied the discounted cash flow method to determine the underlying equity value of our Group and adopted option-pricing method and equity allocation model to determine the fair value of the preferred shares. See Note 29A to the Accountant's Report in Appendix I to this document for the key assumptions in determining the fair value of the preferred shares.

Other Income

Other income primarily consists of (i) subsidy income, (ii) interest income on loans to related parties and (iii) interest income on loans to third parties. The following table sets forth the components of our other income, in absolute amount and as a percentage of our total other income, for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2020		2021		2022		2022		2023	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for percentages)						(Unaudited)			
Subsidy income	11,466	67.2	71,415	86.5	87,035	88.7	42,497	88.4	10,791	88.2
Interest income on loans to related parties	1,305	7.7	4,412	5.4	10,175	10.4	5,088	10.6	–	–
Interest income on loans to third parties	4,285	25.1	6,715	8.1	939	0.9	495	1.0	1,437	11.8
Total	**17,056**	**100.0**	**82,542**	**100.0**	**98,149**	**100.0**	**48,080**	**100.0**	**12,228**	**100.0**

Our subsidy income was mainly related to (i) incentives in the PRC provided by local governments based on the amounts of value-added tax paid, and (ii) subsidies provided by local governments for economic recovery plans in Southeast Asian countries. We have received all the subsidy income and there was no future obligation related to such subsidy income at the end of each of the reporting period during the Track Record Period.

Other Gains/(Losses), Net

Our other gains/(losses), net, primarily consist of provisions for legal claims, exchange gains/(losses), net, and net loss on disposal of property, plant and equipment during normal course of business. The following table sets forth the components of our other gains/(losses), net, for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	(in US$ thousands)				
				(Unaudited)	
Provisions for legal claims	–	–	(19,330)	(17,164)	–
Exchange gains/(losses), net	29,362	19,887	(17,338)	(25,073)	(12,686)
Net loss on disposal of property, plant and equipment	(37)	(1,424)	(1,873)	3,470	(21,306)
Others	(1,851)	7,907	(1,705)	7,108	(9,431)
Total	**27,474**	**26,370**	**(40,246)**	**(31,659)**	**(43,423)**

Finance Costs, Net

Our finance costs, net, are primarily influenced by our finance income and finance costs. The following table sets forth the components of our finance costs, net, for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	(in US$ thousands)				
				(Unaudited)	
Interest income	1,965	9,476	22,002	8,025	11,367
Interest expenses on convertible preferred shares	–	(81,602)	–	–	–
Interest expenses on lease liabilities	(6,007)	(13,860)	(37,318)	(18,239)	(19,015)
Interest expenses on borrowings	(7,824)	(3,615)	(62,181)	(26,408)	(36,987)
Total	**(11,866)**	**(89,601)**	**(77,497)**	**(36,622)**	**(44,635)**

Income Tax Expenses

The enacted income tax rates applicable to our entities may fluctuate because of the preferential tax treatments and changes in income before taxes. For more details, see "– Taxation" in this section. In 2020, 2021, 2022 and the six months ended June 30, 2023, we had income tax expenses of US$45.5 million, US$73.1 million, US$10.8 million and US$6.6 million, respectively. In the six months ended June 30, 2022, we had an income tax credit of US$2.9 million.

Taxation

We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, the BVI, Hong Kong, the PRC, Indonesia, Malaysia, Vietnam, Thailand, Singapore, Cambodia and the Philippines, which we believe are significant.

Cayman Islands

We were incorporated as an exempted company with limited liability under the Cayman Companies Act and accordingly are not subject to income tax in the Cayman Islands.

BVI

Our subsidiaries established under the BVI Business Companies Act 2004, as amended, are not subject to income tax in the BVI.

Hong Kong

Our subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 8.25% on assessable profits up to HK$2,000,000 and 16.5% on any part of assessable profits over HK$2,000,000 for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023.

PRC

Our PRC subsidiaries, as well as our consolidated affiliated entities and their subsidiaries, were subject to a statutory tax rate of 25% on the assessable profits for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023 based on the existing legislation, interpretation and practices in respect thereof and under the PRC Enterprise Income Tax Law ("**EIT Law**"), subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy.

Shenzhen Yunlu Information Technology Co., Ltd., our subsidiary in China, is qualified as a software enterprise under the relevant PRC laws and regulations. Accordingly, it is exempted from PRC enterprise income tax for two years since the first profit-making year, followed by a 50% reduction in the tax rate of 25% for the next three years.

In addition, certain of our subsidiaries will benefit from a preferential tax rate of 15% if they are located in certain PRC regions, such as certain western regions and special economic zones, as specified in the relevant catalog of encouraged industries, subject to certain general restrictions described in applicable laws and regulations.

During the Track Record Period, several subsidiaries in PRC were qualified as small and micro enterprises under applicable PRC tax laws and enjoyed a 50% to 87.5% reduction in certain statutory taxable income, and a preferential income tax rate of 20%.

Indonesia

For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, entities incorporated in Indonesia were subject to the corporate income tax calculated based on the applicable tax rate of 22% on the assessable profits of the subsidiaries in accordance with the Indonesia tax laws and regulations.

Malaysia

Our subsidiaries in Malaysia are subject to Malaysia corporate income tax calculated based on the applicable tax rate, the highest of which is at a rate of 24% on the assessable profits of the subsidiaries in accordance with Malaysia tax laws and regulations.

Vietnam

Our subsidiaries in Vietnam are subject to Vietnam corporate income tax calculated based on the applicable tax rate of 20% on the assessable profits of the subsidiaries in accordance with Vietnam tax laws and regulations.

Thailand

Our subsidiaries in Thailand are subject to Thailand corporate income tax calculated based on the applicable tax rate of 20% on the assessable profits of the subsidiaries in accordance with Thailand tax laws and regulations.

The Philippines

For the six months period ended June 30, 2020, our subsidiaries in the Philippines were subject to the Philippines CIT, which was calculated based on the applicable tax rate of 30% on the assessable profits of the subsidiaries in accordance with the Philippines tax laws and regulations. The applicable CIT tax rate has been decreased from 30% to 25% since July 1, 2020.

EFFECTS OF FOREIGN EXCHANGE RATE FLUCTUATIONS

Our financial information as expressed in U.S. dollars may be materially affected by fluctuations in foreign exchange rates, and the figures may be higher or lower than would be the case if exchange rates were stable.

The following table sets forth the data of revenue, cost of revenue and gross profit/(loss) by geographic segment for the year ended December 31, 2021 if exchange rates were the same as in the year ended December 31, 2020:

	Year ended December 31, 2021								
	Per financial statements			Excluding currency translation effect			Currency translation difference(1)		
	Revenue	Cost of revenue	Gross profit/(loss)	Revenue	Cost of revenue	Gross profit/(loss)	Revenue	Cost of revenue	Gross profit/(loss)
	(in US$ thousands)								
Southeast Asia	2,377,544	(1,715,413)	662,131	2,404,871	(1,735,969)	668,902	27,327	(20,556)	6,771
China	2,181,368	(3,400,061)	(1,218,693)	2,084,346	(3,248,833)	(1,164,487)	(97,022)	151,228	54,206
Others(2)	292,888	(281,070)	11,818	292,887	(281,070)	11,817	(1)	–	(1)
Total	**4,851,800**	**(5,396,544)**	**(544,744)**	**4,782,104**	**(5,265,872)**	**(483,768)**	**(69,696)**	**130,672**	**60,976**

Notes:

(1) Represents, for each item, the difference between the amount as in our consolidated financial statements and the amount excluding currency translation effect from 2020 to the period indicated, divided by the amount of such item in our consolidated financial statements.

(2) Include our cross-border services and express delivery services in the New Markets.

The table below illustrates the average revenue per parcel and average cost of revenue in Southeast Asia and China for the year ended December 31, 2021 if exchange rates were the same as the previous year:

	Year ended December 31,	
	2021 (per financial statements)	**2021 (excluding currency translation effect)**
	(US$, per parcel)	
Southeast Asia		
– revenue per parcel	1.10	1.11
– cost of revenue per parcel	0.79	0.80
China		
– revenue per parcel	0.26	0.25
– cost of revenue per parcel	0.41	0.39

The following table sets forth the data of revenue, cost of revenue and gross profit/(loss) by geographic segments for the year ended December 31, 2022 if exchange rates were the same as in the year ended December 31, 2021:

	Year ended December 31, 2022								
	Per financial statements			Excluding currency translation effect			Currency translation difference[1]		
	Revenue	Cost of revenue	Gross profit/(loss)	Revenue	Cost of revenue	Gross profit/(loss)	Revenue	Cost of revenue	Gross profit/(loss)
	(in US$ thousands)								
Southeast Asia	2,381,726	(1,905,724)	476,002	2,518,383	(2,013,010)	505,373	136,657	(107,286)	29,371
China	4,096,177	(4,760,937)	(664,760)	4,235,739	(4,923,178)	(687,439)	139,562	(162,241)	(22,679)
Others[2]	789,525	(871,005)	(81,480)	790,764	(872,328)	(81,564)	1,240	(1,323)	(83)
Total	**7,267,428**	**(7,537,666)**	**(270,238)**	**7,544,886**	**(7,808,516)**	**(263,630)**	**277,459**	**(270,850)**	**6,609**

Notes:

(1) Represents, for each item, the difference between the amount as in our consolidated financial statements and the amount excluding currency translation effect from 2021 to the period indicated, divided by the amount of such item in our consolidated financial statements.

(2) Include our cross-border services and express delivery services in the New Markets.

The table below illustrates the average revenue and cost per parcel in Southeast Asia and China for the year ended December 31, 2022 if exchange rates were the same as the previous year:

	Year ended December 31,	
	2022 (per financial statements)	2022 (excluding currency translation effect)
	(US$, per parcel)	
Southeast Asia		
– revenue per parcel	0.95	1.00
– cost of revenue per parcel	0.76	0.80
China		
– revenue per parcel	0.34	0.35
– cost of revenue per parcel	0.40	0.41

The following table sets forth the data of revenue, cost of revenue and gross profit/(loss) by geographic segments for the six months ended June 30, 2023 if exchange rates were the same as the six months ended June 30, 2022:

	Six months ended June 30, 2023								
	Per financial statements			Excluding currency translation effect			Currency translation difference[1]		
	Revenue	Cost of revenue	Gross profit/(loss)	Revenue	Cost of revenue	Gross profit/(loss)	Revenue	Cost of revenue	Gross profit/(loss)
	(in US$ thousands)								
Southeast Asia	1,246,076	(1,025,958)	220,118	1,297,215	(1,065,735)	231,480	51,139	(39,777)	11,362
China	2,203,070	(2,220,155)	(17,085)	2,388,779	(2,407,319)	(18,540)	185,709	(187,164)	(1,455)
Others[2]	581,293	(590,786)	(9,493)	577,855	(587,608)	(9,753)	(3,438)	3,178	(260)
Total	**4,030,439**	**(3,836,899)**	**193,540**	**4,263,849**	**(4,060,663)**	**203,186**	**233,410**	**(223,764)**	**9,646**

Notes:

(1) Represents for each item the difference between the amount as in our consolidated financial statements and the amount excluding currency translation effect from 2022 to the period indicated, divided by the amount of such item in our consolidated financial statements.

(2) Include our cross-border services and express delivery services in the New Markets.

The table below illustrates the average revenue and cost per parcel in Southeast Asia and China for the six months ended June 30, 2023 if exchange rates were the same as the six months ended June 30, 2022:

	Six months ended June 30,	
	2023 (per financial statements)	2023 (excluding currency translation effect)
	(US$, per parcel)	
Southeast Asia		
– revenue per parcel	0.87	0.90
– cost of revenue per parcel	0.71	0.74
China		
– revenue per parcel	0.34	0.37
– cost of revenue per parcel	0.34	0.37

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months ended June 30, 2023 Compared to Six Months ended June 30, 2022

Revenue

Our revenue increased by 18.5% from US$3,402.5 million for the six months ended June 30, 2022 to US$4,030.4 million for the same period in 2023. The increase was primarily attributable to the growth of our express delivery services and cross-border delivery services.

Express delivery services. The growth in our revenue from express delivery services is primarily driven by parcel volume in Southeast Asia and China, since we generate substantially all of our revenue from express delivery services in these two geographic segments. Our revenue from express delivery services increased by 14.1% from US$3,109.2 million for the six months ended June 30, 2022 to US$3,546.2 million for the same period in 2023, primarily due to a 16.9% increase in our total parcel volume from 6.8 billion in the six months ended June 30, 2022 to 8.0 billion for the same period in 2023, primarily driven by the growth of our parcel volume in China and, to a lesser extent, the growth of our parcel volume in Southeast Asia. For more details on the growth of our revenue from express delivery services in Southeast Asia and China, see "– Revenue by geographic segment."

Cross-border services. Our revenue from cross-border services increased by 77.5% from US$252.6 million for the six months ended June 30, 2022 to US$448.5 million for the same period in 2023, primarily attributable to the growth of our cross-border business and expanding relationship with e-commerce platforms.

Sale of accessories. Revenue from our sale of accessories decreased by 40.0% from US$14.1 million for the six months ended June 30, 2022 to US$8.5 million for the same period in 2023, despite the increase in our parcel volume, because we continued to promote green express delivery practice, participated in more environmental initiatives and further encouraged the use of reusable transfer bags and parcel boxes throughout our network for the six months ended June 30, 2023.

Others. Our revenue from other services remained relatively stable at US$26.6 million for the six months ended June 30, 2022 and US$27.3 million for the same period in 2023.

Revenue by geographic segment

Southeast Asia. Our revenue from Southeast Asia was US$1,177.9 million for the six months ended June 30, 2022, compared to US$1,246.1 million for the same period in 2023. Our parcel volume in Southeast Asia increased by 18.4% from 1,215.0 million for the six months ended June 30, 2022 to 1,438.3 million for the same period in 2023, primarily attributable to the increasing demand of delivery services and further diversification of our customer base through various e-commerce and social e-commerce platform partners. Our revenue per parcel in Southeast Asia was US$0.97 for the six months ended June 30, 2022 and US$0.87 for the same period in 2023. The change in revenue per parcel was primarily attributable to (i) our strategic pricing adjustments to stay advantageous in the highly competitive market in Southeast Asia, and (ii) our continued efforts to expand the e-commerce platform customer base and increase our parcel volume.

