



# ZTO EXPRESS (CAYMAN) INC. 中通快遞(開曼)有限公司

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

Stock Code : 2057



## GLOBAL OFFERING



Sole Sponsor, Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



Other Joint Bookrunners and Joint Lead Managers



Other Joint Lead Managers



**Bringing Happiness to More People  
through Our Services**

## IMPORTANT

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.



# ZTO Express (Cayman) Inc. 中通快遞(開曼)有限公司

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

## GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 45,000,000 Offer Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 2,250,000 Offer Shares (subject to reallocation)
Number of International Offer Shares	: 42,750,000 Offer Shares (subject to reallocation and the Over-allotment Option)
Maximum Public Offer Price	: HK\$268.00 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Par Value	: US\$0.0001 per Share
Stock Code	: 2057

*Sole Sponsor, Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager*

## Goldman Sachs

*Other Joint Bookrunners and Joint Lead Managers*



*Other Joint Lead Managers*



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A copy of this document, having attached thereto the documents specified in "Documents Available for Inspection — Documents Delivered to the Registrar of Companies" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any of the other documents referred to above.

We expect to determine the pricing of the Offer Shares by agreement with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or about Tuesday, September 22, 2020 and, in any event, not later than Monday, September 28, 2020. The Public Offer Price will be not more than HK\$268.00 per Offer Share, unless otherwise announced. If, for any reason, we do not agree with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, September 28, 2020, the Global Offering will not proceed and will lapse.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process. If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this document.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed "Risk Factors" in this document. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain events occur prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this document. It is important that you refer to that section for further details.

Our ADSs, each of which represents one Class A ordinary share, are listed for trading on the NYSE under the symbol "ZTO". The reported sale price of the ADSs on the NYSE on September 14, 2020 was US\$31.72 per ADS. In connection with the Global Offering, we have filed a registration statement on Form F-3 and a preliminary prospectus supplement and plan to file a final prospectus supplement with the SEC to register the sale of Shares under the U.S. Securities Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS DOCUMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Company is controlled through weighted voting rights. Prospective investors should be aware of the potential risks of investing in a company with a WVR structure, in particular that the WVR beneficiary, whose interests may not necessarily be aligned with those of our Shareholders as a whole, will be in a position to exert significant influence over the outcome of Shareholders' resolutions, irrespective of how other Shareholders vote. For further information about the risks associated with our WVR structure, please refer to the section headed "Risk Factors — Risks Related to our Shares, our ADSs and the Listing." Prospective investors should make the decision to invest in the Company only after due and careful consideration.

### ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at <http://zto.investorroom.com/>. If you require a printed copy of this document, you may download and print from the website addresses above.

September 17, 2020

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## IMPORTANT

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### IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.**

**This document is available at the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) under the “HKEXnews > New Listings > New Listing Information” section, and our website at [zto.investorroom.com](http://zto.investorroom.com). If you require a printed copy of this document, you may download and print from the website addresses above.**

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk);
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
  - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
  - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8600 on the following dates:

<b>Thursday, September 17, 2020</b>	<b>– 9:00 a.m. to 9:00 p.m.</b>
<b>Friday, September 18, 2020</b>	<b>– 9:00 a.m. to 9:00 p.m.</b>
<b>Saturday, September 19, 2020</b>	<b>– 9:00 a.m. to 6:00 p.m.</b>
<b>Sunday, September 20, 2020</b>	<b>– 9:00 a.m. to 6:00 p.m.</b>
<b>Monday, September 21, 2020</b>	<b>– 9:00 a.m. to 9:00 p.m.</b>
<b>Tuesday, September 22, 2020</b>	<b>– 9:00 a.m. to 12:00 noon</b>

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this document are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary, broker** or **agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

Please refer to the section headed “How to Apply for Hong Kong Offer Shares” in this document for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

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**IMPORTANT**

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Your application must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
50	13,535.03	800	216,560.51	7,000	1,894,904.45	100,000	27,070,063.60
100	27,070.06	900	243,630.57	8,000	2,165,605.09	150,000	40,605,095.40
150	40,605.10	1,000	270,700.64	9,000	2,436,305.72	200,000	54,140,127.20
200	54,140.13	1,500	406,050.95	10,000	2,707,006.36	250,000	67,675,159.00
250	67,675.16	2,000	541,401.27	20,000	5,414,012.72	300,000	81,210,190.80
300	81,210.19	2,500	676,751.59	30,000	8,121,019.08	350,000	94,745,222.60
350	94,745.22	3,000	812,101.91	40,000	10,828,025.44	400,000	108,280,254.40
400	108,280.25	3,500	947,452.23	50,000	13,535,031.80	450,000	121,815,286.20
450	121,815.29	4,000	1,082,802.54	60,000	16,242,038.16	500,000	135,350,318.00
500	135,350.32	4,500	1,218,152.86	70,000	18,949,044.52	625,000	169,187,897.50
600	162,420.38	5,000	1,353,503.18	80,000	21,656,050.88	750,000	203,025,477.00
700	189,490.45	6,000	1,624,203.82	90,000	24,363,057.24	1,125,000 <sup>(1)</sup>	304,538,215.50

*Note:*

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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## EXPECTED TIMETABLE

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If there is any change in the following expected timetable, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese), and on the respective website of the Company at [zto.investorroom.com](http://zto.investorroom.com) and the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

**Date<sup>(1)</sup>**

Hong Kong Public Offering commences .....9:00 a.m. on Thursday,  
September 17, 2020

Latest time to complete electronic applications under  
**White Form eIPO** service through the designated  
website at [www.eipo.hk](http://www.eipo.hk)<sup>(2)</sup> .....11:30 a.m. on Tuesday,  
September 22, 2020

Application lists open<sup>(3)</sup> .....11:45 a.m. on Tuesday,  
September 22, 2020

Latest time to for (a) completing payment for **White  
Form eIPO** applications by effecting internet banking  
Transfer(s) or PPS payment transfer(s) and (b) giving  
**electronic application instructions** to HKSCC<sup>(4)</sup> .....12:00 noon on Tuesday,  
September 22, 2020

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close<sup>(3)</sup> .....12:00 noon on Tuesday,  
September 22, 2020

Expected Price Determination Date<sup>(5)</sup> .....Tuesday, September 22, 2020

Announcement of the Public Offer Price and the International  
Offer Price on our website at [zto.investorroom.com](http://zto.investorroom.com) and  
the website of the Hong Kong Stock Exchange  
at [www.hkexnews.hk](http://www.hkexnews.hk) on or around .....Tuesday, September 22, 2020

Announcement of the level of indications of interest in the  
International Offering, the level of applications in the  
Hong Kong Public Offering and the basis of allocation of the  
Hong Kong Offer Shares on our website at [zto.investorroom.com](http://zto.investorroom.com)  
and the website of the Hong Kong Stock Exchange  
at [www.hkexnews.hk](http://www.hkexnews.hk) on or before .....Monday, September 28, 2020



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## EXPECTED TIMETABLE

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The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:

- in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at [zto.investorroom.com](http://zto.investorroom.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively . . . . . Monday, September 28, 2020
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function . . . . . 8:00 a.m. on Monday, September 28, 2020 to 12:00 midnight on Sunday, October 4, 2020
- from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on . . . . . Monday, September 28, 2020, Tuesday, September 29, 2020, Wednesday, September 30, 2020 and Monday, October 5, 2020

Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before<sup>(7)(9)</sup> . . . . . Monday, September 28, 2020

White Form e-Refund payment instructions/refund checks in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before<sup>(8)(9)</sup> . . . . . Monday, September 28, 2020

Dealings in the Class A ordinary shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on . . . . . Tuesday, September 29, 2020

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*Notes:*

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, September 22, 2020, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” in this document.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker or custodian** to apply on your behalf via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — A. Applications for the Hong Kong Offer Shares — 6. Applying Through CCASS EIPO Service” in this document.

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## EXPECTED TIMETABLE

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- (5) The Price Determination Date is expected to be on or about Tuesday, September 22, 2020, and in any event, not later than Monday, September 28, 2020. If, for any reason, for any reason, we do not agree with the Sole Global Coordinator on the pricing of the Offer Shares by Monday, September 28, 2020, the Global Offering will not proceed and will lapse.
- (6) None of the websites set out in this section or any of the information contained on the websites forms part of this document.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this document has not been exercised. Investors who trade Class A ordinary shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Public Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.
- (9) Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, September 28, 2020 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to the section headed “How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks — Personal Collection — If you apply through **CCASS EIPO** service” in this document for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed “How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks” in this document.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please refer to “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares,” respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.



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## CONTENTS

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### IMPORTANT NOTICE TO INVESTORS

This document is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this document pursuant to the Hong Kong Public Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorized by us, the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners, and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

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## SUMMARY

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This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full document. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to invest in the Offer Shares.

### OUR MISSION

Our mission is to bring happiness to more people through our services.

### OUR OBJECTIVE AND VISION

Our objective is to become a world-leading comprehensive logistics service provider. Our vision for ZTO is a respected enterprise with dignity, sustainability and longevity for centuries to come (“受人尊重的百年中通”).

### OUR VALUES

Our values are fundamental to the way in which we operate and achieve continued and sustainable growth. Our core values are:

- Shared success — “Shared success” is a guiding principle that encourages everyone under the ZTO brand to build together and share results. It prioritizes the collective greater good, aligns interest and resolves conflicts among stakeholders, and promotes equitable allocation of risks and rewards.
- Trust and accountability — The intention of a shared success aligns interests, and trust and accountability reinforce effective execution. At ZTO, we foster a culture of mutual trust and clear accountability among our network partners, employees and us, and each is expected to fulfill their part of the commitment.
- Innovation and entrepreneurship — “Innovation and entrepreneurship” is ZTO’s cultural approach with which we identify and solve problems, and create opportunities with a novel business model, relationships with partners and use of technologies that improve the way we operate and serve.

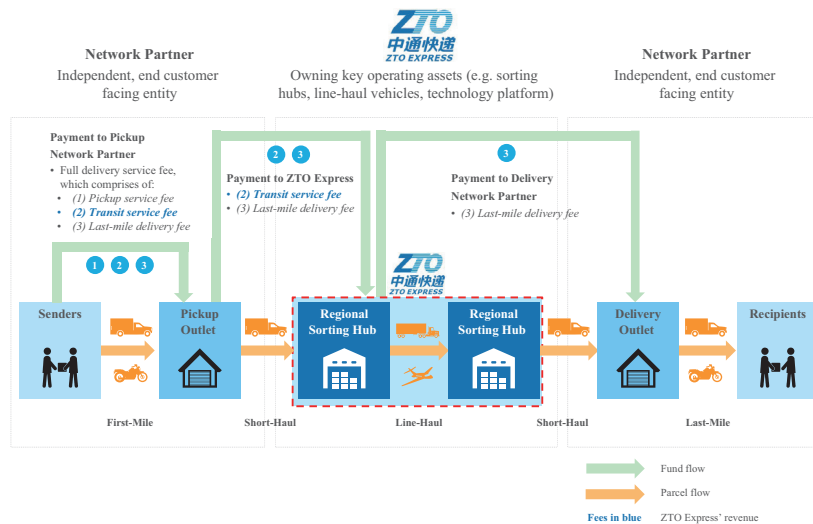
### OVERVIEW

We are a leading express delivery company in China. Founded in 2002, we are China’s leading express delivery service provider based on total parcel volume, with a 19.1% market share in 2019. We are the youngest among the scaled express delivery companies in China and the largest in scale and the most profitable among the Tongda Operators, who are the express delivery service providers utilizing the “network partner model” in China, namely our Company, YUNDA Holding Co., Ltd., YTO Express Group Co.,Ltd., BEST Inc. and STO Express Co.,Ltd.. We provide express delivery services and other value-added logistics services through our nationwide network.

## SUMMARY

Under a network partner model, we operate the mission-critical line-haul transportation and sorting network within the express delivery service value chain, whereas our network partners operate the outlets that provide first-mile pickup and last-mile delivery services. The network partner model enables us to scale our network rapidly with limited capital outlay and fixed costs, consequently driving higher return on invested capital and equity.

We have developed one of the most extensive and reliable delivery networks in China. As of June 30, 2020, our network infrastructure consists of 90 sorting hubs with 282 automation lines, over 3,400 line-haul routes serviced by approximately 9,050 self-owned line-haul vehicles, and over 5,000 direct network partners operating approximately 30,000 pickup/delivery outlets and over 50,000 last-mile posts. Our network covers over 99.2% of cities and counties in China. The following diagram illustrates the process for the completion of a typical domestic delivery order in our network.



In April 2008, we were the first among the Tongda Operators to implement a sharing mechanism (which started compensating delivery outlets with last-mile delivery service fees) to address inequitable burden of cost and the associated inequitable allocation of fee revenue between pickup and delivery outlets. Before the implementation of such mechanism, service outlets relied on pickup fees to sustain their business, which was difficult for outlets with significantly higher delivery volumes than pickup volumes due to the uneven nature of economic development, geographic concentration of e-commerce merchants and geographical distribution of consumers in China. The principle design for this balancing mechanism came from our distinctive “shared success” philosophy, which was formally introduced in 2010 and fully established by 2015 when we completed the conversion of part of our major network partners to shareholder-employees. Through this reorganization, we were the first and the only among the Tongda Operators to reengineer the traditional network partner model into a structure of centralized strategic, financial and human resource decision making, and build trust and foster a win-win mindset among network participants. Throughout the years, we have successfully built a more cohesive and stable network by adhering to our differentiated philosophy and core values in day-to-day decision making and execution.

Our openness to and adoption of new and innovative technologies allows us to maintain cost leadership in the industry. Our proprietary Zhongtian system is the technology backbone for our end-to-end operational management encompassing activities conducted in our network and by our network partners. A network partner model can be as effective and more efficient than a vertically owned and operated network through digitization, which helps to overcome

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## SUMMARY

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standardization and stability challenges. Since 2015, we have collaborated with the Chinese Academy of Sciences and developed multiple generations of proprietary automated sorting equipment and specialized software to achieve high-speed sorting. In addition, we continuously improve the mix of our line-haul vehicles, and apply innovative design and technology to improve route planning, enhance safety and achieve greater productivity.

We have achieved rapid growth while maintaining superior profitability and high customer satisfactions. Our total parcel volume increased from 6.2 billion in 2017 to 12.1 billion in 2019, and from 5.4 billion in the six months ended June 30, 2019 to 7.0 billion for the six months ended June 30, 2020. ZTO has been consistently ranked top for overall customer satisfaction among the Tongda Operators, as indicated by survey conducted by State Postal Bureau. Our net income increased from RMB3.2 billion in 2017 to RMB5.7 billion in 2019. Our non-GAAP adjusted net income increased from RMB3.2 billion in 2017 to RMB5.3 billion in 2019. Our net income and non-GAAP adjusted net income for the six months ended June 30, 2020 was RMB1.8 billion and RMB2.1 billion, respectively. Leveraging scale and continuous gain in operational efficiency, our net profit per parcel is the highest among the Tongda Operators.

We strive to become a world leading comprehensive logistics service provider and sustain profitable growth. While our core express business is performing well, we are leveraging our resources and capabilities by expanding into adjacent markets such as cross-border, less-than-truckload and integrated warehousing and delivery fulfillment services. We believed more segments will evolve out of our core competencies and resource build-up to address logistics and commerce needs as the overall Chinese economy continues to grow. As China's logistics industry develops steadily to catch up with developed countries in terms of scale and efficiencies, we strive to devote the right amount of resources to the right things at the right time. We believe this disciplined approach to business expansion will propel us to steadily but surely transform ultimately into a platform with leading capabilities serving the entire logistics ecosystem. Our journey has just begun.

### OUR STRENGTHS

Our culture is the framework of how we operate our business. Our mission, to bring happiness to more people through our services, was founded by a few entrepreneurs led by our founder seeking better lives for themselves. Soon after, more and more people gathered around the founding team, having been attracted by the distinct values and practices of shared-success, trust and accountability, innovation and entrepreneurship, and together we built a strong network that connects tens of thousands of employees, entrepreneurs, businesses and customers. Our mission, vision and values together shape our business purpose, form the guiding principles of strategic decision-making processes and have directly contributed to our growth and development over the years. We believe our competitive strengths are the embodiment of, and are inseparable from, our distinguishing culture. These competitive strengths include:

- superior scale and capability;
- distinct partner network built upon a “shared-success” philosophy;
- best-in-class operational capabilities and cost efficiencies through continued innovation; and
- experienced and entrepreneurial management team.

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## SUMMARY

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### OUR STRATEGIES

Our goal is to become a world-leading comprehensive logistics service provider and we set the following strategies to achieve that goal:

- strengthen culture and improve brand recognition;
- develop young talents and maintain vitality;
- achieve greater scale and capacity and further our reach;
- build technological advantages to better compete in the future; and
- expand beyond express delivery.

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The selected consolidated statements of comprehensive income data and the selected consolidated statements of cash flows data for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 and the selected consolidated balance sheets data as of December 31, 2017, 2018 and 2019 and June 30, 2020 have been derived from our audited consolidated financial statements contained in the Accountants' Report in Appendix I. The selected consolidated statements of comprehensive income data and the selected consolidated statements of cash flows data for the six months ended June 30, 2019 have been derived from our unaudited interim consolidated financial information included in this document and have been prepared on the same basis as our audited consolidated financial statements. Our consolidated financial statements have been prepared in accordance with U.S. GAAP.

The following selected consolidated financial data for the periods and as of the dates indicated are qualified by reference to and should be read in conjunction with the Accountants' Report in Appendix I and "Financial Information."

The summary of historical financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB7.0651 to US\$1.00, the exchange rate on June 30, 2020 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

Our historical results for any prior period do not necessarily indicate our results to be expected.



## SUMMARY

### Selected Consolidated Statements of Comprehensive Income Data

The following table sets forth our selected consolidated statements of comprehensive income data for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Revenues:						
Express delivery services . . . . .	12,173,690	15,400,080	19,606,214	8,823,274	8,947,074	1,266,376
Freight forwarding services . . . . .	269,557	1,278,741	1,235,961	639,402	762,571	107,935
Sale of accessories . . . . .	591,716	812,866	1,089,977	501,407	498,214	70,518
Others . . . . .	25,110	112,764	177,794	33,588	110,451	15,633
<b>Total revenues . . . . .</b>	<b>13,060,073</b>	<b>17,604,451</b>	<b>22,109,946</b>	<b>9,997,671</b>	<b>10,318,310</b>	<b>1,460,462</b>
Cost of revenues:						
Line-haul transportation cost . . . . .	4,797,799	5,757,701	7,466,043	3,289,873	3,293,979	466,232
Sorting hub cost . . . . .	2,438,754	3,197,667	4,109,338	1,844,970	2,220,035	314,225
Freight forwarding cost . . . . .	260,429	1,239,439	1,209,523	628,397	704,273	99,683
Cost of accessories sold . . . . .	366,859	491,722	544,166	276,057	186,958	26,462
Other costs . . . . .	850,648	1,553,039	2,159,708	930,214	1,325,242	187,577
<b>Total cost of revenues . . . . .</b>	<b>(8,714,489)</b>	<b>(12,239,568)</b>	<b>(15,488,778)</b>	<b>(6,969,511)</b>	<b>(7,730,487)</b>	<b>(1,094,179)</b>
<b>Gross profit . . . . .</b>	<b>4,345,584</b>	<b>5,364,883</b>	<b>6,621,168</b>	<b>3,028,160</b>	<b>2,587,823</b>	<b>366,283</b>
Operating income (expenses) <sup>(1)</sup>						
Selling, general and						
administrative . . . . .	(780,517)	(1,210,717)	(1,546,227)	(863,128)	(872,472)	(123,490)
Other operating income, net . . . . .	183,368	178,057	387,890	87,633	303,270	42,924
<b>Total operating expenses . . . . .</b>	<b>(597,149)</b>	<b>(1,032,660)</b>	<b>(1,158,337)</b>	<b>(775,495)</b>	<b>(569,202)</b>	<b>(80,566)</b>
Income from operations . . . . .	3,748,435	4,332,223	5,462,831	2,252,665	2,018,621	285,717
<b>Net Income . . . . .</b>	<b>3,158,900</b>	<b>4,387,912</b>	<b>5,671,267</b>	<b>2,046,741</b>	<b>1,824,544</b>	<b>258,247</b>
Net loss/(income) attributable to noncontrolling interests . . . . .	763	(4,887)	2,878	(6,547)	(1,490)	(211)
<b>Net income attributable to ZTO Express (Cayman) Inc. . . . .</b>						
	<b>3,159,663</b>	<b>4,383,025</b>	<b>5,674,145</b>	<b>2,040,194</b>	<b>1,823,054</b>	<b>258,036</b>
Supplemental Information — Non-GAAP measures <sup>(2)</sup> :						
Adjusted EBITDA . . . . .	4,452,019	5,858,384	7,635,212	3,403,797	3,360,454	475,640
Adjusted net income . . . . .	3,229,625	4,201,113	5,292,351	2,342,335	2,088,698	295,635

(1) Our operating income (expenses) in 2017, 2018 and 2019 includes RMB40.7 million, RMB249.5 million and RMB316.7 million, respectively, of share-based compensation expenses, accounting for 0.3%, 1.4% and 1.4% of our total revenues in the same periods, respectively. Our operating income (expenses) in the six months ended June 30, 2019 and 2020 includes RMB295.1 million and RMB264.2 million, respectively, of share-based compensation expenses, accounting for 3.0% and 2.6% of our total revenues in the same periods, respectively.

(2) See “Financial Information — Non-GAAP Measures” for the definitions and reconciliation of these non-GAAP measures to the nearest comparable U.S. GAAP measures.

## SUMMARY

For a discussion and analysis of the reasons for the changes in our key financial statement line items across periods, please refer to “Financial Information — Key Line Items and Specific Factors Affecting Our Results of Operations,” “— Non-GAAP Measures” and “— Results of Operations.”

### Selected Consolidated Balance Sheets Data

The table below sets forth our selected consolidated balance sheet data as of the dates indicated:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
Cash and cash equivalents . . . .	5,425,024	4,622,554	5,270,204	5,261,920	744,776
Accounts receivable, net . . . . .	287,835	596,995	675,567	628,466	88,954
Financing receivables, net . . . .	64,030	517,983	511,124	471,837	66,784
Short-term investments . . . . .	5,224,559	13,599,852	11,113,217	8,437,887	1,194,305
Advances to suppliers . . . . .	263,574	337,874	438,272	631,220	89,343
Prepayments and other current assets . . . . .	719,983	1,507,996	1,964,506	2,239,249	316,945
Property and equipment, net . . .	6,473,010	9,035,704	12,470,632	14,651,069	2,073,724
Land use rights, net . . . . .	1,602,908	1,969,176	2,508,860	3,829,158	541,982
Goodwill . . . . .	4,241,541	4,241,541	4,241,541	4,241,541	600,351
<b>Total assets . . . . .</b>	<b>25,827,638</b>	<b>39,682,857</b>	<b>45,890,502</b>	<b>48,479,774</b>	<b>6,861,865</b>
Short-term bank borrowing . . . .	250,000	–	–	1,690,000	239,204
Accounts payable . . . . .	889,139	1,311,807	1,475,258	1,105,673	156,498
Advances from customers . . . . .	258,965	436,710	1,210,887	1,208,970	171,119
Operating lease liabilities . . . . .	–	–	298,728	240,240	34,004
<b>Total liabilities . . . . .</b>	<b>4,386,321</b>	<b>5,413,308</b>	<b>7,487,105</b>	<b>9,485,095</b>	<b>1,342,526</b>
<b>Net current assets . . . . .</b>	<b>8,231,832</b>	<b>16,092,602</b>	<b>13,417,310</b>	<b>9,039,801</b>	<b>1,279,502</b>
<b>Net assets . . . . .</b>	<b>21,441,317</b>	<b>34,269,549</b>	<b>38,403,397</b>	<b>38,994,679</b>	<b>5,519,339</b>
Noncontrolling interests . . . . .	6,004	52,311	100,793	113,497	16,064

We recorded net current assets of RMB8,231.8 million, RMB16,092.6 million, RMB13,417.3 million and RMB9,039.8 million (US\$1,279.5 million) as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. For a detailed discussion of our cash position as well as material changes in the various working capital items, see “Financial Information — Liquidity and Capital Resources.”

## SUMMARY

### Selected Consolidated Cash Flows Data

	Year Ended December 31,			Six Months Ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Net cash provided by operating activities . . . . .	3,630,684	4,404,051	6,304,186	2,626,074	1,430,061	202,415
Net cash provided by/(used in) investing activities . . . . .	(8,294,547)	(12,872,633)	(3,664,213)	2,394,117	(1,812,554)	(256,552)
Net cash provided by/(used in) financing activities . . . . .	(1,061,558)	7,042,122	(1,982,306)	(2,507,052)	362,952	51,372
Effect of exchange rate changes on cash, cash equivalents and restricted cash . . . . .	(424,000)	275,680	(3,207)	(23,430)	19,460	2,754
Net increase/(decrease) in cash, cash equivalents and restricted cash . . . . .	(6,149,421)	(1,150,780)	654,460	2,489,709	(81)	(11)
Cash, cash equivalents and restricted cash at beginning of period . . . . .	11,923,155	5,773,734	4,622,954	4,622,954	5,277,414	746,969
Cash, cash equivalents and restricted cash at end of period . . . . .	5,773,734	4,622,954	5,277,414	7,112,663	5,277,333	746,958

### DIVIDEND POLICY

Our board of directors has complete discretion on whether to distribute dividends, subject to certain restrictions under Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either a profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

On March 13, 2020, the board of directors approved a special dividend of US\$0.3 per ADS for 2019, to be paid to shareholders of record as of the close of business on April 8, 2020. We have paid US\$188.1 million during the six months ended June 30, 2020. Other than the aforementioned dividend, we do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We intend to retain most of our available funds and any future earnings to operate and expand our business.

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## SUMMARY

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### OUR SHAREHOLDING AND CORPORATE STRUCTURE

#### Our Major Shareholders and Relationship with Controlling Shareholders

As of the Latest Practicable Date, Mr. Meisong Lai (“**Mr. Lai**”), our chairman and chief executive officer, is interested in and controls through: (a) Zto Lms Holding Limited, a company beneficially owned by The LMS Family Trust, 206,100,000 Class B ordinary shares and 3,116,420 ADSs (representing the same number of Class A ordinary shares); and (b) Zto Es Holding Limited (“**ZTO ES**”), 4,491,893 Class A ordinary shares for the purpose of our employee shareholding platform. The LMS Family Trust is a trust established under the laws of Singapore and managed by Standard Chartered Trust (Singapore) Limited as trustee. Mr. Lai is the settlor of The LMS Family Trust and the beneficiaries of the trust are Mr. Lai and his family members. Mr. Lai is the sole director of ZTO ES, which is held by himself and four limited partnerships formed in China. An entity controlled by Mr. Lai is the general partner of each of those limited partnerships and Ms. Yufeng Lai, wife of Mr. Lai, was the sole limited partner of each of those limited partnerships upon their formation. As of the Latest Practicable Date, Mr. Lai controlled 78.4% of the aggregate voting power of our Company.

For further details, please see “Major Shareholders” and “Relationship with Controlling Shareholders.”

#### Weighted Voting Rights Structure and WVR Beneficiary

Under our weighted voting rights structure, our share capital comprises Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 10 votes, respectively, on all matters that require a shareholder’s vote. For further details, please see “Share Capital — Weighted Voting Rights Structure.”

As of the Latest Practicable Date, Mr. Lai controlled 78.4% of the aggregate voting power of our Company. Upon any sale of Class B ordinary shares by a holder thereof to any person or entity that is not an Affiliate (as defined in our Articles of Association) of such holder or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person who is not an affiliate of the holder of such Class B ordinary shares, such Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares. In addition, if at any time, Mr. Meisong Lai and his affiliates collectively own less than 10% of the issued share capital of the Company, each issued and outstanding Class B ordinary share will be automatically and immediately converted into one Class A ordinary share.

As we are seeking a listing as a Grandfathered Greater China Issuer pursuant to Chapter 19C of the Hong Kong Listing Rules (Secondary Listings of Qualifying Issuers) with a WVR structure, certain shareholder protection measures and governance safeguards under Chapter 8A of the Hong Kong Listing Rules (Weighted Voting Rights) do not apply to us pursuant to Rule 19C.12 and our Articles differ from Chapter 8A in a number of ways, including the following:

- Chapter 8A prohibits the increase in the proportion of shares with WVRs after the Listing and, where there is a reduction in the number of issued shares, requires shares with WVRs to be reduced proportionately. Our Articles do not contain such restrictions on the Class B ordinary shares;
- our Articles do not provide for WVRs to terminate in the circumstances specified in Chapter 8A, such as where the WVR beneficiary is deceased or no longer a director;

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## SUMMARY

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- Chapter 8A requires (a) amendments to a listed issuer’s constitutional documents, (b) variation of rights attached to any class of shares, (c) the appointment or removal of an independent non-executive director, (d) the appointment or removal of auditors and (e) the voluntary winding-up of a listed issuer to be subject to shareholder approval on a one vote per share basis. Our Articles do not contain such provisions;
- the charter of our nominating and corporate governance committee does not contain the terms otherwise required under Rule 8A.30 and Code Provision D.3.1 of Appendix 14 to the Hong Kong Listing Rules; and
- the independent non-executive directors of a listed issuer with a WVR structure must be subject to retirement by rotation at least once every three years under Chapter 8A, whereas our Articles provide that our directors are not subject to a term of office and hold office until such time as they are removed from office by an ordinary resolution of the shareholders.

As a result, our Articles provide less shareholder protection and have fewer governance safeguards than if our Company were subject to Chapter 8A in its entirety.

Prospective investors are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders’ resolutions, irrespective of how other shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to “Risk Factors — Risks related to our shares, our ADSs and the Listing — Our dual-class share structure with different voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.”

### **Our VIE Structure**

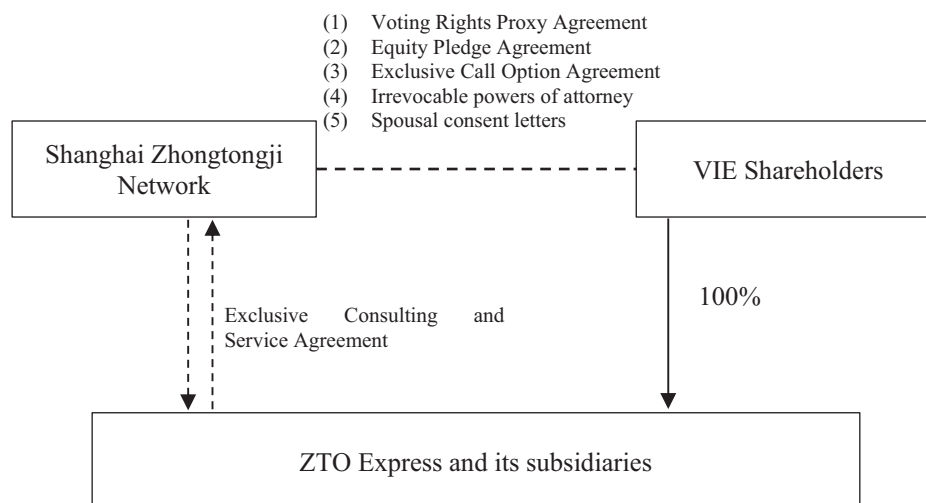
Due to the PRC legal restrictions on foreign ownership in companies that provide mail delivery services in China, we carry out our express delivery business through ZTO Express Co., Ltd., a domestic PRC company, the equity interests in which are held by PRC citizens and companies established under PRC law. As a result, we conduct such business activities through ZTO Express Co., Ltd. and its subsidiaries in the PRC. We have entered into certain contractual arrangements, as described in more detail in “History and Corporate Structure,” which collectively enable us to exercise effective control over ZTO Express Co., Ltd. and realize substantially all of the economic benefits arising from it. We therefore include the financial results of ZTO Express Co., Ltd. in our consolidated financial statements in accordance with U.S. GAAP as if it were our wholly-owned subsidiary.

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## SUMMARY

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The diagram below illustrates the general structure of the economic flow and control under the VIE structure created by the contractual arrangements:



*Notes:*

- (1) “- - ►” denotes the direction of legal and beneficial ownership.
- (2) “—►” denotes the contractual arrangements among ZTO Express, its VIE shareholders, and Shanghai Zhongtongji Network.

## RISK FACTORS

Our business and the Global Offering involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us and/or the value of your investment. See “Risk Factors” for details of our risk factors, which we strongly urge you to read in full before making an investment in our Shares. Some of the major risks we face include:

- Our business and growth are highly dependent on the development of the e-commerce industry and the emergence of New Retail in China, and our business operations may be significantly influenced by certain third-party e-commerce platforms;
- We face risks associated with our network partners and their employees and personnel;
- We face intense competition, which could adversely affect our results of operations and market share;
- Any service disruptions experienced by our sorting hubs or the outlets operated by our network partners may adversely affect our business operations; and
- Our technology systems are critical to our business operations and growth prospects, and failure to continue to improve, and effectively utilize, our technology systems or develop new technologies could harm our business operations, reputation and growth prospects.