China. Our revenue from China increased from US$1,960.1 million for the six months ended June 30, 2022 to US$2,203.1 million for the same period in 2023, primarily driven by an increase in parcel volume in China. Our parcel volume in China increased by 15.1% from 5,602.3 million for the six months ended June 30, 2022 to 6,445.6 million for the same period in 2023, driven by our deepening cooperation with major e-commerce platforms. Our revenue per parcel in China stayed relatively stable at US$0.35 and US$0.34 for the six months ended June 30, 2020 and 2023, respectively.

Others. Other revenue increased from US$264.5 million for the six months ended June 30, 2022 to US$581.3 million for the same period in 2023, primarily attributable to the expansion of our operations in the New Markets and our cross-border services.

Cost of Revenue

Our cost of revenue increased by 10.6% from US$3,468.6 million for the six months ended June 30, 2022 to US$3,836.9 million for the same period in 2023, primarily attributable to increases in our fulfillment costs and line-haul costs in line with the growing parcel volume.

Fulfillment costs. Our fulfillment costs increased by 13.2% from US$1,582.0 million for the six months ended June 30, 2022 to US$1,790.8 million for the same period in 2023, consistent with the expansion of our network and the increase in parcel volume, especially in China. Our fulfillment costs accounted for 45.6% and 46.7% of our total cost of revenue for the six months ended June 30, 2022 and 2023, respectively.

Line-haul costs. Our line-haul costs increased by 14.3% from US$995.4 million for the six months ended June 30, 2022 to US$1,137.5 million for the same period in 2023. Our line-haul costs accounted for 29.3% and 28.2% of our revenue for the six months ended June 30, 2022 and 2023, respectively. The increase was primarily due to (i) the growth of our cross-border business, which incurred substantial air transportation expenses, and (ii) the expansion of our fleets and increased usage of third-party transportation service providers to support our express delivery operations.

Staff costs. Our staff costs decreased by 10.3% from US$349.4 million for the six months ended June 30, 2022 to US$313.4 million for the same period in 2023. Our staff costs accounted for 10.3% and 7.8% of our total revenue for the six months ended June 30, 2022 and 2023, respectively. The decrease was because we optimized our operations across our pickup and delivery, sorting and transportation processes.

Other labor costs. Our other labor costs increased by 14.9% from US$179.7 million for the six months ended June 30, 2022 to US$206.5 million for the same period in 2023, consistent with the increase in our parcel volume. Other labor costs accounted for 5.3% and 5.1% of our revenue for the six months ended June 30, 2022 and 2023, respectively.

Depreciation and amortization. Our depreciation and amortization costs remained stable at US$219.1 million for the six months ended June 30, 2022 and for the same period in 2023, because our depreciation and amortization costs relating to operations in China slightly decreased after we fully integrated BEST Express China while our depreciation and amortization relating to operations in Southeast Asia and the New Markets slightly increased.

Impairment losses. We did not record any impairment losses for the six months ended June 30, 2022 and 2023.

Others. Our other cost of revenue increased by 18.7% from US$142.9 million for the six months ended June 30, 2022 to US$169.6 million for the same period in 2023, primarily attributable to an increase in miscellaneous costs including short-term rentals and utility costs, among others.

Cost of revenue by geographic segment

Our cost of revenue for Southeast Asia increased from US$954.9 million for the six months ended June 30, 2022 to US$1,026.0 million for the same period in 2023, primarily driven by an increase in parcel volume in Southeast Asia from 1,215.0 million to 1,438.3 million in the corresponding periods.

Our cost of revenue for China remained relatively stable at US$2,228.0 million for the six months ended June 30, 2022 and US$2,220.2 million for the same period in 2023 despite the growth in our parcel volume, as we optimized our operation structure, sorting network and management to achieve economies of scale.

Our other cost of revenue increased by 106.8% from US$285.7 million for the six months ended June 30, 2022 to US$590.8 million for the same period in 2023, primarily attributable to an increase in parcel volume in the New Markets and growth of our cross-border services.

Gross profit/(loss)

As a result of the foregoing, we recorded a gross profit of US$193.5 million for the six months ended June 30, 2023, compared to a gross loss of US$66.1 million for the six months ended June 30, 2022, and we achieved a gross profit margin of 4.8% for the six months ended June 30, 2023, compared to a negative gross margin of 1.9% for the six months ended June 30, 2022.

Our gross profit from Southeast Asia decreased slightly from US$223.0 million for the six months ended June 30, 2022 to US$220.1 million for the same period in 2023. Our gross margin in Southeast Asia decreased slightly from 18.9% to 17.7% in the corresponding periods.

For China, we recorded a gross loss of US$267.9 million and US$17.1 million for the six months ended June 30, 2022 and 2023, respectively. We expect our gross margin from our express delivery services in China to improve in the future. See "Business – Business Sustainability."

For others, we had a gross loss of US$21.2 million for the six months ended June 30, 2022 and a gross loss of US$9.5 million for the same period in 2023.

Selling, general and administrative expenses

Our selling, general and administrative expenses increased by 235.9% from US$526.3 million for the six months ended June 30, 2022 to US$1,767.9 million for the same period in 2023. The increase was primarily attributable to (i) a significant increase in share-based payments with respect to our issuance of preferred shares to existing shareholders, and (ii) an increase in our other share based compensation expenses relating to Class A Shares that we issued to regional sponsors in the six month ended June 30, 2023, partially offset by a decrease of US$233.8 million in share-based compensation to staff. See "History and Corporate Structure – Pre-[**REDACTED**] Investments" for more details. Our selling, general and administrative expenses, excluding share-based compensation and share-based payments, increased from US$265.7 million for the six months ended June 30, 2022 to US$341.0 million for the same period in 2023, primarily due to an increase in promotion and marketing expenses that we incurred to enhance our brand image, partially offset by a decrease in our staff cost driven by our optimized operations.

Research and development expenses

Our research and development expenses were US$20.9 million for the six months ended June 30, 2022 and US$18.9 million in the same period in 2023.

Net impairment losses on financial assets

Our net impairment losses on financial assets decreased by 52.8% from US$25.0 million for the six months ended June 30, 2022 to US$11.8 million for the same period in 2023, primarily due to a decrease in impairment losses on trade receivables, which we recorded in the six months ended June 30, 2022 for trade receivables that we consolidated into our financial positions after our acquisition of BEST Express China.

Other income

Our other income decreased by 74.6% from US$48.1 million for the six months ended June 30, 2022 to US$12.2 million for the same period in 2023, primarily due to a decrease in our subsidy income.

Other losses, net

Our other losses, net, decreased from US$31.7 million for the six months ended June 30, 2022 and to US$43.4 million for the same period in 2023, primarily due to (i) a decrease in provisions for lawsuits arising from pre-acquisition operations of BEST Express China, and (ii) a decrease in foreign exchange loss we recognized in 2023 of US$12.4 million, offset by an increase in net losses on disposal of property, plant and equipment.

Operating loss

As a result of the foregoing, we had an operating loss of US$621.9 million for the six months ended June 30, 2022 and an operating loss of US$1,636.2 million for the same period in 2023.

Fair value change of financial assets and liabilities at fair value through profit or loss

We recorded a fair value gain of financial assets and liabilities at fair value through profit or loss of US$2,028.2 million and US$1,020.7 million for the six months ended June 30, 2022 and 2023, respectively, due to changes in the valuation of our Company. See Notes 24 and 29 to the Accountant's Report in Appendix I to this document for details regarding the changes in fair value changes of financial assets and liabilities at fair value through profit or loss.

Finance income

Our finance income increased by 41.6% from US$8.0 million for the six months ended June 30, 2022 to US$11.4 million for the same period in 2023, due to an increase in interest income from bank deposits.

Finance costs

Our finance costs increased by 25.4% from US$44.6 million for the six months ended June 30, 2022 to US$56.0 million for the same period in 2023, primarily attributable to interest expenses with respect to our borrowings from financial institutions.

Income tax expense

We recorded an income tax credit of US$2.9 million and an income tax expense of US$6.6 million for the six months ended June 30, 2022 and for the same period in 2023, respectively. The change was primarily attributable to the improved profitability in certain regions where we operated, which led to income tax expenses instead of deferred tax assets.

(Loss)/profit for the period

As a result of the foregoing, we recorded a profit of US$1,372.3 million for the six months ended June 30, 2022 and a loss of US$666.8 million for the same period in 2023.

Year ended December 31, 2022 Compared to Year ended December 31, 2021

Revenue

Our revenues increased by 49.8% from US$4,851.8 million in 2021 to US$7,267.4 million in 2022. The increase was primarily attributable to the growth of our express delivery services and cross-border delivery services.

Express delivery services. The growth in our revenue from express delivery services is primarily driven by parcel volume and revenue per parcel in Southeast Asia and China, since we generate substantially all of our revenue from express delivery services in these two geographic segments. Our revenue from express delivery services increased by 41.8% from US$4,570.7 million in 2021 to US$6,480.3 million in 2022, primarily due to (i) a 39.0% increase in our total parcel volume from 10.5 billion in 2021 to 14.6 billion in 2022, primarily driven by growth of parcel volume in both Southeast Asia and China and, particularly, an increase in our market share in China, and (ii) improved revenue per parcel in China, partially offset by a decrease in revenue per parcel in Southeast Asia. For more details on the growth of our revenue from express delivery services in Southeast Asia and China, see "– Revenue by geographic segment."

Cross-border services. Our revenue from cross-border services increased by 202.6% from US$234.8 million in 2021 to US$710.5 million in 2022, primarily attributable to increased market demands and our efforts in developing the business.

Sale of accessories. Revenue from our sale of accessories decreased by 21.8% from US$30.4 million in 2021 to US$23.7 million in 2022, despite the growth in our parcel volume, as we encouraged the use of environmentally friendly practices such as reusable materials.

Others. Our revenue from other services increased by 231.8% from US$16.0 million in 2021 to US$52.9 million in 2022 primarily due to an increase in our rental income from the lease of reusable materials and logistics properties.

Revenue by geographic segment

Southeast Asia. Our revenue from Southeast Asia was US$2,377.5 million in 2021, compared to US$2,381.7 million in 2022. Our parcel volume in Southeast Asia increased by 16.3% from 2,160.8 million in 2021 to 2,513.2 million in 2022 while our market share remained relatively stable at 22.3% and 22.5% in 2021 and 2022, respectively. The growth in our parcel volume was attributable to the diversification of our customer base through additions of new e-commerce and social e-commerce platform partners. Our revenue per parcel in Southeast Asia was US$1.10 in 2021 and US$0.95 in 2022. The industry average revenue per parcel in Southeast Asia is expected to be around US$1.0 in 2023 and 2024, according to Frost & Sullivan. The change in revenue per parcel is primarily attributable to (i) our strategic pricing adjustment to stay competitive in light of the market conditions in Southeast Asia, where e-commerce platforms usually procure services from express delivery companies in bulk with volume discounts, and (ii) the negative impact of currency translation on revenue from Southeast Asia, see "– Effects of Fluctuations in Currency Exchange Rates."

China. Our revenue from China increased by 87.8% from US$2,181.4 million in 2021 to US$4,096.2 million in 2022, primarily driven by our increased parcel volume and revenue per parcel in China. Our parcel volume in China increased by 44.3% from 8,334.3 million in 2021 to 12,025.6 million in 2022, and our market share increased from 7.7% in 2021 to 10.9% in 2022. The increases in our parcel volume and market share were driven by (i) our expanding partnership with additional e-commerce platforms after our acquisition of BEST Express China and addition of social e-commerce partners such as Douyin and Kuaishou, which led to more diversified sources of parcels, and (ii) improved service quality and enhanced brand image that facilitated the client sourcing abilities of ours and our network partners. Our revenue per parcel in China increased from US$0.26 to US$0.34 in the same period, attributable to (i) our access to additional e-commerce platforms and ability to source parcels from high-quality customers or merchants, (ii) government policies and guidance supporting the stabilization of pricing in China, and (iii) our continued efforts to optimize the management of our network partners and improve service quality after we completed the integration of BEST Express China in the six months ended June 30, 2022. The average revenue per parcel of express delivery operators with network partner model in China is expected to be around US$0.3 in 2023 and 2024, according to Frost & Sullivan.

Others. Other revenue increased from US$292.9 million in 2021 to US$789.5 million in 2022, primarily attributable to the growth in our cross-border services.

Cost of revenue

Our cost of revenue increased by 39.7% from US$5,396.5 million in 2021 to US$7,537.7 million in 2022, primarily attributable to increases in our fulfillment costs, line-haul costs and staff costs in line with the increased parcel volume.

Fulfillment costs. Our fulfillment costs increased by 39.2% from US$2,385.2 million in 2021 to US$3,320.2 million in 2022, consistent with the expansion of our network and the increase in parcel volume. Our fulfillment costs accounted for 44.2% and 44.0% of our total cost of revenue in the corresponding periods.

Line-haul costs. Our line-haul costs increased by 65.6% from US$1,341.4 million in 2021 to US$2,221.7 million in 2022. Our line-haul costs accounted for 27.6% and 30.6% of our revenue in the corresponding periods. The increase is primarily due to (i) the growth of our cross-border business, which incurred substantial air transportation expenses upfront, (ii) the expansion of our fleets and increased usage of third-party transportation services to support the growth of our express delivery services across markets, including the New Markets that we entered into in 2022, and (iii) the acquisition of the SEA entities in the second half of 2021, after which we consolidated the line-haul costs incurred by the SEA entities into our results of operations.