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## SUMMARY

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### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$11,882.22 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$268.00 per Offer Share for both the Hong Kong Public Offering and the International Offering, and assuming that the Over-allotment Option is not exercised, or HK\$13,673.13 million if the Over-allotment Option is exercised in full. We plan to use the net proceeds we will receive from the Global Offering for the following purposes:

- **approximately 50% (approximately HK\$5,941 million, assuming that the Over-allotment Option is not exercised) for infrastructure and capacity development.** We plan to use 30% of the net proceeds to acquire land use rights in strategic locations across China and to establish additional sorting hubs to handle increasing volume; and to build modern logistic parts to serve as one-stop multi-functional logistic facilities. We intend to use 10% of the net proceeds to acquire additional transportation vehicles to expand the capacity of our self-owned fleet and achieve higher transportation efficiency. We will use 10% of the net proceeds to continue to increase and upgrade the installed base of machineries and equipment in our sorting hubs, and apply advanced technologies to further improve the level of automation and digitalization.
- **approximately 25% (approximately HK\$2,971 million, assuming that the Over-allotment Option is not exercised) for empowering our network partners and strengthening the network stability.** We intend to use 15% of the net proceeds to invest resources in incentivizing our network partners to achieve better operational performance and therefore further strengthen overall network stability and competitiveness. We will also use 10% of the net proceeds to continue to provide financing support to our network partners to make necessary investments to ramp up their operational capabilities and secure last mile presence and gain access to businesses and consumers.
- **approximately 15% (approximately HK\$1,782 million, assuming that the Over-allotment Option is not exercised) for investments in logistics ecosystem.** We aim to assemble and integrate pertinent resources across the logistics value chain, and expand our service offering to include warehousing, freight-forwarding, less-than-truckload, and cold chain logistics, for examples. We will make additional investments to build and improve integrated logistics services capabilities and create synergies within our ecosystem.
- **approximately 10% (approximately HK\$1,188 million, assuming that the Over-allotment Option is not exercised) for general corporate purposes.** We will use the remaining proceeds for general corporate purposes and working capital needs.

See “Use of Proceeds” for further details.

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## SUMMARY

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### THE LISTING

Our ADSs have been listed and traded on the NYSE since October 27, 2016. Dealings in our ADSs on the NYSE are conducted in U.S. dollars. We have applied for a listing of our Class A ordinary shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) of the Hong Kong Listing Rules. Dealings in our Class A ordinary shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars. Our Class A ordinary shares will be traded on the Hong Kong Stock Exchange in board lots of 50 Shares. For additional information, see “Information about This Document and the Global Offering.”

### WAIVERS AND EXEMPTIONS

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the SFO and a ruling under the Takeovers Codes. For additional information, see “Waivers and Exemptions.”

We enjoy exemptions from certain obligations under U.S. securities laws and the NYSE rules as a foreign private issuer as defined under the U.S. Exchange Act. Investors should exercise care when investing in our Shares and/or ADSs. See “Information about the Listing — Summary of Exemptions as a Foreign Private Issuer in the U.S.”

### ARTICLES OF ASSOCIATION

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Articles of Association, the Cayman Companies Law, as well as the common law of the Cayman Islands. The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of the requirement set out in Rule 19C.07(3) of the Hong Kong Listing Rules that the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer’s members or other body that is independent of the issuer’s board of directors. Therefore, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules. We have also applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the conditions that: (i) we put forth a resolution at or before our 2021 annual general meeting, which is expected to be held in or before June 2021 to revise our Articles of Association, so that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in our share capital; and (ii) our Controlling Shareholder(s) will provide an irrevocable undertaking to the Company prior to the Listing to vote in favor of the proposed resolution outlined above with a view to ensuring that there may be adequate votes in favor of such resolution. See “Risk Factors — Risks Related to our Shares, ADSs and the Listing — As a company applying for listing under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.” See “Information about the Listing” and “Waivers and Exemptions — Shareholder Protection Requirements” for further details.

As Chapter 8A of the Hong Kong Listing Rules (Weighted Voting Rights) do not apply to us pursuant to Rule 19C.12, our Articles provide less shareholder protection and have fewer governance safeguards than if our Company were subject to Chapter 8A in its entirety. See “Information about the Listing — Our Articles of Association” for details.

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## SUMMARY

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### PRICING OF THE OFFER SHARES

We will determine the pricing of the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about Tuesday, September 22, 2020 and, in any event, no later than Monday, September 28, 2020, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us.

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (which is accessible to the Shareholders and potential investors at <https://www.nyse.com/quote/XNYS:ZTO>), and the Public Offer Price will not be more than HK\$268.00 per Hong Kong Offer Share.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

### OFFERING STATISTICS

**Based on the indicative offer price per Offer Share of HK\$268.00 for both the Hong Kong Public Offering and International Offering**

Our market capitalization <sup>(1)</sup> .....	HK\$222,144 million
Unaudited pro forma adjusted net tangible assets per Share <sup>(2)</sup> .....	RMB54.80 or HK\$60.12

*Notes:*

- (1) The calculation of market capitalization is based on 828,894,733 Shares that will be in issue immediately following the Global Offering, without taking into account (i) Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, (ii) the Company's repurchase of Class A ordinary shares in the form of ADSs; and (iii) any allotment and issuance of Class A ordinary shares upon exercise of the Over-allotment Option.
- (2) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 828,894,733 Shares that will be in issue assuming that the Global Offering have been completed on June 30, 2020, without taking into account (i) Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, (ii) the Company's repurchase of Class A ordinary shares in the form of ADSs; and (iii) any allotment and issuance of Class A ordinary shares upon exercise of the Over-allotment Option.

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## SUMMARY

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### LISTING EXPENSES

We expect to incur listing expenses of approximately HK\$177.78 million after June 30, 2020 (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK\$268 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect most of the listing expenses will be recorded as a deduction in equity directly.

### NO MATERIAL ADVERSE CHANGE

Our directors confirm that, as of the date of this document, there has been no material adverse change in our financial or trading position since June 30, 2020 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there has been no event since June 30, 2020 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

### IMPACT OF COVID-19 AND RECENT DEVELOPMENT

The COVID-19 outbreak has caused and may continue to cause us to implement temporary adjustments to our operations. We temporarily closed our branch offices, sorting hubs and service outlets from late January to mid- to late February 2020, which resulted in a decline of parcel volume in January and February 2020. The measures and timelines for business resumption varied across different localities in the PRC, and our branch offices, sorting hubs and service outlets closed and opened in accordance with measures adopted by their respective local government authorities. Our parcel volume was 714 million in January 2020 and 438 million in February 2020, representing a decrease of 9.1% and 14.2% year on year. Our parcel volume was 2,264 million and 2,374 million in the first quarter of 2019 and 2020 and was 3,107 million and approximately 4,595 million in the second quarter of 2019 and 2020, representing an increase of 4.9% and 47.9% year on year, respectively. Our parcel volume was 5,371 million and 6,970 million in the first half of 2019 and 2020, representing an increase 29.8% year on year. Our parcel volume accounts for 19.1% and 20.6% of the total express delivery parcel volume in China in 2019 and the first half of 2020, respectively. Our revenues, cost of revenues and net income were RMB3,915.9 million, RMB3,097.2 million and RMB371.0 million in the first quarter of 2020, respectively, representing a decrease of 14.4%, 6.6% and 45.6% as compared to the same period of 2019, respectively. We gradually resumed our operations since March 2020. Our revenues, cost of revenues and net income were RMB6,402.4 million, RMB4,633.3 million and RMB1,453.6 million in the second quarter of 2020, respectively, representing an increase of 18.0%, 26.8% and 6.5% as compared to the same period of 2019, respectively. While we have resumed business operations and events related to the outbreak of and response to COVID-19 are expected to be temporary, there remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. We prioritize the health and safety of our employees and other personnel in our network, and have taken various measures to reduce the impact of the COVID-19 outbreak, including strictly implementing self-quarantine and disinfection measures at our headquarters, sorting hubs and service outlets in accordance with government issued protocols. The COVID-19 outbreak and any measures to combat the spread of the virus may adversely affect our business operations, financial condition and operating results for 2020, including but not limited to negative impact to our total revenues, costs and net profit.

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## DEFINITIONS

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

“Accountants’ Report”	accountants’ report for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 in Appendix I to this document
“ADS(s)”	American Depositary Shares (each representing one Class A ordinary share)
“Ali ZT”	Alibaba ZT Investment Limited, a company incorporated in Hong Kong with limited liability on May 28, 2018, and a subsidiary of Alibaba
“Alibaba”	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands with limited liability on June 28, 1999, with its American Depositary shares, each representing eight ordinary shares, listed on the New York Stock Exchange (NYSE: BABA) and its ordinary shares listed on the Main Board of the Stock Exchange (Stock Code: 9988)
“Articles” or “Articles of Association”	our Articles of Association, the current form of which was adopted by a special resolution passed on September 30, 2016 and effective on November 1, 2016, a summary of which is set out in Appendix III
“board” or “board of directors”	our board of directors
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong or other relevant jurisdictions are generally open for business
“BVI”	British Virgin Islands
“Cainiao Network”	Cainiao Smart Logistics Network Limited, a company incorporated on May 20, 2015 under the laws of the Cayman Islands and a subsidiary of Alibaba
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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## DEFINITIONS

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“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System ( <a href="https://ip.ccass.com">https://ip.ccass.com</a> ) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “the PRC”	the People’s Republic of China, excluding, for the purposes of this document only, Taiwan and the special administrative regions of Hong Kong and Macau, except where the context otherwise requires
“Circular 82”	the Notice of the STA Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the basis of de facto management bodies (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), issued by STA on April 22, 2009 and further amended on December 29, 2017
“Class A ordinary shares”	Class A ordinary shares of the share capital of the Company with a par value of US\$0.0001 each, giving a holder of a Class A ordinary share one vote per share on any resolution tabled at the Company’s general meeting
“Class B ordinary shares”	Class B ordinary shares of the share capital of the Company with a par value of US\$0.0001 each, conferring weighted voting rights in the Company such that a holder of a Class B ordinary share is entitled to 10 votes per share on any resolution tabled at the Company’s general meeting



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## DEFINITIONS

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“CNNIC”	China Internet Network Information Center (中國互聯網絡信息中心)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company”, “our Company”, “we”, “our”, “us” or “ZTO”	ZTO Express (Cayman) Inc., a company incorporated in the Cayman Islands on April 8, 2015 as an exempted company and, where the context requires, its subsidiaries and consolidated affiliated entities from time to time
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules and, unless the context otherwise requires, refers to Mr. Meisong Lai, Zto Lms Holding Limited, Zto Es Holding Limited and other entities through which Mr. Lai holds interest in our Company
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deposit Agreement”	the deposit agreement, dated as of October 26, 2016, as amended, among us, JPMorgan Chase Bank, N.A. and our ADS holders and beneficial owners from time to time
“director(s)”	member(s) of our board
“DTC”	The Depository Trust Company, the central book-entry clearing and settlement system for equity securities in the United States and the clearance system for our ADSs
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) promulgated by the National People’s Congress of the PRC on March 16, 2007, and most recently amended on December 29, 2018

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## DEFINITIONS

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“Extreme Conditions”	any extreme conditions or events, the occurrence of which causes interruption to ordinary business operations in Hong Kong
“Foreign Investment Law” or “FIL”	the PRC Foreign Investment Law (《中華人民共和國外商投資法》), promulgated by the National People’s Congress of the PRC on March 15, 2019, which became effective on January 1, 2020
“foreign private issuer”	as such term is defined in Rule 3b-4 under the U.S. Exchange Act
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company, subsidiaries and consolidated affiliated entities from time to time
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Hong Kong Offer Shares”	the Shares offered pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Public Offer Price on the terms and conditions described in this document
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this document
“Hong Kong Underwriting Agreement”	the underwriting agreement dated September 16, 2020, relating to the Hong Kong Public Offering and entered into by, among others, the Hong Kong Underwriters and us
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company
“International Offer Price”	the final offer price per International Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“International Offer Shares”	the Shares offered pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
“International Offering”	the offer of the International Offer Shares at the International Offer Price pursuant to a prospectus supplement and the shelf registration statement on Form F-3 that was filed with the SEC and became effective on September 11, 2020
“International Underwriters”	the group of underwriters, led by the Sole Global Coordinator, that expects to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Sole Global Coordinator, the International Underwriters and us on or about September 22, 2020
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” of this prospectus

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## DEFINITIONS

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“Latest Practicable Date”	September 9, 2020, being the latest practicable date prior to the date of this document for the purpose of ascertaining certain information contained in this document
“Listing”	the listing we are seeking on the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about Tuesday, September 29, 2020, on which the Shares are listed on the Main Board of the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Main Board of the Hong Kong Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Major Subsidiaries”	our subsidiaries and consolidated affiliated entities as identified in “History and Corporate Structure — Major Subsidiaries”
“Memorandum” or “Memorandum of Association”	our memorandum of association, adopted by a special resolution passed on September 30, 2016 and effective on November 1, 2016, a summary of which is set out in Appendix III to this document
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Negative List”	the Special Administrative Measures (Negative List) for Foreign Investment Access, most recently jointly promulgated by the MOFCOM and the NDRC on June 23, 2020 and which became effective on July 23, 2020, as amended, supplemented or otherwise modified from time to time
“NYSE”	New York Stock Exchange

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## DEFINITIONS

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“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares, being Class A ordinary shares of the Company, together with, where relevant, any additional Class A ordinary shares which we may issue pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option we expect to grant to the International Underwriters, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) under the International Underwriting Agreement, which may require us to allot and issue up to an aggregate of 6,750,000 additional Offer Shares at the International Offer Price to, among other things, cover over-allocations in the International Offering, if any
“PCAOB”	the U.S. Public Company Accounting Oversight Board
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, as amended, supplemented or otherwise modified from time to time
“PRC Legal Adviser”	Global Law Office Shanghai, our legal adviser as to the laws of the PRC
“Price Determination Agreement”	the agreement to be entered into by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date to record and fix the pricing of the Offer Shares
“Price Determination Date”	the date, expected to be on or about Tuesday, September 22, 2020, on which the International Offer Price and Public Offer Price will be determined, or such later time as the Sole Global Coordinator (for itself and on behalf of the Underwriters) and we may agree, but in any event, not later than Monday, September 28, 2020
“Principal Share Registrar”	Maples Fund Services (Cayman) Limited
“Public Offer Price”	the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“Qualifying Issuer”	has the meaning given to it under chapter 19C of the Hong Kong Listing Rules

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## DEFINITIONS

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“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSU(s)”	restricted share unit(s)
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
“SAFE Circular 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE with effect from July 4, 2014
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as SAMR
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局), formerly known as the SAIC
“STA”	State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
“SEC”	the United States Securities and Exchange Commission
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“shareholder(s)”	holder(s) of Shares and, where the context requires, ADSs
“Share(s)”	the Class A ordinary shares and Class B ordinary shares in the share capital of the Company, as the context so requires
“Share Incentive Plans”	the 2016 Share Incentive Plan and the Employee Shareholding Platform, details of which are set out in the section headed “Directors and Senior Management — Compensation”



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## DEFINITIONS

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“2016 Share Incentive Plan”	the share incentive plan adopted in June 2016, details of which are set out in the section headed “Directors and Senior Management — Compensation”
“Sole Global Coordinator” or “Sole Sponsor”	Goldman Sachs (Asia) L.L.C.
“Stabilizing Manager”	Goldman Sachs International
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or around the Price Determination Date between Zto Ljf Holding Limited and the Stabilizing Manager pursuant to which the Stabilizing Manager may borrow up to 6,250,200 Shares from Zto Ljf Holding Limited to facilitate the settlement of over-allocations
“subsidiaries”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Takeovers Codes”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC
“Tongda Operators”	the five express delivery service providers who utilize the “network partner model” in China, namely our Company, YUNDA Holding Co., Ltd., YTO Express Group Co., Ltd., BEST Inc. and STO Express Co., Ltd.
“Track Record Period”	the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. GAAP”	accounting principles generally accepted in the United States

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## DEFINITIONS

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“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“variable interest entities,” “VIE” or “VIEs”	our variable interest entities, the financial results of which are consolidated into our consolidated financial statements as if they were our subsidiaries
“VAT”	value-added tax; all amounts are exclusive of VAT in this document except where indicated otherwise
“VIE structure” or “Contractual Arrangements”	variable interest entity structure and, where the context requires, the agreements underlying the structure
“weighted voting right”	has the meaning ascribed to it under the Hong Kong Listing Rules
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Service Provider, <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WVR beneficiary”	has the meaning ascribed to it under the Hong Kong Listing Rules and unless the context otherwise requires, refers to Mr. Meisong Lai, holding the Class B ordinary shares, which entitle him to weighted voting rights, details of which are set out in the section headed “Share Capital”
“WVR structure”	has the meaning ascribed to it under the Hong Kong Listing Rules

In this document, the terms “associate(s),” “close associate(s),” “controlling shareholder(s),” “core connected person(s)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

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

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

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

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## GLOSSARY OF TECHNICAL TERMS

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The following is a glossary of certain terms used in this document in connection with us and/or our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“delivery service fees”	service fees directly charged by network partners from parcel senders in connection with express delivery services rendered. The full delivery service fees collected by pickup outlets upfront from the senders typically comprise of (i) the pickup service fees; (ii) the network transit fees payable to the Company; and (iii) the last-mile delivery fees payable to the delivery outlets operated by other network partners
“network partners”	business partners that own and operate pickup and delivery outlets in our network and operate express delivery services under our “Zhongtong” or “ZTO” brand or, where the context so requires, comparable business partners of the Tongda Operators other than the Group
“network transit fees”	fees payable by our network partners to us in connection with the services we provide to them, which mainly include parcel sorting and parcel line-haul transportation
“New Retail”	the continued integration of online and offline retail channels by large e-commerce platforms and various retail merchants to reduce customer acquisition costs and enhance customers’ shopping experience
“parcel volume”	the number of parcels collected by network partners using waybills in a given period
“unit cost per parcel”	the sum of cost of revenues and total operating expenses of the applicable period divided by total parcel volume during the same period

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## FORWARD-LOOKING STATEMENTS

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

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

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed “Risk Factors.”

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

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

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## RISK FACTORS

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You should carefully consider all of the information set out in this document before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the Global Offering. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

### RISKS RELATED TO OUR BUSINESS AND INDUSTRY

#### **Our business and growth are highly dependent on the development of the e-commerce industry and the emergence of New Retail in China.**

We generate a significant portion of our parcel volume by serving end customers that conduct business on various e-commerce platforms in China, and our end customers rely on our services to fulfill orders placed by consumers on such platforms. In June 2020, more than 90% of our total parcel volume was attributable to e-commerce platforms. Our business and growth are therefore highly dependent on the viability and prospects of the e-commerce industry in China.

Any uncertainties relating to the growth, profitability and regulatory regime of the e-commerce industry in China could have a significant impact on us. The development of the e-commerce industry in China is affected by a number of factors, most of which are beyond our control. These factors include:

- the growth of broadband and mobile internet penetration and usage in China;
- the consumption power and disposable income of e-commerce consumers in China, as well as changes in demographics and consumer tastes and preferences;
- the availability, reliability and security of e-commerce platforms;
- the selection, price and popularity of products offered on e-commerce platforms;
- the potential impact of the COVID-19 to our business operations and the economy in China and elsewhere generally;
- the emergence of alternative channels or business models that better suit the needs of consumers in China;
- the development of fulfillment, payment and other ancillary services associated with e-commerce;
- the continued integration of online and offline retail channels by large e-commerce platforms and various retail merchants to reduce customer acquisition costs and enhance customers' shopping experience (“**New Retail**”); and
- changes in laws and regulations, as well as government policies, that govern the e-commerce industry in China.

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## RISK FACTORS

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The e-commerce industry is highly sensitive to changes in macroeconomic conditions, and e-commerce spending tends to decline during recessionary periods. Many factors beyond our control, including inflation and deflation, fluctuations in currency exchange rates, volatility of stock and property markets, interest rates, tax rates and other government policies and changes in unemployment rates can adversely affect consumer confidence and spending behavior on e-commerce platforms, which could in turn materially and adversely affect our growth and profitability. In addition, unfavorable changes in domestic and international politics, including military conflicts, political turmoil and social instability, may also adversely affect consumer confidence and spending, which could in turn negatively impact our growth and profitability.

**Our business operations have relied on, and are likely to continue to be significantly influenced by, certain third-party e-commerce platforms.**

Our business operations have relied on certain third-party e-commerce platforms, such as the Alibaba ecosystem, and we still expect to be significantly influenced by those third-party e-commerce platforms in the foreseeable future.

Although such third-party e-commerce platforms are not our direct customers, they have significant influence over how transactions take place on their e-commerce platforms, including how purchase orders are fulfilled by indicating to consumers the preferred express delivery companies for orders placed. For example, in order to maintain and foster our cooperation with Alibaba, we may have to accommodate the demands and requirements from various players in the Alibaba ecosystem, such as the adoption of digital waybills initiated by Cainiao Network, or Cainiao, a central logistics information system and solutions provider affiliated with Alibaba. Such demands and requirements may increase the cost of our business or weaken our connection with our end customers.

Furthermore, in May 2018, Alibaba and Cainiao Network entered into a strategic transaction with us. Pursuant to the transaction terms, certain investors led by Alibaba and Cainiao Network invested US\$1.38 billion in our company in exchange for approximately 10% of our equity interest at that time and obtained certain shareholder rights in our company. The transaction was completed in June 2018. Alibaba has also invested, and may invest in the future, in our competitors. Alibaba may encourage merchants on its platforms to choose certain other investees' services over ours for business reasons. Alibaba may also build an in-house delivery network to serve its e-commerce platforms in the future. If either or both of these situations were to materialize, our business may be negatively impacted, and our results of operations may be materially and adversely affected.

**We face risks associated with our network partners and their employees and personnel.**

As of June 30, 2020, we had approximately 30,000 pickup/delivery outlets and over 5,000 direct network partners under our ZTO brand. We rely on these network partners to directly interact with and serve end customers. However, the interests of a network partner may not be entirely aligned with ours or with those of our other network partners at all times. We manage our business relationships with direct network partners through contractual agreements, which provide for performance incentives along with periodic evaluations. Our direct network partners may sub-contract part of their business to their cooperation partners, which we refer to as our indirect network partners. The sub-contracting to indirect network partners is subject to our consent. However, we may not be able to manage the network partners as effectively as if we had full ownership of them or operated their business directly. In particular, we do not enter into agreements with our indirect network partners and are therefore unable to exert a significant degree of influence over them.

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Our network partners and their employees have a significant amount of direct interactions with our end customers, and their performance is directly associated with our brand. We do not directly supervise the employees of our network partners in providing services to end customers. Our existing network-wide service standards and periodic training to the personnel of our network partners may not be sufficient for us to effectively monitor, maintain and improve their service quality or their general conduct towards end-customers. In the event of any unsatisfactory performance or unlawful behavior by our network partners and/or their employees towards end-customers, we may experience service disruptions and our reputation may be materially and adversely affected. We may voluntarily, or upon the request of applicable authorities, conduct investigations on such event and adopt remediation/preventive measures. Such efforts may not be limited to the relevant parties, but applicable throughout our network, which could cause temporary diversion from the ordinary course of our and our network partners' business. Furthermore, our network partners may fail to implement sufficient control over the pickup and delivery personnel who work at the outlets in connection with their conduct, such as proper collection and handling of parcels and delivery service fees, adherence to customer privacy standards and timely delivery of parcels. As a result, we or our network partners may suffer financial losses, incur liabilities and suffer reputational damage in the event of theft or late delivery of parcels, embezzlement of delivery service fees, mishandling of customer privacy, misconduct or unlawful behavior towards end-customers, or any other behavior that reflects adversely on our business and reputation.

Suspension or termination of a network partner's services in a particular geographic area may result in a significant interruption or failure to provide services in the corresponding geographic area. A network partner may suspend or terminate its services voluntarily or involuntarily due to various reasons, including a disagreement or dispute with us, failure to make a profit, failure to obtain requisite approvals, failure to maintain licenses or permits or to comply with other governmental regulations, and events beyond our or its control, such as inclement weather, natural disasters, transportation interruptions or labor unrest or shortage. Due to the intense competition in China's express delivery industry, our existing network partners may also choose to discontinue their cooperation with us and work with our competitors instead. We may not be able to promptly replace these network partners or find alternative ways to provide services in a timely, reliable and cost-effective manner, or at all. As a result of any service disruptions associated with our network partners, our customer satisfaction, reputation, operations and financial performance may be materially and adversely affected.

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

We operate in a highly competitive and consolidating industry. We compete primarily with leading domestic express delivery companies, including YTO Express, STO Express, Yunda Express, Best Express, SF Express and the express delivery services provided by China Post such as EMS. We compete with them based on a number of factors, including network stability, business model, operational capabilities, infrastructure capacity, cost control and service quality. We have historically experienced a decline in the delivery service market prices and we may continue to face downward pricing pressure. If we and our network partners cannot effectively control our costs to remain competitive, our market share and revenue may decline. Additionally, if we have to subsidize our network partners to increase our network partners' competitiveness, our gross margin may decline. Our competitors may attempt to gain market share by lowering their rates, especially during economic slowdowns or in key regional markets. Such rate reductions may limit our ability to maintain or increase our rates and operating margins and inhibit our ability to grow our business.



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In addition, major e-commerce platforms, such as Alibaba, Pinduoduo and JD.com, may choose to build or further develop their respective in-house delivery capabilities to serve their logistics needs and compete with us, which may significantly affect our market share and total parcel volume. Furthermore, as we diversify our service offering and further expand our customer base, we may face competition from existing or new players in new sectors we choose to enter. In particular, we or our network partners may face competition from existing or new last-mile delivery service providers which may expand their service offerings to include express delivery or adopt a business model disruptive to our business and compete with our network partners for delivery personnel. Similarly, existing players in an adjacent or sub-market may choose to leverage their existing infrastructure and expand their services to serve our customers. If these players succeed in doing so, our market share may suffer and our business and financial performance may be significantly and adversely affected.

Certain of our current and potential competitors, as well as international logistics operators with a presence in China, may have significantly greater resources, longer operating histories, larger customer bases and greater brand recognition than us. Other current and potential competitors may be acquired by, receive investment from, or enter into strategic relationships with, established and well-financed companies or investors which would help enhance their competitiveness. Moreover, competitors may adopt more aggressive pricing policies or devote greater resources to marketing and promotional campaigns than us. We may not be able to compete successfully against current or future competitors, and competitive pressures may have a material and adverse effect on our business, financial condition and results of operations.

**Any service disruptions experienced by our sorting hubs or the outlets operated by our network partners may adversely affect our business operations.**

Our daily operations rely heavily on the orderly performance of our sorting hubs and the pickup and delivery outlets operated by our network partners. Any service disruption at our sorting hubs or the pickup and delivery outlets as a result of a failure or disruption of the automated facilities, under-capacity during peak parcel volume periods, force majeure, third-party sabotage, disputes, employee delinquency or strike, government inspections or regulatory orders mandating service halt or temporary or permanent shutdown would adversely impact our business operations. For example, any ad hoc regulatory inspection by local authorities, such as environmental safety and security checks, on any of our facilities or our network partners' service outlets may cause business disruptions and delay the processing and delivery of parcels. The outbreak of an epidemic, such as the recent outbreak of COVID-19, may also cause a significant disruption to our business. For instance, certain emergency measures implemented by the Chinese government in early 2020, mandated the temporary closure of our facilities, sorting hubs and service outlets. If we are required by governmental authorities to implement changes to our facilities or relocate any of our facilities or our network partners' service outlets, our and our network partners' operating costs may increase as a result. In the event of service disruptions at our sorting hubs or outlets, parcel sorting or parcel pickup and delivery may be delayed, suspended or stopped. Such parcels would need to be redirected to other nearby sorting hubs or outlets, and such rerouting of parcels will likely increase risks of delay and delivery errors. At the same time, increased parcel sorting or pickup and delivery pressure on nearby sorting hubs or outlets may negatively impact their performance and result in adverse effects to our entire network. Any of the foregoing events may result in significant operational interruptions and slowdowns, customer complaints and reputational damage.

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**Our technology systems are critical to our business operations and growth prospects, and failure to continue to improve, and effectively utilize, our technology systems or develop new technologies could harm our business operations, reputation and growth prospects.**

The satisfactory performance, reliability and availability of our technology systems is critical to our ability to deliver high-quality customer services. We rely on the Zhongtian system, our self-developed and centralized technology systems, which consists of our operational management system, our network management system, our settlement system, our finance system and other systems and mobile apps connecting our network partners to efficiently operate our network. These integrated systems support the smooth performance of certain key functions of our business, such as order tracking, fleet dispatch and management, route planning, and fee settlement. In addition, the maintenance and processing of various operating and financial data is essential to the day-to-day operation of our business and formulation of our strategies. Therefore, our business operations and growth prospects depend, in part, on our ability to maintain and make timely and cost-effective enhancements and upgrade to our technology systems and to introduce innovative additions to meet changing operational needs. Continued investment in information technology and equipment to enhance operational efficiency and reliability is part of our growth strategy. While we have significantly increased our spending on technology, such investment may not be sufficient to fully support our expanding business needs. Failure to maintain sufficient spending on technology systems could cause economic losses and put us at a disadvantage to our competitors. We can provide no assurance that we will be able to keep up with technological improvements or that technologies developed by others (including our competitors) will not render our services less competitive or attractive. Any issues impairing the functionality and effectiveness of our systems could result in unanticipated system disruptions, slower response time and impaired user experiences, as well as delays or inaccuracies in reporting operating and financial information.

Any interruptions caused by telecommunications failures, computer viruses, hacking, or other attempts to harm our technology infrastructure could result in the unavailability or slowdown of our centralized system and significantly impact workflows throughout our entire network. We can provide no assurance that our current security mechanisms will be sufficient to protect our technology systems from any third-party intrusions, viruses or hacker attacks, information or data theft or other similar activities. Any such occurrences could disrupt our services, damage our reputation and harm our results of operations.

**We operate in a labor-intensive industry and an overall contraction in the availability of workers in the labor market or any labor unrest may negatively affect our business.**

Our business is labor-intensive. As of June 30, 2020, we had a total of 21,465 employees and over 55,600 outsourced personnel. A failure by us or our network partners to maintain a stable and dedicated workforce may result in disruption or delays in the services provided to end customers. We and our network partners often need to hire additional or temporary workers to handle the significant increase in parcel volume following special promotional events such as promotional campaigns on June 18, November 11 and December 12 each year or during other peak seasons throughout the year. During these periods we have observed an increasingly competitive and tight labor market. In general, this has resulted in, and we expect will continue to result in, increased labor costs driven by higher salaries, social benefits and employee headcounts.

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Further, we and our network partners compete with other companies in our industry as well as other labor-intensive industries for labor, and such competition may affect the overall stability of our workforce and the performance of our network. For example, emerging disruptive business models like intra-city delivery, which enables senders and recipients within the same city to achieve rapid point-to-point delivery; or omni-channel delivery, which fulfills the logistics demands for omni-channel retailers and consumers, are likely to compete for pickup and delivery personnel with our network partners and service outlets. Some of our network partners or outlets may be pressured to increase compensation and social welfare benefits for their employees, which may result in lower profitability and insufficient cashflow for our network partners or service outlets. If our network partners or service outlets are unable to offer competitive salaries and benefits, or pay their employees on time or in full, they may lose their personnel, resulting in insufficient delivery resources, disgruntled employees, and lower delivery service quality in certain parts of our network.

We and our network partners have been involved in labor disputes in the past, none of which either individually or in the aggregate, had a material adverse impact on us. We and our network partners expect to continue to be involved in labor disputes from time to time, including involvement in various legal or administrative proceedings related to such disputes. Any labor unrest directed against us or our network partners could directly or indirectly prevent or hinder our normal business operations, and, if not resolved in a timely manner, lead to delays in fulfilling our customer orders and decreases in our revenue. Historically, we have experienced an incident where an employee strike of one of our network partners caused a prolonged service suspension in a southern city of China, and we cannot assure you that similar incidents would not happen in the future. We and our network partners cannot predict or control any labor unrest, especially those involving labor not directly employed by us. Further, labor unrest may have a negative effect on general labor market conditions or result in changes to labor laws, which in turn could materially and adversely affect our business, financial condition and results of operations.

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

We engage outsourcing firms to provide a large number of personnel to work at our network facilities. As of June 30, 2020, over 55,600 outsourced personnel were active in our operations. We enter into agreements with outsourcing firms and do not have any direct contractual relationship with outsourced personnel, resulting in limited control over them. If any outsourced personnel fail to operate in accordance with instructions, policies and business guidelines set forth by outsourcing firms based on our requirements, our market reputation, brand image and results of operations could be materially and adversely affected.

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

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## RISK FACTORS

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### **We face risks associated with parcels handled and transported through our network and risks associated with transportation.**

We handle a large volume of parcels across our network, and face challenges with respect to the protection and inspection of these parcels. Parcels in our network may be stolen, damaged or lost for various reasons, and we and/or our network partners may face actual or alleged liability for such incidents. In addition, we may fail to detect unsafe or prohibited/restricted items. There have been incidents in the past where our network partners failed to strictly implement parcel screening procedures and allowed controlled items to be mailed through our network. Further, unsafe items processed and transported by us, such as flammables and explosives, toxic or corrosive items and radioactive materials, may damage other parcels in our network, injure their recipients, harm our personnel and result in property damage. Failure to prevent prohibited or restricted items from entering our network may result in administrative or criminal penalties as well as civil liability for personal injury and property damage.

The transportation of parcels involves inherent risks. We have a large number of vehicles and personnel involved in our transportation operations at all times, who are subject to risks associated with transportation safety, including transportation related injuries and losses. For example, our vehicles and personnel may be involved in traffic accidents from time to time, resulting in personal injury and loss or damage to parcels carried by them. In addition, frictions or disputes may occasionally arise from the direct interaction of our personnel with parcel senders and recipients, which may result in personal injury or property damage if such incidents escalate. The insurance policies carried by us may not fully cover the damages caused by transportation related injuries or losses.