Staff costs. Our staff costs decreased by 7.9% from US$701.2 million in 2021 to US$645.7 million in 2022. Our staff costs accounted for 14.5% and 8.9%, respectively, of our total revenue in 2021 and 2022. The decrease was primarily due to a decrease in headcount and other employee benefits as we optimized our operations globally and increased parcel volume from regions where we cooperate with network partners, partially offset by an increase in staff costs incurred in connection with our expansion in the New Markets in 2022.

Other labor costs. Our other labor costs increased by 23.9% from US$308.5 million in 2021 to US$382.3 million in 2022, in line with the increase in our parcel volume. Other labor costs accounted for 6.4% and 5.3%, respectively, of our revenue in the corresponding periods.

Depreciation and amortization. Our depreciation and amortization increased by 130.7% from US$192.2 million in 2021 to US$443.5 million in 2022, primarily attributable to depreciation and amortization we recorded in relation to certain property, plant and equipment.

Impairment losses. We had impairment losses of US$250.3 million and US$219.1 million in 2021 and 2022, respectively, which we recorded primarily in connection with property, plants and equipment that we identified as redundant and planned to dispose of in connection with our integration of BEST Express China.

Others. Our other cost of revenue increased by 40.2% from US$217.7 million in 2021 to US$305.3 million in 2022, which is mainly relating to increased utility expenses in relation to our expanding infrastructure network and network capacity in China and the New Markets, consistent with our expansion.

Cost of revenue by geographic segment

Our cost of revenue for Southeast Asia increased by 11.1% from US$1,715.4 million in 2021 to US$1,905.7 million in 2022, primarily driven by an increase in parcel volume in Southeast Asia from 2,160.8 million to 2,513.2 million in the corresponding periods.

Our cost of revenue for China increased by 40.0% from US$3,400.1 million in 2021 to US$4,760.9 million in 2022, consistent with the expansion of our business and the corresponding increase in our parcel volume in China from 8.3 billion to 12.0 billion in the corresponding periods.

Our other cost of revenue increased by 209.9% from US$281.1 million in 2021 to US$871.0 million in 2022, primarily attributable to the growth of our cross-border services and expansion into the New Markets in 2022.

Gross profit/(loss)

As a result of the foregoing, our gross loss narrowed from US$544.7 million in 2021 to US$270.2 million in 2022, and our negative gross margin narrowed from 11.2% in 2021 to 3.7% in 2022, primarily driven by the improving gross margin performance in China.

Our gross profit from Southeast Asia decreased from US$662.1 million in 2021 to US$476.0 million in 2022. Our gross margin in Southeast Asia decreased slightly from 27.8% to 20.0% in 2022.

For China, we recorded a gross loss of US$1,218.7 million and US$664.8 million in 2021 and 2022, respectively. We expect our gross margin from our express delivery services in China to improve in the future. See "Business – Business Sustainability."

For others, we had a gross profit of US$11.8 million in 2021 and a gross loss of US$81.5 million in 2022.

Selling, general and administrative expenses

Our selling, general and administrative expenses decreased by 3.0% from US$1,129.0 million in 2021 to US$1,095.5 million in 2022. The decrease was primarily attributable to (i) a decrease in share-based compensation as part of our staff cost of US$123.2 million and (ii) a decrease in share-based payments related to equity transaction of US$199.2 million, offset mainly by (i) impairment of goodwill that we recorded in 2021, see "– Analysis of Key Balance Sheet Items – Assets – Intangible assets" in this section, (ii) increased depreciation and amortization costs in relation to right-of-use assets, driven by an expansion of our office premise during the same period, (iii) increased consumer advertising and marketing activities including the engagement of our global brand ambassador, and (iv) an increase in other costs, primarily driven by increased office expenses and IT services fees as we further expanded.

Research and development expenses

Our research and development expenses were US$41.0 million in 2021 and US$44.5 million in 2022. Our research and development expenses, excluding share-based compensation, were US$25.8 million and US$44.5 million in 2021 and 2022, respectively, and the change was primarily attributable to an increase in employee benefits in relation to the expansion of our research and development headcounts to support our global expansion since late 2021.

Net impairment losses on financial assets

Our net impairment losses on financial assets were US$41.3 million in 2021 and US$37.2 million in 2022. Our impairment losses on financial assets in 2021 and 2022 mainly consisted of impairment on trade receivables in relation to certain terminated network partners and impairment losses that were consolidated into our balance sheets primarily in connection with the acquisition of BEST Express China.

Other income

Our other income increased by 18.9% from US$82.5 million in 2021 to US$98.1 million in 2022, primarily due to an increase in our subsidy income from the PRC government.

Other gains/(losses), net

We had other gains, net of US$26.4 million in 2021 and other losses, net of US$40.2 million in 2022, primarily due to (i) provisions for lawsuits in relation to the restructuring and integration of acquired operations of BEST Express China, and (ii) a foreign exchange loss we recognized in 2022 of US$17.3 million due to fluctuations in exchange rates of local currencies in countries where we operate against U.S. dollars.

Operating loss

As a result of the foregoing, we had an operating loss of US$1,647.2 million in 2021 and an operating loss of US$1,389.6 million in 2022.

Fair value change of financial assets and liabilities at fair value through profit or loss

We recorded a fair value gain of financial assets and liabilities at fair value through profit or loss of US$3,050.7 million in 2022, compared to a fair value loss of financial liabilities at fair value through profit or loss of US$4,383.5 million in 2021. The fair value change of financial liabilities at fair value through profit or loss was primarily influenced by the fair value of our convertible redeemable preferred shares, and the change in 2021 and 2022 was primarily attributable to the changes in the valuation of our Company. See Note 29 to the Accountant's Report in Appendix I to this document for details regarding the changes in fair value changes of financial liabilities at fair value.

Finance income

Our finance income increased by 132.2% from US$9.5 million in 2021 to US$22.0 million in 2022, due to increased interest income from bank deposits.

Finance costs

Our finance costs stayed relatively stable at US$99.1 million in 2021 and US$99.5 million in 2022, primarily due to (i) an increase in interest expense on borrowings from US$3.6 million in 2021 to US$62.2 million in 2022, driven by the interest expense in relation to the senior notes we issued and certain credit facility we utilized in 2022, and (ii) an increase in interest expense on lease liabilities from US$13.9 million in 2021 to US$37.3 million in 2022, partially offset by a decrease in interest expense on convertible preferred shares from US$81.6 million in 2021 to nil in 2022. In 2021, we declared a special dividend and accounted for such distribution to holders of preferred shares as interest expenses.

Income tax expense

We recorded an income tax expense of US$73.1 million in 2021 and US$10.8 million in 2022, and the decrease was mainly because we utilized the previous unrecognized tax losses in 2022.

(Loss)/profit for the year

As a result of the foregoing, we recorded a loss of US$6,192.3 million in 2021 and a profit of US$1,572.6 million in 2022.

Year ended December 31, 2021 Compared to Year ended December 31, 2020

Revenue

Our revenues increased by 216.0% from US$1,535.4 million in 2020 to US$4,851.8 million in 2021. The increase was primarily attributable to the growth of our express delivery services and cross-border services.

Express delivery services. The growth in our revenue from express delivery services is primarily driven by parcel volume and revenue per parcel in Southeast Asia and China, since we generate substantially all of our revenue from express delivery services in these two geographic segments. Our revenue from express delivery services increased by 204.6% from

US$1,481.9 million in 2020 to US$4,513.6 million in 2021, primarily due to (i) a 224.2% increase in our total parcel volume from 3.2 billion in 2020 to 10.5 billion in 2021 driven by increases in parcel volume and market share in both Southeast Asia and China, and (ii) the increase in revenue per parcel, in both Southeast Asia and China. For more details on the growth of our revenue from express delivery services in Southeast Asia and China, see "– Revenue by geographic segment".

Cross-border services. Our revenue from cross-border services increased by 2,797.5% from US$10.1 million in 2020 to US$291.9 million in 2021, primarily attributable to the ramping-up of our cross-border services in 2021.

Sale of accessories. Revenue from our sale of accessories decreased by 11.2% from US$34.2 million in 2020 to US$30.4 million in 2021, despite the increase in our parcel volume, because we encouraged the use of reusable and durable packaging materials and packaging efficiency throughout our network.

Others. Our revenue from other services increased by 72.2% from US$9.3 million in 2020 to US$16.0 million in 2021, primarily driven by an increase in the rental income we generated from properties we owned in Indonesia. In 2020 and 2021, some of the SEA entities in Indonesia were leasees of our properties in Indonesia. After we acquired the SEA entities, such revenue became intra-group income and we no longer recognize rental income in connection with these properties rented and used by these SEA entities.

Revenue by geographic segment

Southeast Asia. Our revenue from Southeast Asia increased by 127.2% from US$1,046.5 million in 2020 to US$2,377.5 million in 2021, primarily driven by our increased parcel volume and revenue per parcel. Our parcel volume in Southeast Asia increased by 87.3% from 1,153.8 million in 2020 to 2,160.8 million in 2021, and our market share increased from 16.4% in 2020 to 22.3% in 2021. The increases in our parcel volume and market share were attributable to (i) the rapid expansion of our network and operations through the regional sponsor model in countries such as Indonesia, the Philippines, Malaysia and Thailand, which together accounted for a majority of our total revenues from Southeast Asia during the Track Record Period, and (ii) enhanced cooperation and relationship with e-commerce platforms as we helped our e-commerce partners expand their business into multiple Southeast Asian countries by providing critical e-commerce logistics and parcel delivery infrastructure.

Our revenue per parcel in Southeast Asia increased from US$0.91 in 2020 to US$1.10 in 2021, despite certain volume discount we provided to major e-commerce customers. The increase in revenue per parcel was primarily attributable to change of the service provided by us as a whole after our acquisition and consolidation of the SEA entities in Indonesia and Thailand. Historically, a portion of the express delivery orders were placed with and handled by the SEA entities directly before we acquired them. Such parcel were delivered under our J&T brand. For such parcels, the SEA entities were primarily responsible for the entire express delivery service while we provided them with network services for our technology system support, training and the SEA entities' access to our logos and brand names, as well as sorting services in some routes. In early 2021, after the SEA entities demonstrated their abilities to carry out stable operations, we initiated the process to acquire the SEA entities, and began to consolidate the operational capacities of the SEA entities and enhance our abilities to provide consistent, quality customer services. As a result, we streamlined and standardized our delivery services and other arrangements. After the acquisitions were consummated and the SEA entities became part of us, we became primarily responsible for the entire express delivery service to customers and charged full express delivery service fee for all parcels that were delivered through our network.

China. Our revenue from China increased by 355.5% from US$478.8 million in 2020 to US$2,181.4 million in 2021, primarily driven by our increased parcel volume and revenue per parcel in China. Our parcel volume in China increased by 300.0% from 2,083.5 million in 2020 to 8,334.3 million in 2021, and our market share increased from 2.5% in 2020 to 7.7% in 2021. The increases in our parcel volume and market share were attributable to expansion of our collaboration with e-commerce platforms, competitive pricing and expanded network of network partners, which allowed us to acquire a wide range of merchants across China. Our revenue per parcel in China increased from US$0.23 to US$0.26 in the same period, primarily attributable to (i) the fast establishment and expansion of our network in China since we entered into the market in 2020, leading to improved bargaining power with network partners, and (ii) government policies and guidance supporting the stabilization of pricing in China.

Others. Our other revenue increased from US$10.1 million in 2020 to US$292.9 million in 2021, primarily attributable to our preparation activities in the New Markets and our expansion of cross-border service offerings.

Cost of revenue

Our cost of revenue increased by 200.3% from US$1,796.9 million in 2020 to US$5,396.5 million in 2021, primarily attributable to increases in our fulfillment costs, line-haul costs and employee benefits.

Fulfillment costs. Our fulfillment costs increased by 190.8% from US$820.1 million in 2020 to US$2,385.2 million in 2021, consistent with the expansion of our network and increase in parcel volume. Our fulfillment costs accounted for 53.4% and 49.2% of our total revenue in the corresponding periods. The slight decrease was primarily due to our acquisition of the SEA entities in 2021, as we no longer incur fulfillment costs but incurred line-haul costs, staff costs and other costs for parcels picked up or delivered by such entities.

Line-haul costs. Our line-haul costs increased by 264.3% from US$368.2 million in 2020 to US$1,341.4 million in 2021, as we expanded our fleets and used more transportation services from third-party service providers to support our rapid growth. Our line-haul costs accounted for 24.0% and 27.8% of our total revenue in the corresponding periods, respectively. The increase was primarily because (i) we continued to expand our transportation capacity in 2021, and (ii) we acquired the SEA entities in 2021 and accounted for costs in relation to parcels picked up and delivered by such entities as line-haul costs, whereas we recorded fulfillment costs for services performed by the SEA entities before the acquisition.

Staff costs. Our staff costs increased by 129.1% from US$306.0 million in 2020 to US$701.2 million in 2021, primarily due to an increase in the number of operational employees globally as we continued to expand our business. Our staff costs accounted for 19.9% and 14.5%, respectively, of our total revenue in 2020 and 2021. The decrease was primarily attributable to the expansion of our operations in China, where we predominantly relied on network partners – instead of our own staff – to pick up and deliver parcels.

Other labor costs. Our other labor costs increased by 231.1% from US$93.1 million in 2020 to US$308.5 million in 2021, consistent with the significant increase in our parcel volume and revenue. Other labor costs accounted for 6.1% and 6.4% respectively, of our revenue in the corresponding periods.

Depreciation and amortization. Our depreciation and amortization costs increased by 132.8% from US$82.6 million in 2020 to US$192.2 million in 2021, primarily due to the expansion of our network, which included the addition of new sorting centers and warehouses leading to increased depreciation costs of right-of-use assets and plant and equipment.

Impairment. Our impairment increased from nil in 2020 to US$250.3 million in 2021, primarily due to the impairment losses we recorded in connection with certain redundant property, plant and equipment in connection with the process to integrate BEST Express China.

Others. Our other cost of revenue increased by 71.6% from US$126.9 million in 2020 to US$217.7 million in 2021, mainly relating to increased utility expenses and other miscellaneous expenses in relation to our expansion into the China market.

Cost of revenue by geographic segment

Southeast Asia. Our cost of revenue for Southeast Asia increased from US$734.6 million in 2020 to US$1,715.4 million in 2021, primarily because (i) our parcel volume in Southeast Asia increased from 1,153.8 million to 2,160.8 million in the corresponding period, and (ii) we accounted for all costs in relation to parcels collected and delivered by the SEA entities after we acquired them in 2021, whereas we paid service fees, including pickup, sorting and delivery fees, for the portion of service that the SEA entities provided to us before the acquisition.

China. Our cost of revenue for China increased from US$1,055.6 million in 2020 to US$3,400.1 million in 2021, consistent with the expansion of our network and the increase in our parcel volume from 2.1 billion to 8.3 billion in the corresponding period.

Others. Our cost of revenue for other operations increased by 4,045.0% from US$6.8 million in 2020 to US$281.1 million in 2021, primarily attributable to the expansion of our cross-border services and, to a lesser extent, our activities in the New Markets in preparation for entering into these markets.

Gross profit/(loss)

As a result of the foregoing, our gross loss increased by 108.3% from US$261.5 million in 2020 to US$544.7 million in 2021, primarily attributable to the ramping-up of our service offerings in China.

Our gross profit from Southeast Asia increased from US$312.0 million in 2020 to US$662.1 million in 2021, primarily due to the growth in the express delivery markets and the increase in our market shares in Southeast Asian countries. Our gross margin in Southeast Asia decreased slightly from 29.8% to 27.8% in 2021, primarily because we offered certain volume discount to our major e-commerce customers as we delivered increased volumes of parcels for them in 2021.

For China, we recorded a gross loss of US$576.7 million and US$1,218.7 million in 2020 and 2021, respectively. The increase in our gross loss in China is primarily attributable to (i) intense competition in China's express delivery market that we faced during the expansion of our network and (ii) expenditures in relation to our expansion, such as costs of operating equipment and facilities, costs of leases and other operating costs. Our negative gross margin improved from 120.4% in 2020 to 55.9% in 2021, reflecting our improved operational efficiency with strong network effects, economies of scale and adjustments to our pricing terms.

Our gross profit from other geographical segments increased by 258.9% from US$3.3 million in 2020 to US$11.8 million in 2021.

Selling, general and administrative expenses

Our selling, general and administrative expenses increased by 208.6% from US$365.9 million in 2020 to US$1,129.0 million in 2021, primarily due to (i) an increase in our staff costs, primarily attributable to increased employee benefit expenses in relation to share-based awards granted to employees and management, shares granted to certain regional sponsors, and (ii) an increase in share-based payments related to equity transactions, attributable to (A) repurchases of Class A Shares and Class B Shares from certain shareholders in 2021, (B) Ordinary Shares and preferred shares repurchased or to be repurchased accompanying Series C2 preferred share issuances in 2021, and (C) the difference between the fair value of certain preferred shares issued in financings and the total consideration received due to lengthy settlement periods in 2020 and 2021 and (iii) an increase in other selling, general and administrative expenses, driven by growth of expenses such as IT service fees that we incurred to expand our network.

Research and development expenses

Our research and development expenses increased by 190.4% from US$14.1 million in 2020 to US$41.0 million in 2021, primarily due to share-based expenses of US$15.3 million in relation to share-based awards we granted to our research and development personnel and increased wage expense driven by an increase in research and development headcount.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased by 335.5% from US$9.5 million in 2020 to US$41.3 million in 2021, primarily due to an increase of 955.9% in loss allowance for trade receivables from US$3.7 million in 2020 to US$39.0 million in 2021, primarily in relation to trade receivables we consolidated into our balance sheet as part of the acquisition of BEST Express China.

Other income

Our other income increased by 383.9% from US$17.1 million in 2020 to US$82.5 million in 2021, primarily due to an increase in our subsidy income from the Chinese government and local governments in Southeast Asian countries.

Other gains, net

Our other gains, net decreased by 4.0% from US$27.5 million in 2020 to US$26.4 million in 2021, primarily due to a decrease in our exchange gains, net, driven by the fluctuation in exchange rates of local currencies in countries where we operate against U.S. dollars.

Operating loss

As a result of the foregoing, we had an operating loss of US$606.4 million in 2020 and an operating loss of US$1,647.2 million in 2021.

Fair value change of financial assets and liabilities at fair value through profit or loss

We recorded fair value changes of financial assets and liabilities at fair value through profit or loss of nil and US$4,383.5 million in 2020 and 2021, respectively, primarily due to an increase of the fair value of our convertible preferred shares, as a result of an increase in our Company's equity value and adjustment of certain rights and obligations of our convertible preferred shares.

Finance income

Our finance income increased by 382.2% from US$2.0 million in 2020 to US$9.5 million in 2021, primarily due to an increase in interest income from bank deposits.

Finance costs

Our finance costs increased by 616.3% from US$13.8 million in 2020 to US$99.1 million in 2021, primarily due to (i) an increase in interest expense on convertible preferred shares from nil to US$81.6 million, as we declared a special dividend in 2021 and accounted for such distribution to holders of preferred shares as interest expense, and (ii) an increase in interest expense on lease liabilities from US$6.0 million in 2020 to US$13.9 million in 2021, partially offset by a decrease in interest expense on borrowings from US$7.8 million in 2020 to US$3.6 million in 2021.

Income tax expense

Our income tax expense was US$45.5 million and US$73.1 million in 2020 and 2021, respectively. The increase was primarily due to the increase in our taxable income, particularly for some of our regional operating entities in Southeast Asia.

Loss for the year

As a result of the foregoing, our loss was US$664.2 million in 2020 and US$6,192.3 million in 2021.

ANALYSIS OF KEY BALANCE SHEET ITEMS

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Total non-current assets	628,286	3,028,218	3,089,262	3,325,390
Total current assets	1,614,754	3,516,424	2,846,297	2,747,389
Total assets	2,243,040	6,544,642	5,935,559	6,072,779
Total non-current liabilities	1,966,519	10,975,327	9,188,190	9,681,802
Total current liabilities	1,147,020	2,205,739	1,731,617	1,920,567
Total liabilities	3,113,539	13,181,066	10,919,807	11,602,369
Net current assets	467,734	1,310,685	1,114,680	826,822
Share capital	7	14	14	17
Share premium	33,184	607,734	603,829	598,256
Other reserves	(166,468)	(525,822)	(434,108)	(243,798)
Accumulated losses	(625,953)	(6,672,936)	(5,016,768)	(5,657,735)
Equity attributable to owners of the Company	(759,230)	(6,591,010)	(4,847,033)	(5,303,260)
Non-controlling interests	(111,269)	(45,414)	(137,215)	(226,330)
Total deficits	(870,499)	(6,636,424)	(4,984,248)	(5,529,590)

The following table sets forth our assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Non-current assets				
Investment properties	53,065	718	507	314
Property, plant and equipment	303,032	1,107,564	1,052,884	1,102,229
Right-of-use assets	186,762	604,212	481,207	574,687
Intangible assets	6,014	1,129,194	963,569	981,970
Investments accounted for using the equity method	319	5,552	3,590	2,545
Deferred income tax assets	5,001	9,848	43,107	51,576
Other non-current assets	74,093	171,130	63,348	79,750
Financial assets at fair value through profit or loss	–	–	481,050	532,319
	628,286	**3,028,218**	**3,089,262**	**3,325,390**
Current assets				
Inventories	15,954	29,359	29,120	21,956
Trade receivables	180,760	334,876	513,954	622,560
Prepayments, other receivables and other assets	745,363	882,190	703,010	801,815
Financial assets at fair value through profit or loss	71,324	41,581	16,440	9,493
Restricted cash	928	125,970	79,725	96,301
Cash and cash equivalents	600,425	2,102,448	1,504,048	1,195,264
Total current assets	**1,614,754**	**3,516,424**	**2,846,297**	**2,747,389**
Total assets	**2,243,040**	**6,544,642**	**5,935,559**	**6,072,779**
Non-current liabilities				
Borrowings	36,917	29,062	1,020,897	1,010,871
Lease liabilities	111,378	391,232	341,471	359,559
Deferred tax liabilities	3,051	33,084	22,407	15,528
Employee benefit obligations	2,258	9,185	7,765	11,322
Financial liabilities – redemption liabilities of shares of JNT KSA[1]	–	25,458	30,583	33,495
Financial liabilities at fair value through profit or loss	1,812,915	10,487,306	7,765,067	8,251,027
Total non-current liabilities	**1,966,519**	**10,975,327**	**9,188,190**	**9,681,802**

	Year ended December 31,			As of June 30
	2020	2021	2022	2023
	(in US$ thousands)			
Current liabilities				
Trade payables	225,452	577,065	484,215	471,666
Advances from customers	137,224	291,362	209,925	241,441
Accruals and other payables	304,362	915,352	776,378	829,146
Lease liabilities	63,639	207,490	151,195	196,583
Current income tax liabilities	9,200	20,756	32,424	20,152
Borrowings	407,143	59,965	77,480	151,563
Financial liabilities at fair value through profit or loss	–	–	–	10,016
Financial liabilities – ordinary share redemption liabilities	–	133,749	–	–
Total current liabilities	**1,147,020**	**2,205,739**	**1,731,617**	**1,920,567**

Note:

(1) Relating to certain shares in JNT KSA, one of our regional operating entities, are held by a third-party investor entitled to certain exit rights. See Note 26 to the Accountant's Report in Appendix I to this document.

Assets

Trade receivables

Our trade receivables are primarily amounts due from customers for goods sold or services performed in relation to services provided to certain e-commerce platforms customers and cross-border customers.

The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Trade receivables	187,083	379,447	561,166	666,650
Less: provision for impairment	(6,323)	(44,571)	(47,212)	(44,090)
Total	**180,760**	**334,876**	**513,954**	**622,560**

Our trade receivables increased by 85.3% from US$180.8 million as of December 31, 2020 to US$334.9 million as of December 31, 2021, and further increased by 53.5% to US$514.0 million as of December 31, 2022, and continued to increase by 18.8% to US$622.6 million as of June 30, 2023, primarily due to the growth of the express delivery services provided directly to e-commerce platforms during the Track Record Period and the growth of our cross-border business in 2021, 2022 and the six months ended June 30, 2023.

We generally allow a credit period of 30 to 120 days to our e-commerce and other customers. The following table sets forth an aging analysis of our trade receivables, based on the invoice date, as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Within 1 month	124,814	297,578	366,405	464,976
1 – 4 months	56,255	58,437	156,515	167,461
4 – 6 months	5,006	11,835	768	2,888
6 – 9 months	705	5,302	1,702	9,295
9 – 12 months	105	2,425	4,917	2,393
Above 12 months	198	3,870	30,859	19,637
Less: provision for impairment	(6,323)	(44,571)	(47,212)	(44,090)
Total	**180,760**	**334,876**	**513,954**	**622,560**

We apply the simplified approach under IFRS 9, which requires expected lifetime losses to be recognized from our initial recognition of the receivables. The provision matrix is based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and forward-looking estimates. As of December 31, 2020, 2021 and 2022 and June 30, 2023, we made provisions for the impairment of our trade receivables of US$6.3 million, US$44.6 million, US$47.2 million and US$44.1 million, respectively. Our provisions as of December 31, 2021 and 2022 and June 30, 2023 were primarily related to receivables from terminated network partners of BEST Express China after the acquisition and during the subsequent integration of BEST Express China.

The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2020	2021	2022	2023
Trade receivables turnover days[(1)]	27.6	19.4	21.3	25.5

Note:

(1) Calculated by dividing the average balance of trade receivables by revenues for the relevant period multiplied by the number of days during the period. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

Our trade receivables turnover days decreased from 27.6 days in 2020 to 19.4 days in 2021, primarily due to the significant increase in our revenue from operations in China while the beginning balance of trade receivables in 2021 was relatively small as we were still ramping up our operations in China at that time. Our trade receivables turnover days slightly increased from 19.4 days in 2021 to 21.3 days in 2022, due to the growth of express delivery business provided to certain e-commerce platforms in Southeast Asia and the growth in cross-border business. Our trade receivables turnover days further increased to 25.5 in the six months ended June 30, 2023, primarily because of the continuous growth of our cross-border operations, which typically have longer credit terms due to the nature of the operation, and the credit terms we granted to new e-commerce platform partners.

As of [July 31], 2023, we had settled approximately US$[401.8] million, or [64.5%], of our trade receivables as of June 30, 2023.

Prepayments, other receivables and other assets

Our prepayments, other receivables and other assets primarily consist of deposits, prepaid taxes, receivables from our financing activity consideration, loans to related parties, loans to third parties, prepaid expenses and others. During the Track Record Period, we entered into loans agreements with our related parties and third parties. We expect that substantially all the non-trade balances with related parties will be settled prior to [**REDACTED**]. During the Track Record Period, loans to related parties and third parties comply with relevant laws and regulations, including but not limited to the required interest rate cap as well as other relevant terms and conditions of loans between enterprises that are not financial institutions.

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

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Loans to related parties	70,453	47,364	–	–
Loans to third parties	248,553	16,155	1,674	3,225
Receivable of Series A Preferred Share consideration	236,862	–	–	–
Receivable of Series C1 Preferred Share consideration	–	30,000	–	–
Receivable of Series C2 Preferred Share consideration	–	159,922	–	–
Prepaid VAT and other taxes	71,911	422,339	482,667	512,000
Deposits	37,356	81,379	77,151	98,487
Prepaid expenses	22,431	65,333	76,255	97,389
Others	64,211	66,298	66,302	92,446
Less: allowance for credit losses	(6,414)	(6,600)	(1,039)	(1,732)
Total	**745,363**	**882,190**	**703,010**	**801,815**

Our prepayments, other receivables and other assets increased by 18.4% from US$745.4 million as of December 31, 2020 to US$882.2 million as of December 31, 2021, primarily due to (i) an increase in deposits, which primarily represent deposits for our leased properties and transportation services and reflected our consolidation of the financial position of BEST Express China, (ii) an increase in prepaid VAT and other taxes from US$71.9 million as of December 31, 2020 to US$422.3 million as of December 31, 2021, reflecting the prepaid tax that was recorded by BEST Express China in 2021 and consolidated into our financial positions and the prepaid tax relating our own operations in 2020, (iii) a decrease in loans to third parties, as a one-year loan of US$248.6 million with an interest rate of 0.4% that we extended to support the development and growth of our business, particularly for the SEA entities, was fully repaid in 2021, and (iv) a decrease in loans to related parties from US$70.5 million to US$47.4 million.