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

### **Our past growth rates may not be indicative of our future growth, and if we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.**

Our business has grown substantially in recent years, but our past growth rates may not be indicative of our future growth. Our revenue growth in recent years was partly attributable to business acquisition, such as the acquisition of China Oriental Express Co., Ltd. The acquired business of China Oriental Express Co., Ltd. provides freight forwarding services, and our revenue generated from such services amounted to RMB269.6 million, RMB1,278.7 million, RMB1,236.0 million, RMB639.4 million and RMB762.6 million in 2017, 2018 and 2019 and six months ended June 30, 2019 and 2020, respectively, accounting for 2.1%, 7.3%, 5.6%, 6.4% and 7.4% of our total revenues during the same periods, respectively. We plan to further expand our network in response to increasing customer and consumer needs, but we may not succeed in doing so. Even if we are able to expand our network as planned, we may not be able to continue to integrate and optimize a larger network. In addition, as customer and consumer needs at both the national and regional levels are continuously changing, we may not be able to successfully anticipate or respond to such changes. For example, we may experience shortages in our delivery capacity if our expansion fails to accurately and timely match

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increased customer and consumer demand. Furthermore, our anticipated future growth will likely place significant demands on our management and operations. Our success in managing our growth will depend, to a significant degree, on the ability of our executive officers and other members of our senior management to carry out our strategies effectively, our ability to balance the interests between us and our network partners as well as among our network partners, and our ability to adapt, improve and develop our financial and management information systems, controls and procedures. In addition, we will likely have to successfully recruit, train and manage more employees and improve and expand our sales and marketing capabilities. If we are not able to manage our growth or execute our strategies effectively due to any of the foregoing reasons, our expansion may not be successful, and our business and prospects may be materially and adversely affected.

**Our long-term growth and competitiveness are highly dependent on our ability to control costs and maintain or raise prices.**

To maintain competitive pricing and enhance our profit margins, we must continually control our costs. Effective cost-control measures have a direct impact on our financial condition and results of operations. We have adopted various cost control measures and will continue to add new ones as necessary and appropriate. For example, transportation costs can be reduced through the choice of appropriate vehicles and optimization of transportation routes, and labor costs can be reduced through automation. However, the measures we have adopted or will adopt in the future may not be as effective as expected in improving our financial condition and results of operations. We do not intend to compete with our competitors by introducing aggressive pricing policies, which we consider detrimental to our long-term growth. Delivery services fees charged by our network partners to parcel senders have declined over time, partially as a result of market competition. Our gross profit per parcel is also affected by a variety of other factors, such as a decline in the average weight of parcels handled by us, an increase in the adoption of digital waybills, which have a lower charge rate than traditional paper waybills, an increase in delivery services directly provided to certain enterprise customers, and changes in our operating model. For example, the direct shipping model, whereby some parcels are directly shipped by certain volume-qualified network partners to our destination sorting hubs without going through our origination sorting hubs, reduces overall delivery time and operating costs and also lowers our revenues. If we are not able to effectively control our cost and adjust the level of network transit fees based on operating costs and market conditions, our profitability and cash flow may be adversely affected.

**We outsource part of our line-haul transportation needs to our related party and use their services.**

We outsource part of our line-haul transportation needs to Tonglu Tongze Logistics Ltd., or Tonglu Tongze, which is a transportation operator that works exclusively for ZTO. Tonglu Tongze had a fleet of about 850 trucks as of June 30, 2020. In 2017, 2018 and 2019 and the six months ended June 30, 2020, we incurred RMB809.4 million, RMB547.5 million, RMB479.1 million and RMB140.1 million, respectively, of transportation service fees to Tonglu Tongze and its subsidiaries and had RMB105.8 million, RMB45.5 million, RMB20.7 million of accounts payable and RMB1.3 million of prepayments as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Certain of our employees beneficially owned majority equity interests in Tonglu Tongze as of June 30, 2020. Therefore, we treat Tonglu Tongze as our related party and we expect to continue to rely on its services. Given the material level of Tonglu Tongze's continued service to us, we may face a number of risks and uncertainties and there can be no assurance that (i) Tonglu Tongze's service will continue to be available to us on an exclusive basis or at all, (ii) Tonglu Tongze's service quality will remain stable and will not materially deteriorate, (iii) Tonglu Tongze will not unilaterally



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increase its service pricing, (iv) Tonglu Tongze and its employees will not engage in any wrongdoing or misconduct, or (v) our good relationship with Tonglu Tongze will not deteriorate. Our overall business and results of operations may be materially and adversely affected if any of the foregoing factors were to materialize.

### **We face challenges in diversifying our service offerings and expanding our customer base.**

We intend to further diversify our service offerings and expand our customer base to increase the number of revenue sources in the future. New services or new types of customers may involve risks and challenges that we do not currently face. Such new initiatives may require us to devote significant financial and managerial resources and may not perform as well as expected. We may not be able to successfully address customer demand and preferences and our existing network and facilities may not be adaptable enough to accommodate new services or customers. For example, different service offerings will likely require different equipment specifications and service standards, which may require significant time and costs to implement. We may also be inexperienced with operating models and cost structures associated with new types of customers we may choose to pursue. In addition, we may not be able to provide services of sufficient quality, which may result in complaints or liability claims against us, all of which would harm our overall reputation and financial performance. We may also selectively invest in emerging business opportunities in adjacent logistics markets, such as less-than-truckload shipping, or leverage our existing network and infrastructure to directly engage in related businesses. We cannot assure you that such endeavors will be profitable or that we will be able to recoup our investments with respect to any new services or new types of customers in time or at all.

### **Damage to our brand image and corporate reputation could materially and adversely impact our business.**

We believe our brand image and corporate reputation will play an increasingly important role in enhancing our competitiveness and maintaining our growth. Many factors, some of which are beyond our control, may negatively impact our brand image and corporate reputation if not properly managed. These factors include our ability to provide superior services to our end customers, successfully conduct marketing and promotional activities, manage relationships with and among network partners, manage complaints and negative publicity, and maintain a positive perception of our company, our peers and the express delivery industry in general. Any actual or perceived deterioration of our service quality, which is based on an array of factors including customer satisfaction, number of complaints as well as number of accidents, may subject us to damages, including the loss of important customers. Any negative publicity against us or our peers may harm our corporate reputation and may result in changes to government policies and the regulatory environment. If we are unable to promote our brand image and protect our corporate reputation, we may not be able to maintain and grow our customer base and our business and our growth prospects may be adversely affected.

### **Our business and the business of our network partners are subject to a broad range of PRC laws and regulations. If we or our network partners are deemed to be not in compliance with any of these laws and regulations, our business, reputation, financial condition and results of operations may be materially and adversely impacted.**

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities, including but not limited to the State Post Bureau and the Ministry of Transportation. Together, these governmental authorities promulgate and enforce regulations that cover many aspects of our day-to-day operations. See also “Regulations.” For example, the PRC Postal Law indicates that express delivery companies cannot engage in “posting and mail

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delivery business exclusively operated by postal enterprises.” However, PRC law does not provide a definition for “posting and mail delivery business exclusively operated by postal enterprises.” If the authorities define such term in the future and if the parcels that we deliver fall into the defined category, we may be considered in violation of such regulation. Further, certain of our network partners may commence express delivery services while still in the process of obtaining Courier Service Operation Permits, and since they use our brand in their businesses, we may be subject to fines or receive order of rectification as a result. Incidents like the foregoing ones may materially and adversely impact our business, reputation, financial condition and results of operations.

According to the Interim Regulations on Express Delivery, which were promulgated by the State Council on March 2, 2018, took effect on May 1, 2018 and were amended on March 2, 2019, we are subject to a revised set of requirements in operating our express delivery business, including but not limit to: (i) we are required to timely file records with the local post administrations for opening express delivery terminal outlets; (ii) in case we intend to suspend operating express delivery services, we shall make public announcement in advance, submit a written notice to the postal administrative departments, return the Courier Service Operation Permit and make proper arrangement on undelivered express parcels; (iii) we shall not sell, reveal or illegally provide any client information and we shall take remedial measures and report to the local post administrations in case any client information is revealed or may be revealed; (iv) we shall verify the identity of senders and register their identity information when receiving express parcels and shall not receive their express parcels where senders refuse to furnish identity information or furnish false identity information; (v) we shall refuse to accept the prohibited parcels and shall cease to sorting, transporting and delivering parcels which are suspected of containing prohibited items and shall promptly submit a report to governmental authorities and assist in investigations; (vi) we shall formulate our emergency plans, carry out emergency drills and exercises regularly and report emergencies to the local postal administrations; (vii) clients may claim compensation from us for any delay, missing, damage or shortage of express parcels handled by our network partners, since they use our trademark, corporate name and express waybill. See “Regulations — Regulations Relating to Express Delivery Services.” The operation of our express delivery service is subject to this regulation. Failure to comply with these regulations result in requirement to rectify, fines, suspension of business for remediation or revocation of Courier Service Operation Permit.

Pursuant to the Administrative Provisions concerning the Running of Cargo Vehicles with Out-of-Gauge Goods promulgated by the PRC Ministry of Transport, which took effect on September 21, 2016, cargo vehicles running on public roads shall not carry cargo weighing more than the limits prescribed by this regulation and their dimensions shall not exceed those as set forth by the same regulation. The operation of our truck fleet is subject to this regulation.

We have not been required to modify or replace any of our trucks. While we expect to gradually reduce the number of non-complying trucks, the non-complying trucks may be banned and we may be required to modify noncomplying trucks or purchase new ones to replace them. Otherwise, we may be subject to additional penalties under this regulation if we continue to operate trucks that exceed the limits set forth in the regulation.

Pursuant to the E-commerce Law of the People’s Republic of China promulgated by Standing Committee of the National People’s Congress, which took effect on January 1, 2019, we are subject to certain requirements in e-commerce business, including but not limit to, (i) in providing express logistics services for e-commerce activities, the providers thereof shall abide by laws and administrative regulations, and comply with the service standards and time limits they have promised; (ii) while handing over commodities, express logistics service providers shall remind consignees to examine the commodities immediately on the spot; where the



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commodities are received by others for consignees, such express logistics service providers shall obtain the consent of consignees, and are further required not only to examine the postal articles in the presence of senders so as to inspect whether the postal articles are prohibited or restricted from express delivery but also to remind consignees to examine the commodities immediately on the spot; and (iii) express logistics service providers are required to use environmental-friendly packaging materials in accordance with the relevant provisions in an effort to reduce the consumption of and recycle packaging materials. While offering express logistics services, the providers thereof may agree to be entrusted by e-commerce operators to collect payments for goods on a commission basis. See “Regulation — Regulations Relating to Express Delivery Services.” The operation of our express delivery service is subject to this law. If we are found to be not compliant with the requirements, and we may be required to rectify. In order to adapt to the evolving e-commerce industry, which could have a significant impact on us, we may need to develop or upgrade existing business model. If our efforts to comply with laws and regulations concerning e-commerce business are unsuccessful, our business, financial condition and results of operation may be materially and adversely affected.

In addition, our network partners have full discretion over their daily operations and make localized decisions with respect to their facilities, vehicles and hiring and pricing decisions. Their operations are regulated by various PRC laws and regulations, including local administrative rulings, orders and policies that are pertinent to their localized express delivery business. For example, local regulations may specify the models or types of vehicles to be used in parcel pickup and delivery services or require the network partners to implement heightened parcel safety screening procedures, which could materially drive up the operating costs and delivery efficiency of the pickup and delivery outlets.

Existing and new laws and regulations may be enforced from time to time and substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to us and/or our network partners. If the PRC government requires additional approvals or licenses, imposes additional restrictions on our or our network partners’ operations, or tightens enforcements of existing or new laws or regulations, it has the authority, among other things, to levy fines, confiscate income, revoke business licenses, and require us or our network partners to discontinue relevant business operations. Since our network partners use our brand in their businesses, if they are found to be noncompliant with PRC laws and regulations, our business, reputation, financial condition and results of operations may be materially and adversely impacted.

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

We and our network partners are required to hold a number of licenses and permits in connection with our business operation, including, but not limited to, the Courier Service Operation Permit and Road Transportation Operation Permit.

Under PRC laws, an enterprise that operates and provides express delivery services must obtain a Courier Service Operation Permit listing out all the regions it and its branches are allowed to operate in. Such enterprise needs to make a filing with the relevant postal authority to update or renew its Courier Service Operation Permit to include any additional regions it plans to expand into. Our consolidated affiliated entities engaging in the express delivery services need to obtain the Courier Service Operation Permits, which based on our geographical coverage would cover the majority part of China. Our consolidated affiliated entities are required to timely make all required filings with the relevant postal authorities including to update or renew their Courier Service Operation Permits with respect to the regions they operate in.

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Failure to make such filings may result in a correction order or fines. In addition, an enterprise engaging in road freight transportation is required to obtain a Road Transportation Operation Permit from the relevant county-level road transportation administrative bureau. Similarly, our network partners also need to obtain necessary licenses and permits to operate express delivery and transportation business. Failure to obtain such licenses and permits may result in suspension of operation, fines or other penalties by government authorities. In addition, companies that apply for the Courier Service Operation Permit are subject to certain service capability requirements, including sufficient number of express delivery personnel. If any of our consolidated affiliated entities are found to have failed to meet the service capability requirements at the time of applying for or during the validity of such permit, such entities may be subject to a fine ranging from RMB10,000 to RMB30,000, their Courier Service Operation Permits may be revoked and they cannot re-apply to obtain the permit for a period of three years.

After obtaining the Courier Service Operation Permit, an enterprise is further required to maintain its express delivery service operations during the validity of such permit. Where the permit-holder does not operate any express delivery services for a period of time over six months without due grounds after obtaining the Courier Service Operation Permit, or suspends its business for more than six months without authorization, the postal administrative departments may cancel the Courier Service Operation Permit of such holder.

We are currently not aware of any such cancellation or notice of cancellation. If we become subject to such cancellation, our business, results of operations, financial condition and prospects could be adversely affected.

However, we cannot assure you that the relevant governmental authorities would not require us to obtain the approvals or take any other actions retrospectively in the future. If the relevant governmental authorities require us to obtain the approvals, we cannot assure you that we will be able to do so in a timely manner or at all. Additionally, we may not be able to renew Road Transportation Operation Permit of the relevant subsidiaries due to the lack of such prior approval.

New laws and regulations may be enforced from time to time to require additional licenses and permits other than those we currently have. For instance, Law of E-commerce promulgated by Standing Committee of the National People's Congress, which took effect on January 1, 2019, establishes additional standards in the express delivery industry. The Foreign Investment Law, which was promulgated on March 15, 2019 and came into force on January 1, 2020, replaced the trio of existing laws regulating foreign investment in China, together with their implementation rules and ancillary regulations. Further, the State Council also promulgated the Interim Regulations on Express Delivery on March 2, 2018. The interim regulations, which took effect on May 1, 2018 and were amended on March 2, 2019, stipulate additional requirements and filing procedures for courier service operators in operating new express delivery terminal outlets. See "Regulation — Regulations Relating to Express Delivery Services." As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to our businesses. If the PRC government considers that we or our network partners were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the authority, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material and adverse effect on our results of operations.

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## RISK FACTORS

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**Any deficiencies in China’s telecommunication and Internet infrastructure could impair the functioning of our technology system and the operation of our business.**

Our business depends on the performance and reliability of the telecommunication and internet infrastructure in China. The availability and reliability of our website, mobile applications, customer service hotline and technology systems depend on telecommunication carriers and other third-party providers for digital data transmission and storage capacity, including bandwidth and server storage, among other things. If we are unable to enter into and renew agreements with these providers on acceptable terms, or if any of our existing agreements with such providers are terminated as a result of our breach or otherwise, our ability to provide our services to our customers could be adversely affected. We have experienced service interruptions in the past due to service interruptions at the underlying external telecommunications service providers, such as Internet data centers and broadband carriers. Frequent service interruptions could frustrate customers and discourage them from using our services, which could cause us to lose customers and harm our operating results.

**We may not be able to maintain our corporate culture, which has been a key to our success.**

Since our inception, our corporate culture has been defined by our mission, vision and values, and we believe that our culture has been critical to our success. In particular, our corporate culture has helped us serve our customers, attract, retain and motivate employees and network partners, and create value for our shareholders. We face a number of challenges that may affect our ability to maintain our corporate culture, including:

- failure to identify and promote people to leadership positions in our organization who share our culture, values and mission;
- the increasing number and geographic diversity of our network partners;
- competitive pressure to move in directions that may divert us from our mission and values;
- the continued challenges resulting from a constantly evolving business environment;
- potential pressure from public markets to focus on short-term results instead of long-term value creation; and
- the increasing need to develop expertise in new areas of business that affect us.

If we are not able to maintain our corporate culture or if our culture fails to deliver the long-term results we expect to achieve, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Our business and results of operations may be materially and adversely affected if we are unable to provide high quality services to network partners and our end customers.**

The success of our business largely depends on our ability to maintain and further enhance our service quality. We provide our network partners — our direct customers — with access to our line-haul transportation and sorting network. Together with our network partners, we provide complete door-to-door express delivery services to our end customers, which consist mainly of e-commerce merchants and other express delivery service users. If we or our network partners are unable to provide express delivery services in a timely, reliable, safe and secure manner,

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## RISK FACTORS

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our reputation and customer loyalty could be negatively affected. If our customer service personnel fail to satisfy individual customer needs and respond effectively to customer complaints, we may lose potential or existing end customers and experience a decrease in customer orders, which could have a material adverse effect on our business, financial condition and results of operations.

**We face risks associated with the financial services we provide to network partners.**

We provide financial services to qualified network partners. A qualified network partner shall meet certain criteria set by us, such as having a legal and stable income or source of income and engaging in operation activities that are legal and meet the national industrial policies and requirements. Our PRC Legal Advisor is of the opinion that, under PRC laws, an enterprise must obtain business licenses with corresponding business scope and/or approvals or filings from relevant governmental authorities related to operating and providing financial services, and the Company is compliant with the relevant laws and regulations in the PRC in all material aspects during the Track Record Period with regard to the provision of such financial services. In connection with the financial services we provide to qualified network partners, we have obtained requisite business licenses and/or approvals under relevant PRC laws and regulations through Zhengzhou Airport Economic Comprehensive Experimental Zone ZTO Microcredit Loans Co., Ltd., Shanghai Wanhong Financial Leasing Co., Ltd., Tianjin Wanhong Financial Leasing Co., Ltd. and Tianjin Wanhong Commercial Factoring Co., Ltd. respectively. We entered into agreements with such qualified network partners and have committed and will continue to commit our own capital, which has had, and may continue to have, a negative impact on our cash flow. However, we cannot assure you that our consolidated affiliated entities have timely made all required filings with the relevant governmental authorities including to update or renew their business licenses, approvals or filings, and the failure may subject us to a correction order or fines.

The risk of payment defaults and other credit risks are inherent to our financial services business. We cannot assure you that our monitoring of credit risk issues is or will be sufficient to result in lower delinquencies. Furthermore, our ability to manage the quality of these loans and the associated credit risks will also impact the results of operations of our financial services business. A deterioration in the overall quality of our loan portfolio and the increasing exposure to credit risks may occur due to a variety of reasons, including factors beyond our control, such as a slowdown in the growth of the global or Chinese economy or a liquidity or credit crisis in the global or Chinese finance sector, which may materially and adversely affect our businesses, operations or liquidity of our network partners, or their ability to repay or roll over their debt. Any significant deterioration in the asset quality of our financial services business and significant increase in associated credit risks may materially and adversely affect our business, financial condition and results of operations.

**Customer demand is difficult to forecast accurately, and we may fail to make accurate planning and spending decisions to match actual customer demand.**

We make planning and spending decisions, including capacity expansion, procurement commitments, personnel hiring and other resource requirements based on our estimates of customer demand. The parcel volume we generate from end customers can vary significantly and unexpectedly, reducing our ability to accurately estimate future customer demand. In particular, we may potentially experience capacity and resource shortages in fulfilling customer orders following special promotional events such as promotional campaigns on June 18, November 11 and December 12 each year or during other peak seasons throughout the year. Failure to meet customer demand in a timely fashion or at all may adversely affect our financial condition and results of operations.

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## RISK FACTORS

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**Our business depends on the continuing efforts of our management. If we lose their services, our business may be severely disrupted.**

Our business operations depend on the continuing efforts of our management team, particularly members of our senior management named in this document. If one or several members of our management team were unable or unwilling to continue their employment with us, we may not be able to replace them in a timely manner, or at all. We may incur additional expenses to recruit and retain qualified replacements. In addition, our management may join a competitor or form a competing company. We can provide no assurance that we will be able to successfully enforce our contractual rights included in employment agreements with our management team, in particular in China, where almost all of these individuals reside. As a result, our business may be negatively affected due to the loss of one or more members of our management, and our financial condition and results of operations may be materially and adversely affected.

**If we are unable to attract, train and retain qualified personnel, our business may be materially and adversely affected.**

We intend to hire and retain additional qualified employees to support our business operations and planned expansion. Our future success depends to a significant extent on our ability to attract, train and retain qualified personnel, particularly management and operational personnel with expertise in the express delivery industry, the e-commerce industry or other areas we may choose to expand into. Our experienced mid-level managers are instrumental in executing our business plans, implementing our business strategies and supporting our business operations and growth, and we cannot assure you that we will be able to attract or retain these qualified personnel.

**We have made, and may need to continue to make, substantial capital expenditures, and we will face risks that are inherent to such investments.**

In order to implement our strategies and expansion plan, we made significant capital expenditures on the acquisition of land use rights, construction of facilities and upgrading of delivery infrastructure in connection with the growth of our business. We paid an aggregate of approximately RMB2.8 billion, RMB4.0 billion, RMB5.2 billion and RMB4.0 billion in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively, for the purchases of property and equipment and purchases of land use rights.

To facilitate our future expansion, including the entry into new sectors such as less-than-truckload business, we may need to continue to make substantial capital expenditures.

Significant capital expenditures are associated with certain inherent risks. We may not have the resources to fund such investment. Even if we have sufficient funding, assets that best suit our needs may not be available at reasonable prices or at all. For example, land resources may be scarce in an area that best fits our network expansion plan due to local zoning plans or other regulatory controls. In addition, we are likely to incur capital expenditures earlier than all of the anticipated benefits, and the return on these investments may be lower, or may be realized more slowly, than we expected. In addition, the carrying value of the related assets may be subject to impairment, which may adversely affect our financial condition and operating results.

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## RISK FACTORS

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**Our results of operations are subject to seasonal fluctuations.**

We experience seasonality in our business, mainly correlating to the seasonality patterns associated with e-commerce in China. For example, our customers generally record fewer purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, when e-commerce platforms hold special promotional campaigns, for example, on November 11 and December 12 of each year, we typically observe peaks of parcel volume immediately following these campaigns. Our financial condition and results of operations for future periods may continue to fluctuate. As a result, our results of operations and the trading price of our Class A ordinary shares and/or ADSs may fluctuate from time to time due to seasonality.

**Fluctuations in the price or availability of fuel and uncertainty in third-party transportation capacity may adversely affect our line-haul transportation costs and operational results.**

Fuel costs and transportation expenses incurred in relation to the use of third-party transportation services represent 33%, 31%, 26% and 10% of our line-haul transportation costs in 2017, 2018 and 2019 and six months ended June 30, 2020, respectively. The availability and price of fuel and third-party transportation capacity are subject to political, economic, and market factors that are outside of our control. In 2019 and the first half of 2020, we continued to increase the use of self-owned and operated, cost-efficient high capacity trucks to replace third-party outsourced trucks, to further enhance transportation efficiency. In the event of a significant increase in fuel prices and third-party transportation service charges, our transportation expenses may rise, and our gross profit may decrease if we are unable to adopt effective cost control-measures or pass on incremental costs to our customers. As a result, our operating margin and the market price of our Class A ordinary shares and/or ADSs may be adversely affected.

**We may not be able to obtain additional capital when desired, on favorable terms or at all.**

We need to make continued investments in equipment, land, facilities and technological systems to remain competitive. Due to the unpredictable nature of the capital markets and our industry, we cannot assure you that we will be able to raise additional capital on terms favorable to us, or at all, if and when required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our infrastructure or respond to competitive pressures could be significantly limited. If we cannot raise required capital when needed, we may be unable to meet the demands of existing and prospective customers, which would adversely affect our business, financial condition and results of operations. If we do raise additional funds through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted. These newly issued securities may have rights, preferences or privileges senior to those of existing shareholders.



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## RISK FACTORS

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**Our income from equity investments is generally case based and non-recurring in nature, which could affect our financial results.**

We had recorded gain on disposal of equity investees and subsidiary of RMB562.6 million in 2018 in relation to the disposal of our investments our shares in Shenzhen Feng Chao Technology Ltd. for cash consideration of RMB697.9 million in May 2018. In 2019, we had unrealized gain from investment in equity investee of RMB754.5 million, which resulted from an observable price change in a follow-on offering by Cainiao Network in the fourth quarter of 2019. Gain on disposal of equity investees and unrealized gain from investment in equity investee are on a case by case basis and are generally non-recurring in nature. There is no guarantee that we will realize gains from our equity investments in the future, and there is no assurance that our investments will generate positive returns. Our financial results would be adversely affected if we fail to generate income from our equity investments or incur loss from such investments.

**Our business and results of operations may be adversely affected if we are unable to integrate the businesses and assets we have acquired.**

We may not be able to successfully integrate the businesses and assets we have acquired or to timely and effectively train and integrate the employees of the acquired network partners into our operations. As a result, our business and results of operations may be adversely affected.

**A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business and our financial condition.**

COVID-19 continues to have a severe and prolonged negative impact on the Chinese and the global economy. Even before the outbreak of COVID-19, the global macroeconomic environment faced numerous challenges. The growth rate of the Chinese economy has decreased since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which have been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have negative economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

**We have limited insurance coverage which could expose us to significant costs and business disruption.**

We have limited insurance coverage. For example, we are not legally required to maintain insurance for parcel shipments. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain key-man life insurance. We cannot assure you that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.



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## RISK FACTORS

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**We rely on certain key operating metrics to evaluate the performance of our business, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.**

We rely on certain key operating metrics, such as parcel volume and unit cost per parcel, to evaluate the performance of our business. Our operating metrics may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in methodology and assumptions. We calculate these operating metrics using internal company data that has not been independently verified. For example, our parcel volume data is derived based on the number of parcels collected by our network partners using our waybills. If we discover material inaccuracies in the operating metrics we use, or if they are perceived to be inaccurate, our reputation may be harmed, and our evaluation methods and results may be impaired, which could negatively affect our business. If investors make investment decisions based on operating metrics we disclose that are inaccurate, we may also face potential lawsuits or disputes.

**Failure to protect confidential information of our end customers or consumers could damage our reputation and substantially harm our business and results of operations.**

We have access to a large amount of confidential information in our day-to-day operations. Each waybill contains the names, addresses, phone numbers and other contact information of the sender and recipient of a parcel. The content of the parcel may also constitute or reveal confidential information. The proper use and protection of confidential information is essential to maintaining customer trust in us and our services.

Our technology systems also process and store a significant amount of confidential information and data for the proper functioning of our network. Security breaches and hacker attacks on our system might result in a compromise to the technology that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining confidential information in our possession. Such individuals or entities may engage in various other illegal activities using such information. Further, as parcels move through our network from pickup to delivery, a large number of personnel handle the flow of parcels and have access to significant amounts of confidential information. Some of these personnel may misappropriate the confidential information despite the security policies and measures we have implemented. In addition, most of the delivery and pickup personnel are not our employees, which makes it more difficult for us to implement sufficient and effective control over them.

Practices regarding the collection, use, storage, transmission and security of personal information have recently come under increased public scrutiny. In the future, the PRC government may adopt new laws and regulations regulating the solicitation, collection, processing or use of personal or consumer information. Compliance with such new laws and regulations could affect how we collect, store and process the information and require significant capital and other resources.

Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations could cause our customers to lose trust in us and our services. Any perception that the privacy of information is unsafe or vulnerable when using our services, could damage our reputation and substantially harm our business.

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## RISK FACTORS

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

We may selectively pursue strategic alliances and potential strategic acquisitions that are complementary to our business and operations, including opportunities that can help us further expand our service offering and improve our technology systems.

Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance or default by counterparties, and increased expenses in establishing these new alliances, any of which may materially and adversely affect our business. We may have limited ability to control or monitor the actions of our strategic partners. To the extent a strategic partner suffers any negative publicity as a result of its business operations, our reputation may be negatively affected by virtue of our association with such party.

To consolidate and optimize our delivery capacity in key geographic areas in China, we conducted certain asset and equity acquisitions from 2014 to 2016. In 2017, we acquired the core business of China Oriental Express Co., Ltd. and its subsidiaries. In June 2018, we made a strategic investment of approximately US\$168 million to acquire approximately 15% of equity stake in Cainiao Post, Cainiao Network's network of last-mile delivery stations. We have recorded goodwill as a result of certain acquisitions. If these companies do not subsequently generate the anticipated financial performance or if any goodwill impairment test triggering event occurs, we may need to revalue or write down the value of goodwill and other intangible assets in connection with such acquisitions, which would harm our results of operations. No impairment charge for the goodwill was recognized for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020. Furthermore, we continually review our equity method investments in equity investees to determine whether a decline in fair value below the carrying value is "other-than-temporary" and impairment loss needs to be recognized. The primary factors that we consider include the duration and severity of the decline in fair value, the financial condition, operating performance and the prospects of the equity investee and other company specific information such as recent rounds of financing. We recognized impairment losses of RMB30.0 million, nil, RMB56.0 million, nil and nil related to equity investments for the years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2019 and 2020, respectively. If the condition or performance of the equity investees has changed in the future, we may have to record additional impairment charges in future accounting periods. If we need to recognize significant impairment losses on equity investments, our results of operations will be materially and adversely affected.

In addition, we may consider strategically acquiring other companies, businesses, assets or technologies that are complementary to our business and operations as part of our growth strategy. The strategic acquisition and subsequent integration of new businesses is likely to require significant managerial and financial resources and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our growth and business operations. Acquired businesses or assets may not generate the financial results we expect and may be loss making over time. The cost and duration of integrating newly acquired businesses could also materially exceed our expectations. Any such negative developments could have a material adverse effect on our business, financial condition and results of operations.

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## RISK FACTORS

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

Our current operations are almost exclusively in China, but we also offer express delivery services in certain key overseas markets. We intend to continue to explore and enter into other international expansion initiatives in the future. These initiatives are likely to involve countries where we have limited operational experience and subject us to various risks, including changes in local economic and political conditions, changes in international laws and regulations, changes in tariffs, trade restrictions, trade agreements and taxation, and difficulties in managing or overseeing operations outside China. The occurrence or consequences of any of these risks may restrict our ability to operate in the affected country and/or decrease our profitability of our operations in that country. We will also be exposed to increased risk of loss from foreign currency fluctuations and exchange controls, as well as longer accounts receivable payment cycles. We may also fail to alter or adjust our business practices in time to avoid or reduce adverse effects from any of the foregoing risks.

**We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.**

We regard our trademarks, domain names, trade secrets, proprietary technologies and other intellectual property as critical to our business. We rely on a combination of intellectual property laws and contractual arrangements to protect our proprietary rights. It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to a lack of clear guidance on statutory interpretation. Confidentiality agreements and license agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We cannot provide any assurance that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

**Our business and reputation may be harmed by unethical or anticompetitive business conduct within or in connection with our network.**

There has been and may continue to be unethical or anticompetitive conduct, misconduct or unlawful behavior by our employees within, or in connection with, our network, such as with respect to the procurement of resources and the pricing of delivery service charges. The existing protocols and disciplinary measures governing the business conduct of our employees and our customers may not be sufficient to prevent them or their personnel from acting unethically or anticompetitively. Such conduct may include the mishandling of funds or accepting unlawful kick-backs during our raw material or equipment procurement. We are also aware of certain e-commerce merchants placing fabricated orders, such as parcels with valueless content, to themselves or to their designated parties with the intent to generate inflated sales records and consumer reviews and create perceived popularity among online consumers. These fabricated orders do not directly impact our revenues as our network partners are generally able to collect service charges from these merchants. It is extremely difficult for us and our network partners to distinguish these orders from genuine orders through the

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## RISK FACTORS

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ordinary parcel screening procedures. We may be subject to heightened compliance costs or loss of business due to reduced e-commerce business volume if the PRC government cracks down on these unethical practices. We also have little control over third parties involved in unethical or anticompetitive business conduct targeted at or in connection with our network, such as non-compliance with laws, third-party sabotage or allegations intended to harm us or our network partners. We may incur substantial monetary losses and our reputation may suffer as a result to such conduct. We may also incur significant liabilities and penalties arising from such unethical conduct and may be required to allocate significant resources and incur material expenses to prevent such unethical or anticompetitive conduct in the future.

**We have been named as a defendant in putative shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.**

We will have to defend against the putative shareholder class action lawsuits described in “Business — Legal Proceedings,” including any appeals of such lawsuits should our initial defense be unsuccessful. We are currently unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of these lawsuits. In the event that our initial defense of these lawsuits is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome of these cases, including any plaintiff’s appeal of a judgment in these lawsuits, could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

**The title defects with respect to or encumbrances on certain land and buildings or failure to obtain requisite approvals, licenses or permits in carrying out our property construction may cause interruptions to our business operations.**

As of the Latest Practicable Date, we have not obtained land use rights certificates and property ownership certificates with respect to four parcels of land currently used by us and 89 buildings currently used by us, including 59 buildings used as sorting facilities and 30 buildings used for general and administrative purposes. We are in the process of applying for the registration of the land use right and property ownership certificates pursuant to the applicable contracts for assignment of state-owned construction land use right, but we are unable to estimate the time required to complete such registration and obtain such certificates. We have also used some new buildings before we finish filing of as-built inspection on such buildings. Furthermore, although it is customary for express delivery services providers to construct buildings on industrial land as their offices, delivery and sorting hubs or outlets, depending on the attitude and supervision of relevant government authority, we could be asked to use the building in line with the approved usage specified on certain licenses of such buildings.