Our prepayments, other receivables and other assets decreased from US$882.2 million as of December 31, 2021 to US$703.0 million as of December 31, 2022, primarily due to (i) a decrease in our loans extended to related parties from US$47.4 million to nil, (ii) a decrease in our loans extended to third parties from US$16.2 million to US$1.7 million, and (iii) settlement of the receivable of Series C1 Preferred Share consideration and Series C2 Preferred Share consideration of US$30.0 million and US$159.9 million, respectively, partially offset by an increase in prepaid VAT and other taxes from US$422.3 million to US$482.7 million.

Our prepayments, other receivables and other assets increased from US$703.0 million as of December 31, 2022 to US$801.8 million as of June 30, 2023, primarily due to (i) an increase in prepaid VAT and other taxes from US$482.7 million to US$512.0 million, driven by the VAT we paid in connection with our purchase of materials, goods equipments and professional services to support our expansion, (ii) an increase in deposits of US$21.3 million as performance security deposits in relation to the construction of certain facilities in China and our performance of express delivery services during the June promotional season, (iii) an increase in prepaid expenses of US$21.1 million mainly attributable to the increasing operating cost and expenses and (iv) an increase in others, attributable to the advance payments to Fengwang network partners who decided to exit the network.

As of [July 31], 2023, we had settled approximately US$[150.7] million, or [18.8%], of our prepayments, other receivables and other assets outstanding as of June 30, 2023, and approximately US$[141.0] million, or [27.5%], of our prepaid VAT as of June 30, 2023. As of [July 31], 2023, we did not have loans to third parties in prepayments, other receivables and other assets.

Inventories

Our inventories primarily consist of the accessories such as our J&T-branded packing supplies and apparels, as well as consumables including handheld terminals and packing materials.

Our inventories increased by 84.0% from US$16.0 million as of December 31, 2020 to US$29.4 million as of December 31, 2021, due to our consolidation of the financial position of BEST Express China. Our inventories stayed relatively stable at US$29.1 million as of December 31, 2022 compared to US$29.4 million as of December 31, 2021. Our inventories decreased from US$29.1 million as of December 31, 2022 to US$22.0 million as of June 30, 2023 due to our more efficient inventory management.

Our inventories turnover days were 2.2 days in 2020, 1.5 days in 2021, 1.4 days in 2022 and 1.2 days for the six months ended June 30, 2023. The decrease was primarily driven by the increased cost of revenue consistent with the expansion of our business, while our average balance of inventories remained relatively stable. The inventories turnover day is calculated by dividing the average balance of inventories by cost of revenue for the relevant period multiplied by the number of days during the period. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

As of [July 31], 2023, we had utilized US$[22.0] million, or [100.0%], of our inventories as of June 30, 2023.

Investment properties

Our investment properties primarily consist of buildings and warehouses that we hold and lease to certain third parties including certain SEA entities before we acquired them in 2021.

Our investment properties decreased from US$53.1 million as of December 31, 2020 to US$0.7 million as of December 31, 2021. In 2021, all investment properties that were used and leased to SEA entities properties, plant and equipment after our acquisition of the SEA entities, pursuant to which leasees of these reclassified properties became our subsidiaries. We continued to lease our spare building and warehouses we owned in Indonesia to certain third parties. Our investment properties amounted to US$0.3 million as of June 30, 2023.

Property, plant and equipment

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Logistics equipment	60,137	425,576	471,066	498,983
Vehicles	144,492	292,170	280,810	268,809
Construction in progress	36,406	208,457	88,879	87,290
Office equipment	33,158	53,672	61,385	64,176
Land, Building and warehouses	15,320	69,066	113,224	148,024
Others	13,519	58,623	37,520	34,947
Total	**303,032**	**1,107,564**	**1,052,884**	**1,102,229**

Our property, plant and equipment further increased by 265.5% from US$303.0 million as of December 31, 2020 to US$1,107.6 million as of December 31, 2021, primarily due to (i) an increase in the value of logistic equipment from US$60.1 million as of December 31, 2020 to US$425.6 million as of December 31, 2021, (ii) an increase in vehicle from US$144.5 million as of December 31, 2020 to US$292.2 million as of December 31, 2021, and (iii) an increase in construction in progress from US$36.4 million as of December 31, 2020 to US$208.5 million as of December 31, 2021, which were primarily due to our investment in sorting centers to support the expansion of our network and our consolidation of the financial position of BEST Express China since December 8, 2021.

Our property, plant and equipment was US$1,107.6 million as of December 31, 2021 and US$1,052.9 million as of December 31, 2022 and US$1,102.2 million as of June 30, 2023, primarily attributable to an increase in logistic equipment, as well as land, building warehouse to support our business expansion, partially offset by a decrease in construction in progress reflecting the completion of certain construction and renovation projects.

In 2021 and 2022, subsequent to the acquisition and integration of BEST Express China, we identified certain sorting centers which would be closed upon the termination of relevant lease and correspondingly recorded impairment losses of US$250.3 million and US$219.1 million in the years ended December 31, 2021 and 2022, respectively.

Right-of-use assets

We lease various offices, warehouses and vehicles on a wide range of lease terms and conditions. The following table sets forth our right-of-use assets as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(in US$ thousands)			
Buildings and warehouses	182,789	578,085	460,258	495,218
Vehicles	3,117	10,099	11,320	14,375
Land	682	3,138	2,471	60,432
Equipment and others	174	12,890	7,158	4,662
Total	**186,762**	**604,212**	**481,207**	**574,687**

Our right-of-use assets increased by 223.5% from US$186.8 million as of December 31, 2020 to US$604.2 million as of December 31, 2021, primarily due to an increase in right-of-use assets related to buildings and warehouses from US$182.8 million as of December 31, 2020 to US$578.1 million as of December 31, 2021 attributable to (i) new lease agreements we entered into in 2021 to expand our existing facilities and support our expansion, and (ii) the lease we assumed in connection with our acquisition of BEST Express China.

Our right-of-use assets decreased by 20.4% from US$604.2 million as of December 31, 2021 to US$481.2 million as of December 31, 2022, primarily due to a decrease in our right-of-use assets related to buildings and warehouses as we optimized our operation after we fully integrated BEST Express China and adjusted our network density by removing certain redundant facilities.

Our right-of-use assets increased by 19.4% from US$481.2 million as of December 31, 2022 to US$574.7 million as of June 30, 2023, primarily due to an increase in land and buildings and warehouses, pursuant to additional lease agreements we entered into in China, the Philippines and the New Markets.

Intangible assets

Our intangible assets primarily consist of goodwill, customer relationship and others including software and trademarks and licenses.

Our intangible assets increased significantly from US$6.0 million as of December 31, 2020 to US$1,129.2 million as of December 31, 2021, primarily due to the increased goodwill we recorded in relation to the acquisition of BEST Express China. Our intangible assets decreased from US$1,129.2 million as of December 31, 2021 to US$963.6 million as of December 31, 2022, primarily due to (i) an one-off impairment of goodwill in 2022, and (ii) fluctuations in foreign currency exchange rates. As of June 30, 2023, our intangible assets remained relatively stable at US$982.0 million.

Goodwill is allocated to our CGUs or groups of CGUs identified according to the territories in which we operate. The movement of carrying amount of goodwill for each respective CGUs is set out below:

	China	Indonesia	Thailand	Brazil
	(in US$ thousands)			
As of December 31, 2019	–	1,194	–	–
Acquisition of subsidiaries	220	–	–	–
Impairment of goodwill	–	–	–	–
Exchange differences	–	–	–	–
As of December 31, 2020	220	1,194	–	–
Acquisition of subsidiaries	630,458	215,487	98,320	–
Impairment of goodwill	–	–	–	–
Exchange differences	(2)	(274)	(2,027)	–
As of December 31, 2021	630,676	216,407	96,293	–
Acquisition of subsidiaries	–	–	–	51,829
Impairment of goodwill	(117,502)	–	–	–
Exchange differences	(53,746)	(17,395)	(5,356)	–
As of December 31, 2022	459,428	199,012	90,937	51,829
Acquisition of subsidiaries	33,629	–	–	–
Impairment of goodwill	–	–	–	–
Exchange differences	(16,820)	9,375	(2,411)	4,584
As of June 30, 2023	476,237	208,387	88,526	56,413

The recoverable amount of our CGUs or groups of CGUs is determined based on value-in-use calculations. The key assumptions used for value-in-use calculations are as follows:

2020

	China	Indonesia
Annual growth rate within the period	2.5%-195.5%	3.0%-42.6%
Growth rate to extrapolate cash flows beyond the period	2.5%	3.0%
Gross margin	-9.7%-13.4%	25.8%-28.8%
Pre-tax discount rate	19.84%	23.66%
Excess of recoverable amount over carrying value (in US$ thousands)	273,880	643,169

2021

	China	Indonesia	Thailand
Annual growth rate within the period	5.4%-105.0%	5.5%-29.2%	10.7%-64.2%
Growth rate to extrapolate cash flows beyond the period	2.5%	3.0%	2.0%
Gross margin	0.0%-13.4%	24.8%-28.9%	(12.0%)-33.0%
Pre-tax discount rate	18.14%	19.87%	20.24%
Excess of recoverable amount over carrying value (in US$ thousands)	5,297,516	2,294,940	508,299

2022

	China	Indonesia	Thailand	Brazil
Annual growth rate within the period	2.4%-33.3%	5.3%-28.0%	10.2%-40.6%	27.6%-302.9%
Growth rate to extrapolate cash flows beyond the period	2.2%	3.0%	2.0%	3.0%
Gross margin	3.2%-8.2%	23.1%-28.5%	12.7%-30.3%	-4.4%-20.5%
Pre-tax discount rate	17.48%	19.17%	21.45%	24.85%
Excess of recoverable amount over carrying value (in US$ thousands)	–	1,987,918	580,469	129

Six months ended June 30, 2023

	China	Indonesia	Thailand	Brazil
Annual growth rate within the period	2.4-40.5%	5.0%-28.0%	10.2%-39.6%	10.5%-328.1%
Growth rate to extrapolate cash flows beyond the period	2.2%	2.5%	2.0%	3.0%
Gross margin	2.0%-8.5%	24.0%-28.3%	12.7%-30.1%	-3.1%-19.8%
Pre-tax discount rate	17.58%	19.31%	20.49%	26.48%
Excess of recoverable amount over carrying value (in US$ thousands)	20,504	2,244,912	599,514	40,052

The recoverable amount of the following CGUs would equal its carrying amount if the key assumptions were to change relatively as follows:

	As of December 31, 2020	
	China	**Indonesia**
Decrease in annual growth rate within the period	(8%)	(196%)
Decrease in growth rate to extrapolate cash flows beyond the period	N/A[(ii)]	N/A[(ii)]
Decrease in gross margin	(13%)	(73%)
Increase in pre-tax discount rate	26%	2,721%

	As of December 31, 2021		
	China	**Indonesia**	**Thailand**
Decrease in annual growth rate within the period	(37%)	(152%)	(59%)
Decrease in growth rate to extrapolate cash flows beyond the period[2]	N/A	N/A	N/A
Decrease in gross margin	(51%)	(61%)	(46%)
Increase in pre-tax discount rate	128%	221%	64%

	As of December 31, 2022			
	China	**Indonesia**	**Thailand**	**Brazil[1]**
Decrease in annual growth rate within the period	N/A	(155%)	(88%)	N/A
Decrease in growth rate to extrapolate cash flows beyond the period[2]	N/A	N/A	N/A	N/A
Decrease in gross margin	N/A	(54%)	(48%)	N/A
Increase in pre-tax discount rate	N/A	279%	68%	N/A

	As of June 30, 2023			
	China	**Indonesia**	**Thailand**	**Brazil**
Decrease in annual growth rate within the period	(0.6%)	(166%)	(96%)	(3%)
Decrease in growth rate to extrapolate cash flows beyond the period[2]	(12.2%)	N/A[ii]	N/A[ii]	(301%)
Decrease in gross margin	(0.5%)	(55%)	(50%)	(5%)
Increase in pre-tax discount rate	0.9%	298%	104%	9%

Notes:

(1) For the groups of CGUs in Brazil, management has assessed the risk of impairment of goodwill and concluded that no impairment charge would be required. However, we restructured our structure in Brazil soon after we launched operations there and completed such restructuring in late 2022 and the relevant key assumptions used in the valuation as at the acquisition date approximated those used as at December 31, 2022, any adverse changes in key assumptions would lead to impairment.

(2) As per relevant assessment, the headroom would not decrease to zero even if growth rate in extrapolate cash flows beyond the Period dropped to minus 10%.

As of December 31, 2021, it is unlikely that any reasonable possible changes in key assumptions would lead to impairment for the goodwill in China, Indonesia and Thailand.

As of December 31, 2022, it is unlikely that any reasonable possible changes in key assumptions would lead to impairment for the goodwill in Indonesia and Thailand. For the groups of CGUs in China, according to management's impairment test performed with the assistance of an independent valuer, the carrying amount exceeded relevant recoverable amount. As a result, impairment charges of goodwill amounting to approximately US$117,502,000 were recognised.

As of June 30, 2023, it is unlikely that any reasonable possible changes in key assumptions would lead to impairment for our goodwill.

Other non-current assets

Our other non-current assets primarily consist of (i) loans we extended to third parties (ii) prepayment of construction projects and (iii) deposit receivable.