In connection with the construction of structures on our property, we are required to obtain requisite licenses, permits, certificates and approvals, including but not limited to, land use rights certificates/real estate certificates, construction land planning permits, construction works planning permits, construction work commencement permits and completion certificates from relevant government authorities in China. If we fail to obtain or renew such certificates, permits, registrations, filings, approvals and licenses in a timely manner, we may be subject to penalties and sanctions, including fines, rectification orders, construction suspension orders

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## RISK FACTORS

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and demolition orders, all of which may adversely affect our construction efforts. We have not been in full compliance with certain construction requirements under PRC laws and regulations. For example, we have commenced certain construction projects prior to obtaining requisite permits and putting completed buildings into use before passing the requisite inspection and acceptance tests. Our non-compliance with these requirements has resulted in penalties imposed by the relevant government authorities, including a fine of approximately RMB3.2 million imposed on one of our subsidiaries, Jieyang Zhongrui Logistics Co., Ltd.

Any of the foregoing risks could result in significant disruption to our operations and result in additional costs, which could adversely affect our business, financial condition and results of operations.

**Our use of certain leased properties could be challenged by third parties or governmental authorities, which may cause interruptions to our business operations.**

As of the Latest Practicable Date, for approximately 37.4% of the areas of our leased sorting hubs and offices, we have not been provided by the lessors with the applicable certificates, approvals or any other documentation proving their right to lease those properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant governmental authorities, our leases could be invalidated. If this occurs, we may have to renegotiate the leases with the owners or other parties who have the right to lease the properties, and the terms of the new leases may be less favorable to us. To our knowledge, some of the lessors of the leased delivery and pickup outlets have not provided our network partners with their property title certificates, approvals or other documentation proving their right to lease those properties. If our network partners were to find replacement premises for their outlets due to any lease deficiencies, the daily operations of such outlets may be negatively affected. In addition, a substantial portion of our leasehold interests in leased properties have not been registered with the relevant PRC governmental authorities as required by relevant PRC laws. The failure to register leasehold interests may expose us to potential fines.

Furthermore, some of our leased properties do not have title certificates or approvals and, the owner or lessor of such property may not have the right to lease such property to us. For example, certain properties we lease in Beijing for our sorting hub and office do not have a title certificate due to lack of appropriate approval during its construction, and the owner of such property had received notice from government authorities indicating that the construction was illegal. Although relevant authorities have not mandated the owner to dismantle the property, our use of the leased property may be affected in the future. In the event that our use of properties is successfully challenged, we may be subject to fines and forced to relocate. In addition, we may become involved in disputes with the property owners or third parties who otherwise have rights to or interests in our leased properties. We are currently using our best efforts to find an alternative location in Beijing, including purchasing a new piece of land, to mitigate the risk arising from such title deficiency. However, we can provide no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties' challenges on our use of such properties. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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## RISK FACTORS

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**Failure to renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.**

We lease properties to operate some of our offices and sorting hubs and some of our network partners lease properties to operate their pickup and delivery outlets. We and our network partners may not be able to successfully extend or renew such leases upon expiration, on commercially reasonable terms or at all, and may be forced to relocate the affected operations. Such relocation may disrupt our operations and result in significant relocation expenses, which could adversely affect our business, financial condition and results of operations. We may not be able to locate desirable alternative sites for our facilities as our business continues to grow and failure in relocating our operations when required could adversely affect our business and operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. Even if we or our network partners are able to extend or renew the respective leases, rental payments may significantly increase as a result of the high demand for the leased properties.

**Our failure to comply with regulations on commercial franchising may result in penalties to us**

Pursuant to the Administrative Regulations on Commercial Franchising Operations promulgated by the State Council in 2007 and Administrative Measures on the Record Filing of Commercial Franchises issued by Ministry of Commerce in 2011, collectively the Regulations and Provisions on Commercial Franchising, commercial franchising refers to the business activities where an enterprise that possesses the registered trademarks, enterprise logos, patents, proprietary technology or any other business resources allows such business resources to be used by another business operator through contract and the franchisee follows the uniform business model to conduct business operation and pay franchising fees according to the contract. We and our network partners are therefore subject to regulations on commercial franchising. Under the relevant regulations, we may be required to file our cooperation arrangements with network partners with the Ministry of Commerce or its local counterparts. As of the Latest Practicable Date, we have not received any order from any governmental authorities to make such filing.

If relevant authorities determine that we have failed to report franchising activities in accordance with the regulations, we may be subject to report within a specified time limit and fines ranging from RMB10,000 to RMB50,000 and if we fail to comply within the rectification period determined by the competent governmental authority, we may be subject to an additional fine ranging from RMB50,000 to RMB100,000 and the relevant authority may issue a public reprimand.

**We are uncertain about the recoverability of our input value added tax, which may affect our financial positions in the future.**

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our input value added tax (“VAT”) amounted to RMB489.7 million, RMB927.6 million, RMB1,386.0 million and RMB1,627.6 million, respectively. Input VAT can be deducted from output VAT payable. The VAT recoverable is mainly the net difference between output and input VAT. We did not encounter any disputes with the relevant taxation authorities on the amounts of VAT recoverable during the Track Record Period. However, we cannot guarantee the recoverability of input VAT in the future because the rules, regulations and policies governing VAT may change in the future, which may have an impact on VAT recoverable. If we fail to recover our input VAT, our financial positions would be adversely affected.



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**Economic sanctions and anti-corruption laws imposed by the United States and other jurisdictions may expose us to potential compliance risks.**

Sanctions laws prohibit us from doing business in or with certain countries or governments, and with certain persons or entities that have been sanctioned by the United States or other governments and international or regional organizations, such as the United Nations Security Council. Although our primary market is China, we intend to expand our international business in the future, which may increase our exposure to international sanctions. For example, we have limited control over the activities of our international business partners and investees, which may provide delivery services into jurisdictions that are subject to sanctions. Any U.S. affiliate and any U.S. person employees will be subject to compliance with all U.S. economic sanctions requirements. We have implemented internal controls to monitor our compliance with applicable economic sanctions, but there can be no assurance that we are able to prevent or detect inadvertent business dealings with sanctioned parties or the delivery of parcels to higher-risk or prohibited end-uses. We also cannot predict with certainty the interpretation or implementation of any sanction laws or policies. While we do not believe that we are in violation of any applicable sanctions or that any of our activities are currently sanctionable under applicable laws, some of our activities or the activities of our affiliates could be exposed to penalties under these laws. Any alleged sanctions violations may adversely affect our reputation, business, results of operations and financial condition. In addition, we are subject to relevant anti-corruption laws in the PRC and the Foreign Corrupt Practices Act, as well as other anti-corruption laws globally. Our activities in China create the risk of unauthorized payments or offers of payments by employees, consultants, agents or other business partners of our company and its affiliates. We may also be held liable under successor liability for violations committed by companies in which we invest or that we acquire.

**We face risks related to severe weather conditions and other natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations and adversely affect our business, financial condition or results of operations.**

Our business could be adversely affected by severe weather conditions and natural disasters, such as snowstorms, earthquakes, fire, typhoons or floods, or the outbreak of avian influenza, severe acute respiratory syndrome, influenza A (H1N1), H7N9 or another epidemic. Any of these occurrences could cause severe disruptions to our daily operations and may warrant a temporary closure of our facilities. Such closures may disrupt our business operations and adversely affect our results of operations. Our operation could also be disrupted if our suppliers, customers or business partners were affected by such natural disasters or health epidemics. The outbreak of the COVID-19 epidemic in China and internationally has resulted in significant disruptions and distortions in the global economy. The Chinese government has taken certain emergency measures to combat the spread of the virus, including extension of the Lunar New Year holidays, implementation of travel bans, blockade of certain roads and closure of factories and businesses, and may continue to take further measures to keep this epidemic outbreak in check. We have temporarily closed our branch offices, sorting hubs and service outlets from late January to mid-to late February 2020 due to the COVID-19 outbreak, which resulted in a decline of parcel volume in January and February 2020, as compared with the same period in 2019. We have also experienced a temporary labor shortage in January and February 2020 which has caused delays in our delivery services. We have taken measures to reduce the impact of the COVID-19 outbreak, including strictly implementing self-quarantine and disinfection measures at our headquarters, sorting hubs and service outlets in accordance with government issued protocols. While most of the restrictions on movement within China have been relaxed as of the Latest Practicable Date, there is great uncertainty as to the future development of the outbreak. Currently, there is no vaccine or specific anti-viral treatment for



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COVID-19. Relaxation of restrictions on economic and social life may lead to new cases which may lead to the re-imposition of restrictions. Consequently, the COVID-19 pandemic may materially adversely affect our business, financial condition and results of operations for the entirety of year 2020 and beyond. The extent to which this pandemic impacts our results of operations will depend on future developments which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the Chinese economy in general.

### RISKS RELATED TO OUR CORPORATE STRUCTURE

**If the PRC government finds that the agreements that establish the structure for operating certain of our operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.**

Under current PRC laws and regulations, foreign enterprises or individuals may not invest in or operate domestic mail delivery services. According to the Negative List, foreign investment is prohibited in the establishment of any postal enterprise and in the establishment of any domestic mail delivery services. Postal enterprises refer to the China Post Group and its wholly owned enterprises or controlled enterprises providing postal services, as well as other services including but not limited to mail delivery, postal remittances, savings and issuance of stamps and production and sale of philatelic products.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign-invested enterprises. Accordingly, none of our PRC subsidiaries is eligible to operate domestic mail delivery services in China. It is also practically and economically not possible to separate the delivery of mail from the delivery of non-mail items in our day-to-day services. To ensure strict compliance with the PRC laws and regulations, we conduct such business activities through ZTO Express, our consolidated affiliated entity, and its subsidiaries. Shanghai Zhongtongji Network, our wholly owned subsidiary in China, has entered into a series of contractual arrangements with ZTO Express and its 43 shareholders, which allows us to (i) exercise effective control over ZTO Express, (ii) receive substantially all of the economic benefits of ZTO Express, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in ZTO Express when and to the extent permitted by PRC law. Because of these contractual arrangements, we have control over and are the primary beneficiary of ZTO Express and hence consolidate its financial results as our variable interest entity under U.S. GAAP.

If the PRC government finds that our contractual arrangements do not comply with its restrictions on foreign investment in domestic express delivery services of mail, or if the PRC government otherwise finds that we, ZTO Express, or any of its subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking the business licenses and/or operating licenses of such entities;
- discontinuing or placing restrictions or onerous conditions on our operation through any transactions between our PRC subsidiaries and consolidated affiliated entities;

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- imposing fines, confiscating the income from our PRC subsidiaries or consolidated affiliated entities, or imposing other requirements with which such entities may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our variable interest entity and deregistering the equity pledges of our variable interest entity, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our variable interest entity; or
- restricting or prohibiting our use of the proceeds of any of our financing outside China to fund our business and operations in China.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn could materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of our variable interest entity that most significantly impact its economic performance, and/or our failure to receive the economic benefits from our variable interest entity, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

**We rely on contractual arrangements with our variable interest entity and its shareholders for a substantial portion of our business operations, which may not be as effective as direct ownership in providing operational control.**

We have relied and expect to continue to rely on contractual arrangements with ZTO Express and its shareholders to operate domestic express delivery services, including delivery of mail. For a description of these contractual arrangements, see “History and Corporate Structure.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our variable interest entity. For example, our variable interest entity and its shareholders could breach their contractual arrangements with us by, among other things, failing to conduct its operations in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of ZTO Express, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of ZTO Express, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on our variable interest entity and its shareholders to perform of their obligations under the contracts to exercise control over our variable interest entity. The shareholders of our consolidated variable interest entity may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate certain portion of our business through the contractual arrangements with our variable interest entity. If any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and arbitration, litigation and other legal proceedings and therefore may be subject to the uncertainties in the PRC legal system. Therefore, our contractual arrangements with our variable interest entity may not be as effective in ensuring our control over the relevant portion of our business operations as compared to if we had direct ownership over our variable interest entity.

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**Any failure by our variable interest entity or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.**

If our variable interest entity or its shareholders fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective under PRC law. For example, if the shareholders of ZTO Express refuse to transfer their equity interest in ZTO Express to us or our designee if we exercise the purchase option pursuant to these contractual arrangements, or if they otherwise act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations. Due to the significant number of shareholders in ZTO Express, we may not be able to obtain consent and cooperation from all the shareholders in further actions with respect to ZTO Express, such as the transferring the shareholders' respective equity interests in ZTO Express to our designee. In addition, if any third parties claim any interest in such shareholders' equity interests in ZTO Express, our ability to exercise shareholders' rights or foreclose the share pledge according to the contractual arrangements may be impaired. For example, even though we have obtained spousal consents from spouses of our six key shareholders of ZTO Express, who collectively hold 73.8% of the equity interests in ZTO Express, we have not required spousal consents to be entered into by the rest of the shareholders of our variable interest entity. With respect to those shareholders, we cannot assure you that our WFOE will be able to exercise or enforce its rights in full under our contractual arrangements in the event of a dispute between the shareholder and his or her spouse. If these or other disputes between the shareholders of our variable interest entity and third parties were to impair our control over ZTO Express, our ability to consolidate the financial results of our variable interest entity would be affected, which would in turn result in a material adverse effect on our business, operations and financial condition. All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our variable interest entity, and our ability to conduct our business may be negatively affected.

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**The shareholders of our variable interest entity may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.**

The shareholders of ZTO Express may have potential conflicts of interest with us. These shareholders may breach, or cause our variable interest entity to breach, or refuse to renew, the existing contractual arrangements we have with them and our variable interest entity, which would have a material and adverse effect on our ability to effectively control our variable interest entity and receive economic benefits from it. For example, the shareholders may be able to cause our agreements with ZTO Express to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor. If we cannot resolve any conflict of interest or dispute between us and these shareholders, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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

On March 15, 2019, the National People's Congress promulgated the PRC Foreign Investment Law, or the FIL, which took effect on January 1, 2020 and replaced the existing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the PRC Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. The FIL stipulates four forms of foreign investment, including (i) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity, property shares, or other like rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (iv) a foreign investor invests through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision that includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

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**Contractual arrangements in relation to our variable interest entity may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC variable interest entity owe additional taxes, which could negatively affect our financial condition and the value of your investment.**

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that the VIE contractual arrangements were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust income of ZTO Express in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by ZTO Express for PRC tax purposes, which could in turn increase its tax liabilities without reducing our PRC subsidiaries' tax expenses. In addition, the PRC tax authorities may impose late payment fees and other penalties on ZTO Express for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if our variable interest entity's tax liabilities increase or if it is required to pay late payment fees and other penalties.

**We may lose the ability to use and benefit from assets held by our consolidated affiliated entities that are material to the operation of a certain portion of our business if the entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.**

As part of our contractual arrangements with ZTO Express, our consolidated affiliated entities hold certain assets that are material to the operation of a certain portion of our business, including sorting hub premises and sorting equipment. If ZTO Express goes bankrupt and all or part of their assets become subject to liens or the rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, ZTO Express may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If ZTO Express undergoes a voluntary or involuntary liquidation proceeding, the independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

### **RISKS RELATED TO DOING BUSINESS IN CHINA**

**Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.**

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also

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exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing since 2012. Furthermore, China's GDP growth turned negative in the first quarter of 2020. Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to a reduction in demand for our services and adversely affect our competitive position. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

### **Uncertainties with respect to the PRC legal system could adversely affect us.**

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. In recent years, regulatory and administrative measures over various areas such as environmental protection and fire safety have tightened and enhanced in China. While such development is beneficial to the operation of business in China over the long run, PRC-based companies may experience temporary business disruption and incur increased compliance costs in the short run.