The following table sets forth our other non-current assets as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(in US$ thousands)			
Loans to related parties – non-current portion	167	146,299	–	–
Loans to third parties – non-current portion	58,829	2,127	37,428	68,806
Prepayments for constructions	15,713	13,918	19,778	7,677
Deposits receivable	–	11,370	7,363	4,743
Others	–	–	39	–
Less: allowance for credit losses	(616)	(2,584)	(1,260)	(1,476)
Total	**74,093**	**171,130**	**63,348**	**79,750**

Our other non-current assets increased from US$74.1 million as of December 31, 2020 to US$171.1 million as of December 31, 2021, primarily due to an increase in loans to related parties from US$0.2 million as of December 31, 2020 to US$146.3 million as of December 31, 2021, partially offset by a decrease in loans to third parties which were our SEA entities from US$58.8 million as of December 31, 2020 to US$2.1 million as of December 31, 2021 due to the repayment of the loan and the acquisition of SEA entities in 2021. The loans granted to our SEA entities amounted to US$58.8 million, nil and US$37.4 million in 2020, 2021 and 2022, respectively. Our loans to the SEA entities typically have a term from three to five years, with an interest rate of 7% per annum.

Our other non-current assets decreased by 63.0% from US$171.1 million as of December 31, 2021 to US$63.3 million as of December 31, 2022, primarily due to decrease in a loan to one related party from US$146.3 million as of December 31, 2021 to nil as of December 31, 2022, partially offset by the increased loans to third parties from US$2.1 million as of December 31, 2021 to US$37.4 million as of December 31, 2022.

Our other non-current assets increased by 25.9% from US$63.3 million as of December 31, 2022 to US$79.8 million as of June 30, 2023, primarily due to an increase in loans to third parties, driven by additional loans we extended to unconsolidated regional operating entities in Mexico to support our expansion in this jurisdiction. Such loans have a term of three years and an interest rate of 4%.

For loans to unconsolidated regional operating entities, we determine the credit risk of relevant loans based on factors including past dealings and experiences with the borrowers, internal or external credit ratings, overdue status and the nature of the loans, as well as other forward-looking information including macroeconomic factors. During the Track Record Period, we managed certain credit losses for these loans in accordance with our credit risk assessment methods. Impairment is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since it was initially recognized. If there has been a significant increase in credit risk since the initial recognition, then impairment is measured as lifetime expected credit loss.

Financial assets at fair value through profit or loss

We had financial assets at fair value through profit or loss of US$71.3 million, US$41.6 million, US$497.5 million and US$541.8 million as of December 31, 2020, 2021, 2022 and June 30, 2023, respectively.

Our financial assets at fair value through profit or loss as of December 31, 2022 and June 30, 2023 consisted of investments in Windfall T&L SPC, convertible bonds issued by Huisen Global and bank wealth management products.

The wealth management products classified as other financial assets mainly include short-term wealth management products issued by major and reputable commercial banks without guaranteed returns. We manage and evaluate the performance of investments on a fair value basis in accordance with our risk management and investment strategy. The fair values of part of the bank wealth management products 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. To enhance our liquidity position without significantly increasing our exposure to the financial risks, we will continue to invest in such wealth management products after the [**REDACTED**]. After the [**REDACTED**], the investments in wealth management products will be subject to our compliance with the requirements under Chapter 14 of the Listing Rules.

Our financial assets measured at fair value through profit or loss as of December 31, 2022 also included our investment in certain unlisted equity and debt instrument, primarily consisting of our investment in convertible bonds issued by Huisen Global. Huisen Global primarily operates less-than-truckloads (LTL) transportation services through its PRC subsidiaries, under which Yimidida and Huisen brands are operated under one integrated network ("**Huisen LTL**"). In 2022, Huisen LTL handled freight aggregating over 7 million tons. Huisen LTL achieved sales of over RMB5 billion and was loss-making in 2022. Huisen LTL has been expanding into international markets such as Indonesia and Malaysia in Southeast Asia, and is in the process of expanding into other countries in Southeast Asia. We have been collaborating with Huisen LTL network in Southeast Asia and China to provide more value-added services to our customers. We believe the network of Huisen LTL will allow us to further extend offerings along the logistics value chain and build a logistics ecosystem. For example, e-commerce participants in Southeast Asia can access a whole suite of logistics solutions, and we are able to provide express delivery services for regular parcels whereas Huisen was able to cater to their needs to transport large-scale or wholesale merchandise. By partnering with Huisan, we are able to deepen our collaboration with e-commerce participants by expanding touch points and meeting these participants' diverse needs.

In addition, we are a capital partner in Windfall, which is a U.S. dollars fund with asset under management of around US$100 million, focusing on equity investment in emerging assets in the logistics and industrial development ecosystem. Windfall adopts a segregated portfolio company structure, where different segregated portfolios are established and independently operated to meet the preferences and investment profiles of different capital partners. We believe our investment in Windfall T&L SPC allows it to help us acquire, develop and own assets that fit our risk-reward profiles while capturing growth opportunities.

With the assistance from an external valuer appointed by us, we applied the discounted cash flow method to determine the underlying equity value of Huisen Global and adopted equity allocation model (if applicable) to determine relevant fair values. In determining such fair values, one or more of the significant inputs are not based on observable market data, and therefore we included relevant investments in level 3 financial instruments. Key assumptions typically include discount rate, discount of lack of marketability, and expected volatility. In addition to the assumptions adopted above, Huisen Global's projections of future performance were also factored into the determination of the underlying equity value of Huisen Global. Particularly, relevant fair values decreased, substantially as a result of the updated projections of Huisen Global's future performance, considering the overall macroeconomic situation, its industry and market positions, and etc. We have dedicated personnel in place who are responsible for identifying, reviewing and pursuing strategic investments, including investments in unlisted companies. These personnel have extensive experience in corporate finance and M&A in the logistics industry. We make investment decisions on a case-by-case basis based on the consideration of a number of factors, including the investee's operating history, the growth potential of the investee and the industries in which it operates, the quality of the investee's management team, as well as the investee's potential to generate synergies with our existing operations. We closely monitor the operational and financial performance of our investee companies.

For more information about valuation of financial assets measured at fair value through profit or loss, See Note 24 to the Accountant's Report in Appendix I to this document.

Liabilities

Trade payables

Our trade payables represent payables to our suppliers such as line-haul services and labor services providers. Our trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Our trade payables increased from US$225.5 million as of December 31, 2020 to US$577.1 million as of December 31, 2021, primarily attributable to (i) the growth of our business and operations, and (ii) our consolidation of the financial position of BEST Express China. Our trade payables decreased to US$484.2 million as of December 31, 2022, as we settled certain payables that we consolidated into our liabilities after we integrated BEST Express China. Our trade payables remained relatively stable at US$484.2 million and US$471.7 million as of December 31, 2022 and June 30, 2023, respectively.

The following table sets forth an aging analysis of our trade payables, based on invoice or issuance date, as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Trade payables				
Within 3 months	212,619	505,960	434,660	404,373
3 to 6 months	9,028	19,200	26,512	44,560
6 to 9 months	1,253	28,286	14,360	13,074
9 to 12 months	1,891	22,903	5,103	3,782
Above 12 months	661	716	3,580	5,877
Total	**225,452**	**577,065**	**484,215**	**471,666**

The following table sets forth the turnover days of our trade payables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2020	2021	2022	2023
Trade payables turnover days[(1)]	25.5	27.1	25.7	22.5

Note:

(1) Calculated by dividing the average balance of trade payable by cost of revenue for the relevant period multiplied by the number of days during the period. Average balance equals the sum of the beginning balance and ending balance for the period divided by two.

Our trade payables turnover days increased from 25.5 in 2020 to 27.1 in 2021, primarily because our average trade payables increased significantly. This increase was primarily due to the trade payables that we consolidated from the financial position of BEST Express China as a result of the acquisition. For our operations in China, we generally settle our trade payables within 30 days. Outside China, we generally settle our trade payables from 30 to 60 days. Our trade payables turnover days decreased from 27.1 in 2021 to 25.7 in 2022, primarily due to the decreased balance of trade payables as of December 31, 2022. Our trade payables turnover days decreased from 25.7 in 2022 to 22.5 for the six months ended June 30, 2023, mainly because we continued to settle the trade payables related to pre-acquisition operations of BEST Express China.

As of [July 31], 2023, we settled US$[212.6] million or [45.1]% of our trade payables outstanding as of June 30, 2023.

Advances from customers

Advances from customers mainly represent advances from network partners in China for express delivery services to mitigate potential credit risk. The following table sets forth our advances from customers as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Advances from customers for express delivery services	137,224	291,362	209,925	241,441
Total	**137,224**	**291,362**	**209,925**	**241,441**

Our advances from customers increased from US$137.2 million as of December 31, 2020 to US$291.4 million as of December 31, 2021, primarily due to (i) the expansion of our network, and (ii) our consolidation of the financial position of BEST Express China. Our advances from customers further decreased to US$209.9 million as of December 31, 2022, primarily due to (i) a decrease in the number of our network partners as we optimized our network and (ii) a decrease in the average amount of advance per time from network partners corresponding with an increase in the frequency of their advance payments. Our advances from customers increased from US$209.9 million as of December 31, 2022 to US$241.4 million as of June 30, 2023, primarily due to the growth of our operations in China, where we collaborated with and requested advances from network partners to mitigate potential credit risks.

As of [July 31], 2023, we had settled approximately US$[238.8] million, or [98.9]%, of our advances from customers as of June 30, 2023.

Accruals and other payables

Our accruals and other payables primarily consist of (i) cash on delivery related payables, (ii) salary and welfare payables, (iii) deposits, (iv) tax payables, (v) payables for purchase of long-term assets, (vi) consideration payable for repurchase of ordinary shares and preferred shares, (vii) consideration received pursuant to share incentive scheme, primarily from eligible network partners who were granted share incentive awards and (viii) others.

The following table sets forth our accruals and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2020	**2021**	**2022**	**2023**
	(in US$ thousands)			
Cash on delivery related payables	137,017	95,047	156,666	167,553
Salary and welfare payables	62,336	219,607	163,637	169,079
Deposits	25,928	192,734	175,229	192,797
Tax payables	24,284	48,830	40,999	37,237
Payables for purchase of long-term assets	5,644	110,710	88,587	67,022
Consideration payable for repurchase of ordinary shares and preferred shares	–	159,922	–	–
Consideration received pursuant to share incentive schemes	–	–	37,886	23,991
Others	49,153	88,502	113,374	171,467
Total	**304,362**	**915,352**	**776,378**	**829,146**

Our accruals and other payables increased by 200.7% from US$304.4 million as of December 31, 2020 to US$915.4 million as of December 31, 2021, primarily due to (i) outstanding payables of US$159.9 million as consideration for certain ordinary shares and preferred shares to be repurchased, (ii) an increase in deposits from US$25.9 million as of December 31, 2020 to US$192.7 million as of December 31, 2021, which represented deposits paid by network partners, and partially offset by a decrease in cash of delivery related payables from US$137.0 million as of December 31, 2020 to US$95.0 million as of December 31, 2021 as we optimized our settlement procedure and shortened settlement cycle with major e-commerce customers in 2021.

Our accruals and other payables decreased by 15.2% from US$915.4 million as of December 31, 2021 to US$776.4 million as of December 31, 2022, primarily due to (i) a decrease in salary and welfare payables from US$219.6 million as of December 31, 2021 to US$163.6 million as of December 31, 2022 driven by decreased compensations to staff, and (ii) a decrease in consideration payable for repurchase of ordinary shares and preferred shares from US$159.9 million as of December 31, 2021 to US$0 as of December 31, 2022 as we completed the repurchase and settled the amount, partially offset by an increase in cash on delivery related payables from US$95.0 million as of December 31, 2021 to US$156.7 million as of December

31, 2022 driven by the growth of our (i) cash on delivery services in Southeast Asia, in line with the increased parcel volume in Southeast Asia, and (ii) an increase in consideration received pursuant to share incentives schemes.

Our accruals and other payables increased by 6.8% from US$776.4 million as of December 31, 2022 to US$829.1 million as of June 30, 2023, primarily due to (i) an increase in cash on delivery related payables of US$10.9 million, due to the expansion of our value-added services in Southeast Asia, (ii) an increase in deposits, as we consolidated the deposits paid by network partners of Fengwang into our financial positions, and (iii) an increase in other accruals and other payables of US$58.1 million, driven by the expansion of our business and, in particular, additional facilities we plan to add in China, partially offset by a decrease in payables for purchase of long-term assets and a decrease in consideration received with respect to Class A Shares granted to network partners.

As of [July 31], 2023, we had settled US$[422.3] million, or [50.9%], of our accruals and other payables outstanding as of June 30, 2023.

INDEBTEDNESS

Borrowings

The following table sets forth our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of [July 31],
	2020	2021	2022	2023	2023
	(in US$ thousands)				
Borrowings from financial institutions	10,808	62,739	1,095,377	1,154,834	[1,143,866]
Borrowings from related parties	167,620	14,470	–	–	[–]
Borrowings from third parties	265,632	11,818	3,000	7,600	[17,600]
Lease liabilities	175,017	598,722	492,666	556,142	[537,191]
Financial liabilities at fair value through profit or loss	1,812,915	10,487,306	7,765,067	8,261,043	[8,261,043]
Total	**2,431,992**	**11,175,055**	**9,356,110**	**9,979,619**	**[9,959,700]**

Borrowings from financial institutions

Our borrowings from financial institutions primarily include borrowing from banks and other financial institutions. During the Track Record Period, our borrowings from financial institutions were substantially secured, supported by guarantees and debentures including but not limited to our equity interest in certain Group entities, certain receivables, bank accounts and other assets. Our outstanding borrowings from financial institutions amounted to US$10.8 million, US$62.7 million, US$1,095.4 million and US$1,154.8 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. Our outstanding borrowings from financial institutions as of June 30, 2023 primarily comprised of (i) the senior notes issued by Winner Star in February 2022, in an aggregate principal amount of US$870 million received by us, which bear interest at 5.75% per annum and are due 2025, (ii) a loan of US$130 million received by us on February 24, 2022 under a financing agreement with Winner Star for general corporate and working capital purposes, and (iii) our other borrowings in relation to vehicles and other operations in the ordinary course of business. These borrowings were guaranteed by us and certain subsidiaries of ours. Our borrowings from financial institutions were US$[1,143.9] million as of [July 31], 2023. As of the same date, we had unutilized banking facilities of US$[42.1] million.

Borrowings from third parties

In 2020, we had a borrowing of US$236.9 million provided by one of the Series A Preferred Shareholders but subsequently settled in 2021. Such borrowing was interest free. For details, please see Note 28 to the Accountant's Report in Appendix I to this document. During the Track Record Period, our borrowings from third parties represented interest-bearing borrowings provided by the minority shareholders of certain Group entities, which had terms from one month to 5 years, with an interest rate up to 6%. Our borrowings from third parties amounted to US$265.6 million, US$11.8 million, US$3.0 million and US$7.6 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. We had borrowings from third parties of US$[17.6] million as of [July 31], 2023. Our borrowings from third parties were unsecured as of December 31, 2020, 2021 and 2022, June 30, 2023 and [July 31], 2023.

Our Directors confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Our Directors also confirm that they are not aware of any breach of any of the covenants contained in our bank loan arrangements and other borrowing arrangements or any event of default during the Track Record Period and up to the Latest Practicable Date, nor are they aware of any restrictions that will limit our ability to draw down on our unutilized facilities.

Borrowings from related parties

Our borrowings from related parties were US$167.6 million, US$14.5 million, nil, nil and [nil] as of December 31, 2020, 2021 and 2022, June 30, 2023 and [July 31], 2023, respectively. Our borrowings from related parties were unsecured.

Lease Liabilities

Our lease liabilities primarily arose from lease contracts for office premises and sorting centers, and vehicles used in our operations. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Lease liabilities				
Current lease liabilities	63,639	207,490	151,195	196,583
Non-current lease liabilities	111,378	391,232	341,471	359,559
Total	**175,017**	**598,722**	**492,666**	**556,142**

Our total lease liabilities were US$175.0 million, US$598.7 million, US$492.7 million, US$556.1 million and US$[537.2] million as of December 31, 2020, 2021 and 2022, June 30, 2023 and [July 31], 2023, respectively. The increase in our lease liabilities from US$175.0 million in 2020 to US$598.7 million in 2021 was attributable to (i) new lease contracts we entered into as our business expanded and (ii) our consolidation of the financial position of BEST Express China as a result of the acquisition. The decrease in our lease liabilities from

December 31, 2021 to December 2022 was primarily due to a decrease in our buildings and warehouses leases as we optimized our operations after fully integrating BEST Express China and adjusted our network sorting center density by removing certain redundant sorting centers. The increase in our lease liabilities from December 31, 2022 to June 30, 2023 was primarily due to additional lease agreements we entered into in China, the Philippines and the New Markets.

Financial Liabilities at Fair Value through Profit or Loss

Since our commencement, we have completed several rounds of financing by issuing different classes of preferred shares. Series Pre-A1 Preferred Shares, Series Pre-A2 Preferred Shares and Series A Preferred Shares were issued in or prior to 2020 and initially recognized as equity. In late 2020, along with the issuance of Series B Preferred Shares, we updated our memorandum of association, and subsequently, reclassified Series Pre-A1 Preferred Shares, Series Pre-A2 Preferred Shares and Series A Preferred Shares as financial liabilities measured at fair value through profit or loss, with subsequent changes in fair value recognized in the consolidated income statements. We also designated Series B Preferred Shares, Series B+ Preferred Shares, Series C1 Preferred Shares and Series C2 Preferred Shares as financial liabilities at fair value through profit or loss and initially recognized them at fair value, with subsequent changes in fair value recognized in the consolidated income statements. In 2021, Jet Global, the holding company of our operations in the New Markets, entered into agreements with third-party investors to raise Series A financing. We also recognized the Series A Preferred Shares of Jet Global as financial liabilities at fair value through profit or loss with subsequent changes in fair value recognized in the consolidated income statements. On December 31, 2021, accompanying the issuance of the Series C2 Preferred Shares, we entered into agreements with certain existing shareholders to repurchase a total of 48,607,928 preferred shares and Ordinary Shares. The expected excess of the repurchase price over the fair value of these preferred shares and Ordinary Shares was also recognized as financial liabilities at fair value through profit or loss.

With the assistance from an external valuer, we applied the discounted cash flow method to determine the underlying equity value of our Group and adopted option-pricing method and equity allocation model to determine the fair value of the preferred shares. See Note 29A to the Accountant's Report in Appendix I to this document for the detailed movements of financial liabilities at fair value through profit or loss. As of December 31, 2020, 2021 and 2022, June 30, 2023 and [July 31], 2023, we had financial liabilities at fair value through profit or loss of US$1,812.9 million, US$10,487.3 million, US$7,765.1 million, US$8,261.0 million and US$[8,261.0] million, respectively. See Note 29A to the Accountant's Report in Appendix I to this document for the key assumptions in determining the fair value of the preferred shares.

No Other Outstanding Indebtedness

Save as disclosed in this "– Indebtedness" in this section, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of April 30, 2023, being the indebtedness statement date.

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets/(Liabilities)

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of [July 31],
	2020	2021	2022	2023	2023
	(in US$ thousands)				
Current assets					
Inventories	15,954	29,359	29,120	21,956	[23,056]
Trade receivables	180,760	334,876	513,954	622,560	[647,820]
Prepayments, other receivables and other assets	745,363	882,190	703,010	801,815	[816,118]
Financial assets at fair value through profit or loss	71,324	41,581	16,440	9,493	[11,924]
Restricted cash	928	125,970	79,725	96,301	[95,810]
Cash and cash equivalents	600,425	2,102,448	1,504,048	1,195,264	[1,214,793]
Total current assets	**1,614,754**	**3,516,424**	**2,846,297**	**2,747,389**	**[2,809,521]**
Current liabilities					
Trade payables	225,452	577,065	484,215	471,666	[465,119]
Advances from customers	137,224	291,362	209,925	241,441	[254,047]
Accruals and other payables	304,362	915,352	776,378	829,146	[929,794]
Lease liabilities	63,639	207,490	151,195	196,583	[181,087]
Current income tax liabilities	9,200	20,756	32,434	20,152	[35,503]
Borrowings	407,143	59,965	77,480	151,563	[107,112]
Financial liabilities at fair value through profit or loss	–	–	–	10,016	[10,016]
Financial liabilities – ordinary share redemption liabilities	–	133,749	–	–	[–]
Total current liabilities	**1,147,020**	**2,205,739**	**1,731,617**	**1,920,567**	**[1,920,567]**
Net current assets	**467,734**	**1,310,685**	**1,114,680**	**826,822**	**[888,954]**

Our net current assets [increased] from US$826.8 million as of June 30, 2023 to US$[889.0] million as of [July 31], 2023, primarily due to (i) an increase of US$[25.3] million in trade receivables, (ii) an increase of US$[19.5] million in cash and cash equivalent, and (iii) a decrease of US$[44.5] million in borrowings.

Our net current assets decreased from US$1,114.7 million as of December 31, 2022 to US$826.8 million as of June 30, 2023, primarily due to (i) a decrease of US$308.8 million in cash and cash equivalent, and (ii) an increase in current liabilities driven by increases in borrowings, accruals and other payables and lease liabilities.

Our net current assets decreased from US$1,310.7 million as of December 31, 2021 to US$1,114.7 million as of December 31, 2022, primarily due to (i) a decrease of US$598.4 million in cash and cash equivalents, and (ii) a decrease of US$179.2 million in prepayments, other receivables and other assets.

Our net current assets increased from US$467.7 million as of December 31, 2020 to US$1,310.7 million as of December 31, 2021, primarily due to (i) an increase of US$136.8 million in prepayments, other receivables and other assets, (ii) an increase of US$154.1 million in trade receivables as our business grew and (iii) an increase of US$1,502.0 million in cash and cash equivalents. The increases were partially offset by (i) an increase of US$611.0 million in accruals and other payables because we increased our purchases in line with our expansion and (ii) an increase of US$351.6 million in trade payables.

We have historically met our working capital and other capital requirements primarily through capital contributions from shareholders, cash generated from the issuance of convertible preferred shares and cash generated from our operating activities. We had cash and cash equivalents of US$600.4 million, US$2,102.4 million, US$1,504.0 million, US$1,195.3 million and US$[1,214.8] million as of December 31, 2020, 2021 and 2022, June 30, 2023 and [July 31], 2023, respectively.

We believe that our liquidity requirements will be satisfied by a combination of cash generated from operating activities, the net [**REDACTED**] received from the [**REDACTED**], and other funds raised from the capital markets from time to time. We currently do not have any plans for material additional external financing.

Cash Flow

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	(in US$ thousands)				
				(Unaudited)	
Net cash (used in)/generated from operating activities	(154,700)	(967,174)	(519,817)	(350,120)	2,797
Including:					
Operating cash flows before movements in working capital	(357,995)	(617,656)	(243,356)	(115,949)	80,505
Interest received	3,170	9,319	25,224	7,066	11,405
Income tax paid	(40,391)	(76,133)	(74,232)	(36,456)	(58,516)
Net cash used in investing activities	(635,086)	(1,001,006)	(859,757)	(551,475)	(366,038)
Net cash from financing activities	1,285,166	3,469,507	881,328	1,000,146	64,171
Net (decrease)/increase in cash and cash equivalents	495,380	1,501,327	(498,246)	98,551	(299,070)
Cash and cash equivalents at the beginning of the year/period	97,173	600,425	2,102,448	2,102,448	1,504,048
Effects of foreign exchange rate changes on cash and cash equivalents	7,872	696	(100,154)	(67,768)	(9,714)
Cash and cash equivalents at the end of the year/period	**600,425**	**2,102,448**	**1,504,048**	**2,133,231**	**1,195,264**

Working capital sufficiency

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, our available financing facilities and the estimated net [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for at least the next 12 months from the date of this document.

Taking into account the working capital management policies adopted by us, and the due diligence work conducted by the Joint Sponsors including but not limited to (i) reviewing the Accountant's Report as set out in Appendix I to the [**REDACTED**], (ii) the financial due diligence conducted on our historical financial information during the Track Record Period and discussions with management on its working capital projections, and (iii) written confirmation provided by us in respect of working capital sufficiency, nothing material has come to the attention of the Joint Sponsors that would cast doubt on our conclusion that we have sufficient working capital to meet its present needs, that is for at least the next 12 months from the date of this document.

Net cash used in operating activities

We have demonstrated our capacity to improve our net operating cash inflow, and we expect to further enhance our operating cash flow through improving our profitability in China and the New Markets as well as cross-border business, as our parcel volume continues to grow across the regions and we continue to improve our cost efficiency through economies of scale.

For the six months ended June 30, 2023, our net cash generated from operating activities was US$2.8 million, which was primarily attributable to our loss before income tax of US$660.2 million, adjusted by adding back non-cash items including (i) share-based compensation of US$1,428.2 million, and (ii) depreciation of right-of-use assets and depreciation of property, plant and equipment of US$134.0 million and US$104.4 million, respectively, incurred in relation to the optimization of operation and adjustment of network, partially offset by items including fair value change of financial assets and liabilities at fair value through profit or loss of US$1,020.8 million. The amount was further adjusted by changes in working capital, which primarily comprised of (i) an increase in trade receivables of US$95.1 million, and (ii) placement of restricted cash of US$16.0 million, offset by (i) a decrease in prepayments, other receivables, and other assets of US$86.1 million and (ii) a decrease in accruals and other payables of US$29.3 million.

In 2022, our net cash used in operating activities was US$519.8 million, which was primarily attributable to our profit before income tax of US$1,583.3 million in 2022, adjusted by adding back non-cash items including (i) share-based compensation of US$346.6 million, (ii) depreciation of right-of-use assets and depreciation of property, plant and equipment of US$257.2 million and US$227.9 million, respectively, incurred in relation to the optimization of operation and adjustment of network, (iii) impairment losses on long-term assets of US$219.1 million, (iv) fair value change of financial assets and liabilities at fair value through profits or loss of US$3,050.7 million, (v) net loss on disposal of property, plant and equipment of US$1.9 million, and (vi) impairment losses on financial assets of US$37.2 million, partially offset by items including finance cost of US$99.5 million and foreign exchange losses of US$17.3 million. The amount was further adjusted by changes in working capital, which primarily comprised of (i) an increase in trade receivables of US$191.1 million, (ii) a decrease in trade payables of US$84.7 million, (iii) a decrease in advances from customers of US$73.6 million, and (iv) an increase in prepayments, other receivables, and other assets of US$42.2 million, offset by (i) an increase in accruals and other payables of US$118.2 million, and (ii) return of restricted cash of US$45.8 million.

In 2021, our net cash used in operating activities was US$967.2 million, which was primarily attributable to our loss before income tax of US$6,119.1 million in 2021, adjusted by adding back non-cash items including (i) fair value changes on convertible preferred shares of US$4,383.5 million, (ii) share-based compensation of US$619.0 million driven by the increase in the number of employees to support the our global expansion, (iii) depreciation of right-of-use assets of US$113.9 million, (iv) depreciation of property, plant and equipment of US$104.4 million, and (v) impairment losses on long-term assets of US$250.3 million, partially offset by items including other income of US$82.5 million and foreign exchange gain of US$19.9 million. The amount was further adjusted by changes in working capital, which primarily comprised (i) a decrease in trade payables of US$305.4 million, (ii) an increase in prepayments, other receivables and other assets of US$105.5 million, (iii) an increase in inventories of US$8.6 million, and (iv) an increase in trade receivables of US$4.3 million, offset by (i) an increase in accruals and other payables of US$128.3 million, and (ii) an increase in advances from customers of US$62.8 million.

In 2020, our net cash used in operating activities was US$154.7 million, reflecting our loss before income tax of US$618.6 million, adjusted by non-cash items including (i) share-based compensation of US$188.3 million driven by the increase in the number of employees to support the our global expansion, (ii) depreciation of right-of-use assets of US$56.0 million, and (iii) depreciation of property, plant and equipment of US$39.3 million, offset by the foreign exchange gains of US$29.4 million. The amount was further adjusted by changes in working capital, which primarily comprised (i) an increase in prepayments, other receivables and other assets of US$203.9 million, (ii) an increase in trade receivables of US$128.1 million, and (iii) an increase in inventories of US$9.9 million, offset by (i) an increase in accruals and other payables of US$324.1 million, (ii) an increase in trade payables of US$189.5 million, and (iii) an increase in advances from customers of US$68.8 million.

Net cash used in investing activities

For the six months ended June 30, 2023, our net cash used in investing activities was US$366.0 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of US$80.3 million, (ii) loans to third parties of US$36.5 million, (iii) purchase of property, plant and equipment of US$249.5 million, and (iv) net payment for acquisitions of US$62.0 million, partially offset by (i) redemption of financial assets at fair value through profit or loss of US$29.3 million and (ii) proceeds from disposal of property, plant and equipment of US$28.9 million.

In 2022, our net cash used in investing activities was US$859.8 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of US$998.4 million, (ii) loans to a related party of US$320.0 million, which was subsequently repaid within the year, (iii) purchase of property, plant and equipment of US$573.2 million, and (iv) loans to third parties of US$38.4 million, partially offset by (i) collection of loans to related parties and interests received of US$516.0 million, (ii) redemption of financial assets at fair value through profit or loss of US$507.4 million, and (iii) proceeds from disposal of property, plant and equipment of US$32.0 million.

In 2021, our net cash used in investing activities was US$1,001.0 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of US$1,149.1 million, (ii) net payment for acquisitions including the acquisition of BEST Express China of US$608.7 million, (iii) purchase of property, plant and equipment of US$513.7 million, (iv) loans to third parties of US$272.4 million, and (v) loans to related parties of US$128.2 million, partially offset by (i) redemption of financial assets at fair value through profit or loss of US$1,184.4 million, and (ii) repayment of loans by third parties and interest received of US$465.7 million.

In 2020, our net cash used in investing activities were US$635.1 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of US$306.8 million, (ii) loans to third parties of US$628.5 million, and (iii) purchase of property, plant and equipment of US$257.7 million, partially offset by (i) the repayment of loans by third parties of US$376.5 million, and (ii) redemption of financial assets at fair value through profit or loss of US$243.4 million.

Net cash from financing activities

For the six months ended June 30, 2023, our net cash generated from financing activities was US$64.2 million, which was primarily attributable to (i) proceeds from borrowings of US$131.1 million and (ii) net proceeds from issuance of preferred shares of US$200.0 million, offset by (i) principal elements of lease payments of US$168.4 million, (ii) repayment of borrowings of US$64.2 million, (iii) interest payment for borrowings of US$33.3 million, and (iv) interest payment of lease payment of US$19.0 million.

In 2022, our net cash generated from financing activities was US$881.3 million, which was primarily attributable to (i) proceeds from borrowing of US$1,099.3 million, (ii) net proceeds from issuance of preferred shares of US$219.0 million, and (iii) net proceeds from issuance of shares to network partners of US$44.6 million, offset by (i) principal elements of lease payments of US$262.7 million, (ii) repayment of borrowings of US$105.7 million, (iii) interest payment for borrowings of US$38.8 million, (iv) interest payment of lease payment of US$37.3 million, and (v) dividends payments of US$28.6 million.

In 2021, our net cash generated from financing activities was US$3,469.5 million, which was primarily attributable to (i) net proceeds from the issuance of preferred shares of US$3,966.1 million, and (ii) proceeds from borrowing of US$215.2 million, partially offset by (i) repayment of borrowings of US$610.2 million, (ii) dividends paid of US$120.8 million, and (iii) payment of principals of leases of US$101.7 million.

In 2020, our net cash generated from financing activities was US$1,285.2 million, primarily attributable to (i) net proceeds from the issuance of ordinary shares and convertible preferred shares of US$977.2 million, and (ii) proceeds from borrowings of US$400.9 million, partially offset by repayment of borrowings of US$137.8 million.

CAPITAL EXPENDITURES

Our capital expenditures consist of our investment in property, plant and equipment, intangible asset and right of use assets. Our total capital expenditures in 2020, 2021 and 2022 and the six months ended June 30, 2022 and 2023 amounted to US$263.0 million, US$520.2 million, US$580.7 million, US$249.1 million and US$250.6 million, respectively.

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

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	(in US$ thousands)				
				(Unaudited)	
Purchase of property, plant and equipment	257,742	513,675	573,226	246,601	249,471
Purchases of investment properties	1,678	513	–	–	–
Purchases of intangible assets	3,570	6,036	7,451	2,464	1,146
Total	**262,990**	**520,224**	**580,677**	**249,065**	**250,617**

Other than certain expenses in relating to long-term assets we acquired pursuant to the acquisition of BEST Express China, our capital expenditures from 2020 to 2022 are primarily related to the expansion of our network and investment in our equipment and facilities. Our capital expenditures were primarily funded by our cash and cash equivalents and cash flows from our operating activities and financing activities, including the issuance of convertible preferred shares.

We plan to fund our planned capital expenditures with (i) our existing cash and cash equivalents; (ii) cash flow generated from our operating activities; (iii) [**REDACTED**] from the [**REDACTED**]; and (iv) other sources of external financings. For more details, see "Business – Our Strategies" and "Future Plans and Use of [**REDACTED**]." We will continue to make capital expenditures to support the growth of our business. We may reallocate the fund to be utilized on capital expenditure based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Our commitments primarily comprise capital commitments and operating lease commitments.

Capital Commitments

Our capital commitments during the Track Record Period were primarily relating to our investment in equipment, facilities significant capital expenditures contracted for at the end of the reporting period but not recognized as liabilities as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Right-of-use asset – land in the PRC	–	22,052	11,659	11,238

Short-term Lease Commitments

We lease certain warehouses and vehicles under non-cancellable short-term lease agreements. The lease terms are less than one year. We record all leases with contract terms of over one year under lease liabilities and right-of-use assets.

The following table sets forth our future aggregate minimum lease payments under non-cancellable operating leases as of the dates indicated:

	As of December 31,			As of June 30,
	2020	2021	2022	2023
	(in US$ thousands)			
Within one year	9,675	22,575	41,733	20,285

RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of our key management and their close family members are also considered as related parties. During the Track Record Period, we entered into transactions with our related parties from time to time. As of June 30, 2023, our outstanding trade receivables and trade payables were trade in nature, while our other receivables and other payables were non-trade in nature. We expect to settle the remaining outstanding non-trade balance with related parties prior to the [**REDACTED**]. For a detailed discussion of related party transactions during the Track Record Period, see Note 39 to the Accountant's Report in Appendix I to this document.

Our Directors believe that the related party transactions were carried out on an arm's length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

CONTINGENT LIABILITIES

As of December 31, 2020, 2021 and 2022 and June 30, 2023, we did not have any material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet commitments or arrangements.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
Revenue growth (%)	357.7	216.0	49.8	N/A	18.5
Gross profit/(loss) margin (%)[1] .	(17.0)	(11.2)	(3.7)	(1.9)	4.8

Notes:

(1) Gross margin represents gross profit/(loss) for the period divided by revenue for the period and multiplied by 100%.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of financial risks, including market risk, foreign exchange risk, credit risk and liquidity risk.

Market Risk

Foreign exchange risk

Our subsidiaries and consolidated affiliated entities primarily operate in China, Indonesia, Vietnam, Malaysia, the Philippines, Thailand and other countries. Their transactions were generally settled in local currencies. Our foreign exchange risk primarily arises from recognized assets and liabilities in our subsidiaries and consolidated affiliated entities from those countries, when we receive foreign currencies from or pay foreign currencies to overseas business partners.

For Group entities whose functional currency is RMB, if RMB had strengthened or weakened by 5% against USD with all other variables held constant, our loss before income tax in 2020, 2021, and 2022 and for the six months ended June 30, 2023, would have been approximately US$13,322,000 lower or higher, US$351,000 lower or higher, US$29,000 lower or higher and US$1,206,000 higher or lower, respectively, as a result of net foreign exchange gains or losses on translation of net monetary assets or liabilities denominated in USD.

For Group entities whose functional currency is IDR, if IDR had strengthened or weakened by 5% against USD with all other variables held constant, our loss before income tax in 2020, 2021 and 2022 and for the six months ended June 30, 2023 would have been approximately US$6,219,000 higher or lower, US$8,639,000 higher or lower, US$1,000 lower or higher and US$26,000 higher or lower, respectively, as a result of net foreign exchange gains or losses on translation of net monetary assets/liabilities denominated in USD.

For Group entities whose functional currency is THB, if THB had strengthened or weakened by 5% against USD with all other variables held constant, our loss before income tax in 2020, 2021 and 2022 and for the six months ended June 30, 2023 would have been approximately US$5,915,000 lower or higher, US$13,217,000 lower or higher, US$2,000 higher or lower and US$19,000 lower or higher, respectively, as a result of net foreign exchange gains or losses on translation of net monetary assets or liabilities denominated in USD.

For Group entities whose functional currency is VND, if VND had strengthened or weakened by 5% against USD with all other variables held constant, our loss before income tax in 2020 and 2021 and for the six months ended June 30, 2023 would have been approximately US$6,231,000 lower or higher, US$8,894,000 lower or higher and US$398,000 lower or higher, respectively, as a result of net foreign exchange gains or losses on translation of net monetary assets or liabilities denominated in USD. Impact for year 2022 would have been minimal. See "Risk Factors – Risks Related to Our Business and Industry – Fluctuations in exchange rates could adversely affect our financial condition, results of operations and cash flows."

Interest rate risk

Interest rate risk primarily arises from borrowings, loans to third parties, and cash and cash equivalents. Those carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk. We regularly monitor our interest rate risk to ensure there is no undue exposure to significant interest rate movements. We had limited cash flow interest rate risk as of December 31, 2020, 2021 and 2022, as substantially all the borrowings and loans to third parties were carried at fixed interest rates.

Credit Risk

Credit risk arises from cash and cash equivalents, trade receivables, contract assets, restricted cash and financial assets measured at fair value through profit or loss or included in other receivables and other assets.

We manage risk arising from cash and cash equivalents, restricted cash and financial assets measured at fair value through profit or loss by only conducting transacts with state-owned or reputable financial institutions, which have no recent history of default.

We manage risk arising from trade receivables, contract assets and financial assets included in other receivables and other assets by only conducting transactions only with recognized and creditworthy third parties, or with other customers who passed our creditability assessment. We require all customers who wish to trade on credit terms or carry out other transactions to be subject to certain creditability assessments.

Liquidity Risk

We intend to maintain sufficient cash and cash equivalents. Due to the dynamic nature of our underlying businesses, we regularly monitor our liquidity risk and maintain adequate cash and cash equivalents, short-term and long-term time deposits and investments in wealth management products or adjust financial arrangements to meet our liquidity requirements.

See Note 3.1(c) to the Accountant's Report in Appendix I to this document for the liquidity risk to which we are exposed.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, our available financing facilities and the estimated net [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for at least the next twelve months from the date of this document. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries.

In August, 2021, the board of directors declared a cash dividend of US$12.0 cent per share, to be paid to shareholders, including holders of preferred shares, of record as of the close of business on August 31, 2021. Such dividend was fully settled by cash in November 2021. For more details, see Note 43 to the Accountant's Report in Appendix I to this document. We do not have any dividend policy and have no present plan to pay any dividends to our shareholders in the foreseeable future. However, we may distribute dividends in the future by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. As advised by our legal adviser on the laws of the Cayman Islands, Harney Westwood & Riegels, a position of accumulated losses does not necessarily restrict us from declaring and paying dividends to our shareholders out of either our profit or our share premium account, provided this would not result in us being unable to pay its debts as they fall due in the ordinary course of business.

[**REDACTED**] EXPENSES

Based on the mid-point [**REDACTED**] of [**REDACTED**], the total estimated [**REDACTED**] expenses in relation to the [**REDACTED**] is approximately HK$[**REDACTED**] million, assuming the [**REDACTED**] is not exercised and the Reclassification, Redesignation and Share Subdivision are completed. The total estimated [**REDACTED**] expenses will represent approximately [**REDACTED**]% of the total gross [**REDACTED**] from the [**REDACTED**] of approximately HK$[**REDACTED**] billion assuming that [**REDACTED**] is not exercised. US$[**REDACTED**] million of the [**REDACTED**] expenses was charged to our consolidated income statement for the six months ended June 30, 2023. We estimate that the [**REDACTED**] expenses for the year of 2023 in the amount of US$[**REDACTED**] million will be charged to our consolidated income statement for the year ending December 31, 2023. The balance of approximately US$[**REDACTED**] million, which mainly includes [**REDACTED**] commission, is expected to be accounted for as a deduction from equity upon the completion of the [**REDACTED**]. These [**REDACTED**] expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**] and the [**REDACTED**] commission and incentive fee payable to the [**REDACTED**] in connection with the [**REDACTED**] of [**REDACTED**] under the [**REDACTED**].

The table below sets forth the breakdown of our [**REDACTED**] expenses.

[**REDACTED**] expenses (including commissions and fees)	HK$[REDACTED] million
[**REDACTED**] expenses	HK$[REDACTED] million
– fees and expenses of legal advisors and accountants	HK$[REDACTED] million
– other fees and expenses	HK$[REDACTED] million
Total	HK$[REDACTED] million

[**REDACTED**]

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position since June 30, 2023, being the end date of the periods reported in the Accountant's Report in Appendix I to this document, and there has been no event since June 30, 2023 that would materially affect the information as set forth in the Accountant's Report in Appendix I to this document.