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**We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.**

We are a Cayman Islands holding company and we rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including for services of any debt we may incur. Our subsidiaries' ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our PRC subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our variable interest entity is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. These reserves are not distributable as cash dividends. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our PRC subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

**PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from loaning to or making additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration, filing and/or reporting (as applicable) with relevant governmental authorities in China. According to the relevant PRC regulations on FIEs in China, capital contributions to our PRC subsidiaries shall go through registration, filing and/or reporting procedures (as applicable) at competent governmental authorities in China. In addition, (a) any foreign loan procured by our PRC subsidiaries is required to be registered with the State Administration of Foreign Exchange, or SAFE, or its local branches, and (b) each of our PRC subsidiaries may not procure loans which exceed (i) the difference between its registered capital and its total investment amount as approved by the MOFCOM or its local branches, or (ii) the specified upper limited calculated by using a risk-weight approach. Any medium- or long-term loan to be provided by us to our variable interest entity must be approved by and/or registered with the NDRC and/or the SAFE or its local branches (as applicable). We may not obtain such government approvals or complete such registration, filing and/or reporting (as applicable) on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, filing and/or reporting (as applicable), our ability to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

In 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142. SAFE Circular 142 regulates the conversion by FIEs of foreign currency into Renminbi by restricting the usage of converted Renminbi. SAFE Circular 142 provides that any Renminbi capital converted from registered capitals in foreign currency of FIEs may only be used for purposes within the business scopes approved by PRC governmental authority and such Renminbi capital may not be used for equity investments within China unless otherwise permitted by the PRC law. In addition, the



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SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from registered capital in foreign currency of FIEs. The use of such Renminbi capital may not be changed without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been utilized. As a result, we are required to apply, and have applied, Renminbi funds converted from the net proceeds we received from our initial public offering within the business scopes of our PRC subsidiaries. The Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19, took effect as of June 1, 2015 and superseded SAFE Circular 142 on the same date. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of FIEs and allows FIEs to settle their foreign exchange capital at their discretion but continues to prohibit FIEs from using the Renminbi fund converted from their foreign exchange capitals for expenditure beyond their business scopes. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account thereafter, or SAFE Circular 16. SAFE Circular 16 reiterates some of the rules set forth in SAFE Circular 19 and removed certain restrictions previously provided under several SAFE circulars, including removal of restriction on conversion by a foreign-invested enterprise of foreign currency registered capital into RMB and use of such RMB capital. However, SAFE Circular No. 16 continues to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capitals for expenditure beyond their business scope, and providing loans to non-affiliated enterprises except as permitted in the business scope. On October 23, 2019, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Facilitating Cross-border Trade and Investment, which, among other things, expanded the use of foreign exchange capital to domestic equity investment area. SAFE Circular 19, SAFE Circular 16 and other relevant rules and regulations may significantly limit our ability to transfer to and use in China any foreign currency, which may adversely affect our business, financial condition and results of operations.

**PRC regulation of loans in foreign currencies by offshore holding companies to PRC entities may limit our ability to fund the operations of our consolidated variable interest entity.**

Due to restrictions imposed on loans in foreign currencies extended to PRC domestic companies, we are unlikely to have our Cayman Islands holding company or other offshore entities to extend loans to our variable interest entity, a PRC domestic company. Meanwhile, we are not likely to finance the activities of our variable interest entity by means of capital contributions due to regulatory restrictions relating to foreign investment in PRC domestic enterprises engaged in domestic express delivery services of mail. In addition, due to the restrictions on a foreign-invested enterprise's use of Renminbi converted from foreign-currency registered capital under PRC regulations, including but not limited to SAFE Circular 19, as described under the foregoing risk factor, our PRC subsidiaries may be unable to use the Renminbi converted from their registered capital to provide loans to our variable interest entity. Additionally, our PRC subsidiaries are not prohibited under PRC laws and regulations from using their capital generated from their operating activities to provide entrusted loans through financial institutions to our variable interest entity. We will assess the working capital requirements of our variable interest entity on an ongoing basis and, if needed, may have our PRC subsidiaries to use their capital from operating activities to provide financial support to our variable interest entity.

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### **Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.**

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy will impact the exchange rate between the Renminbi and the U.S. dollar in the future.

Any significant appreciation or depreciation of the Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Class A ordinary shares and/or ADSs. For example, to the extent that we need to convert U.S. dollars we receive into Renminbi to fund our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, a significant depreciation of the Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the valuation of our Class A ordinary shares and/or ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited, and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

### **Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.**

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and variable interest entity to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi. For example, People's Bank of China announced that from November 28, 2016, buying, paying or making capital expenditure of more than US\$5 million or its equivalent must be reported as large-amount transaction to SAFE. Once reported to SAFE, such large-amount transactions are subject to

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examination of authenticity and compliance by MOFCOM, NDRC, SAFE, People's Bank of China or other competent authorities. Although SAFE issued a statement stating that amounts from legitimate business transactions and capital reduction would not be affected, the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

**The approval of the China Securities Regulatory Commission may be required in connection with this offering, and, if required, we cannot predict whether we will be able to obtain such approval.**

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies, including the CSRC, purport to require an offshore special purpose vehicle that is directly or indirectly controlled by PRC companies or individuals for the purpose of the domestic companies actually owned by such PRC companies or individuals (through acquisitions of the equity held by such domestic companies' shareholders or the equity newly issued by such domestic companies by those means with equity as consideration specified in the M&A Rules) seeking a public listing on an overseas stock exchange to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. We publicly listed our ADSs on NYSE on October 27, 2016 and to the Latest Practicable Date have not received any notice or document requiring us to obtain such CSRC approval. Based on our understanding of current M&A Rules, the CSRC's approval is not required for the listing and trading of our Class A ordinary shares on the Main Board under Chapter 19C of the Hong Kong Listing Rules (Secondary Listings of Qualifying Issuers) in the context of this offering. However, the application of the M&A Rules remains unclear and there is no consensus among leading PRC law firms regarding the scope and applicability of the CSRC approval requirement. Currently, there remains uncertainty as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering and our understanding is subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules.

If it is determined that CSRC approval is required for this offering, we may face sanctions by the CSRC or other PRC regulatory agencies for failure to seek CSRC approval for this offering. These sanctions may include fines and penalties on our operations in the PRC, limitations on our operating privileges in the PRC, delays in or restrictions on the repatriation of the proceeds from this offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our PRC subsidiary, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to halt this offering before the settlement and delivery of the shares that we are offering. Consequently, if you engage in market trading or other activities in anticipation of and prior to the settlement and delivery of the shares we are offering, you would be doing so at the risk that the settlement and delivery may not occur.

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**Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions.**

Among other things, the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security; (iii) such transaction will lead to a change in control of a domestic enterprise which holds famous trademarks or PRC time-honored brands; or (iv) certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council in 2008 with latest amendment in 2018, were triggered. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the NPC which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the MOFCOM before they can be completed. In addition, the Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors which became effective in 2011 require acquisitions by foreign investors of PRC companies engaged in military related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.**

In July 2014, SAFE has promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37, to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or SAFE Circular 75, which ceased to be effective upon the promulgation of SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities) to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

Under SAFE Circular 37, PRC residents who make, or have prior to the implementation of SAFE Circular 37 made, direct or indirect investments in offshore special purpose vehicles, or SPVs, will be required to register such investments with local branches of SAFE. In addition, any PRC resident who is a direct or indirect shareholder of an SPV, is required to update its filed registration with the local branch of SAFE with respect to that SPV, to reflect any material change. Moreover, any subsidiary of such SPV in China is required to urge the PRC resident shareholders to update their registration with the local branch of SAFE. If any PRC shareholder

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of such SPV fails to make the required registration or to update the previously filed registration, the subsidiary of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contribution into its subsidiary in China. The Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investment and outbound overseas direct investment, including those required under the SAFE Circular 37, will be filed with qualified banks instead of the SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of the SAFE.

All of our shareholders that we are aware of being subject to the SAFE regulations have completed all necessary initial registrations with the local SAFE branch or qualified banks as required by SAFE Circular 37. We cannot assure you, however, that all of these individuals may thereafter continue to make required filings or updates on a timely manner, or at all. We can provide no assurance that we are or will in the future continue to be informed of the identities of PRC residents holding a direct or indirect interest in our company. Any failure or inability by such individuals to comply with the SAFE regulations may subject us to fines or legal sanctions, such as restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign exchange-denominated loans from, our company or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Furthermore, as these foreign exchange regulations are still relatively new, and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

**Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans of overseas publicly listed companies may subject the PRC plan participants or us to fines and other legal or administrative sanctions.**

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly listed companies may submit applications to local branches of SAFE for the foreign exchange registration with respect to offshore special purpose companies. In the meantime, our directors, executive officers and other employees who are PRC citizens or who are non-PRC residents residing in the PRC for a continuous period of not less than one year, subject to limited exceptions, and who have been granted incentive share awards by us, may follow the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, promulgated by the SAFE in 2012, or the 2012 SAFE notices. Pursuant to the 2012 SAFE notices, PRC citizens and applicable non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE



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through a domestic qualified agent, which could be the PRC subsidiaries of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted options are subject to these regulations as our company became an overseas listed company upon the completion of our initial public offering. Failure to complete the SAFE registrations may subject them to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Regulation — Regulations Relating to Employee Stock Incentive Plan of Overseas Publicly Listed Company."

The State Taxation Administration, or STA, has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities. See "Regulation — Regulations Relating to Employee Stock Incentive Plan of Overseas Publicly Listed Company."

**It may be difficult for overseas securities regulators to conduct investigations or collect evidence within China.**

Shareholder claims or regulatory investigations that are common in the United States (including securities law class actions and fraud claims) generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of a mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas securities regulator may directly conduct investigations or collect evidence and no entities or individuals may provide documents or materials in connection with securities activities without proper authorization as stipulated under Article 177. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability of an overseas securities regulator to directly conduct investigations or collect evidence within China may further increase difficulties faced by you in protecting your interests.



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**If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.**

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with its “de facto management body” within the PRC is considered a “resident enterprise” and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, the STA issued a circular, known as STA Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. According to STA Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational senior management and senior management department’s performance of their duties is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that ZTO Express (Cayman) Inc. is not a PRC resident enterprise for PRC tax purposes. See “Regulations — Regulations Relating to Tax — Enterprise Income Tax.” However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” If the PRC tax authorities determine that ZTO Express (Cayman) Inc. is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to our non-PRC individual shareholders (including our ADS holders) and any gain realized on the transfer of ADSs or ordinary shares by such shareholders may be subject to PRC tax at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is unclear whether non-PRC shareholders of ZTO Express (Cayman) Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that ZTO Express (Cayman) Inc. is treated as a PRC resident enterprise.

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## RISK FACTORS

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### **We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.**

On February 3, 2015, the STA issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or STA Public Notice 7. According to STA Public Notice 7, where a non-resident enterprise indirectly transfers equities and other properties of a PRC resident enterprise to evade its obligation of paying enterprise income tax by implementing arrangements that are not for bona fide commercial purpose, such indirect transfer shall be re-identified and recognized as a direct transfer of equities and other properties of the PRC resident enterprise. STA Public Notice 7 provides clearer criteria than STA Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. STA Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. PRC taxable assets include assets attributed to an establishment or place of business in China, real properties located in China, and equity investments in PRC resident enterprises, with respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an indirect transfer, the non-resident enterprise as either the transferor or the transferee, or the PRC entity that directly owns the taxable assets, may report such indirect transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was clearly established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes. According to the Announcement of the State Taxation Administration on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source, or STA Announcement 37, effective on December 1, 2017 and amended in June 2018, the withholding party shall, within seven days of the day on which the withholding obligation occurs, declare and remit the withholding tax to the competent tax authority at its locality. Where the withholding party fails to withhold and remit the income tax payable or is unable to perform its obligation in this regard, the non-resident enterprise that earns the income shall, declare and pay the tax that has not been withheld to the competent tax authority at the place where the income occurs, and complete the Withholding Statement of the People’s Republic of China for Enterprise Income Tax.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is the transferor in such transactions and may be subject to withholding obligations if our company is the transferee in such transactions, under STA Public Notice 7 and STA Announcement 37. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under STA Public Notice 7. As a result, we may be required to expend valuable resources to comply with STA Public Notice 7 and STA Announcement 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

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**Discontinuation of any of the preferential tax treatments or imposition of any additional taxes could adversely affect our financial condition and results of operations.**

The PRC Enterprise Income Tax Law and its implementation rules permit certain “high and new technology enterprises strongly supported by the state,” or HNTE, which hold independent ownership of core intellectual property to enjoy a preferential enterprise income tax rate of 15% subject to certain qualification criteria. Shanghai Zhongtongji Network Technology Co. Ltd., or Shanghai Zhongtongji Network, our wholly owned subsidiary, was recognized by relevant PRC government authorities as a HNTE, on November 23, 2017 and therefore became eligible for the preferential 15% enterprise income tax rate from January 1, 2017 to December 31, 2019 upon its filing with the relevant tax authority. The continued qualification of Shanghai Zhongtongji Network as an HNTE is subject to a three-year review by the relevant authorities in China. We cannot assure you that Shanghai Zhongtongji Network will continue to qualify as a HNTE when it is subject to review in the future. Should Shanghai Zhongtongji Network lose this qualification for any reason, it will no longer enjoy the 15% preferential tax rate, and its applicable enterprise income tax rate may increase to 25%. If Shanghai Zhongtongji Network does not maintain its status as a HNTE, our financial condition and results of operation could be materially and adversely affected.

**We may be required to register our operating offices outside of our residence addresses as branch offices under PRC law.**

Under PRC law, a company setting up premises for business operations outside its residence address shall register and obtain business licenses for branch offices at the competent local administration for market regulation. We may expand our delivery network in the future to additional locations in China, and we may not be able to register branch offices which operate outside our company’s residence address in a timely manner due to complex procedural requirements and relocation of branch offices from time to time. If the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including fines, confiscation of income and suspension of operation. If we become subject to these penalties, our business, results of operations, financial condition and prospects could be adversely affected.

**Our failure to fully comply with PRC labor-related laws may expose us to potential penalties.**

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. We did not pay, or were not able to pay, certain past social security and housing fund contributions in strict compliance with the relevant PRC regulations for and on behalf of our employees due to differences in local regulations and inconsistent implementation or interpretation by local authorities in the PRC and varying levels of acceptance of the housing fund system by our employees. Although we have recorded accruals for estimated underpaid amounts in our financial statements, we may be subject to fines and penalties for our failure to make payments in accordance with the applicable PRC laws and regulations. We may be required to make up the contributions for these plans as well as to pay late fees and fines. We have not made any accruals for the interest on underpayments and penalties that may be imposed by the relevant PRC government authorities in the financial statements. If we are subject to late fees or fines in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

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**Registered public accounting firms in China, including the auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC, are not inspected by the Public Company Accounting Oversight Board, which deprives us and our investors of the benefits of such inspection.**

Auditors of companies whose shares are registered with the SEC and traded publicly in the United States, including auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC, must be registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, and is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with applicable professional standards. Auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC are located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the heightened risk that disclosures from many emerging markets will be insufficient, including those from China, compared to those made by U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB's inability to inspect audit work papers and practices of accounting firms in China, with respect to their audit work of U.S. reporting companies. On June 4, 2020, the U.S. President issued a memorandum ordering the President's Working Group on Financial Markets, or the PWG, to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch and by the SEC or PCAOB on Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the U.S. On August 6, 2020, the PWG released a report recommending that the SEC take steps to implement the five recommendations outlined in the report. In particular, to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfill its statutory mandate, or NCJs, the PWG recommends enhanced listing standards on U.S. stock exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in NCJs may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. The report permits the new listing standards to provide for a transition period until January 1, 2022 for listed companies. If we fail to meet the new listing standards before the deadline specified thereunder due to factors beyond our control, we could face possible de-listing from the NYSE, deregistration from the SEC and/or other risks, which may materially and adversely affect, or effectively terminate, our ADS trading in the United States. However, it remains unclear what further actions, if any, the U.S. executive branch, the SEC and PCAOB will take to address the problem.

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As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress that would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges such as the New York Stock Exchange of issuers included on the SEC's list for three consecutive years. On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act, or the Kennedy Bill. On July 21, 2020, the U.S. House of Representatives approved its version of the National Defense Authorization Act for Fiscal Year 2021, which contains provisions comparable to the Kennedy Bill. If either of these bills is enacted into law, it would amend the Sarbanes-Oxley Act of 2002 to direct the SEC to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded "over-the-counter" if the auditor of the registrant's financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. Enactment of any such legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, the market price of our ADSs could be adversely affected, and we could be delisted if we are unable to cure the situation to meet the PCAOB inspection requirement in time. It is unclear if and when any such proposed legislation will be enacted. Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have a material and adverse impact on the stock performance of China-based issuers listed in the United States, including us.

Inspections of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC. As a result, we and investors may be deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of the audit procedures or quality control procedures of auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors of our Class A ordinary shares and/or ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.



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## RISK FACTORS

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**Proceedings instituted by the SEC against five PRC-based accounting firms, including the auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.**

Starting in 2011 the Chinese affiliates of the “big four” accounting firms, including auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC. A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm’s performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our Class A ordinary shares and/or ADSs may be adversely affected.

If auditors of our consolidated financial statements in our annual reports on Form 20-F filed with the SEC was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ADSs from the New York Stock Exchange or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.



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## RISK FACTORS

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### RISKS RELATED TO OUR SHARES, OUR ADSs AND THE LISTING

**As a company applying for listing under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.**

As we are applying for a listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. For additional information, see “Waivers and Exemptions.”

Our Articles of Association are specific to us and include certain provisions that may be different from the requirements under the Hong Kong Listing Rules and common practices in Hong Kong. For example, Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a Qualifying Issuer, but our Articles of Association provide that at least one third of the aggregate voting power of our Company is required to convene an extraordinary general meeting. We will put forth a resolution at or before our 2021 annual general meeting to revise our Articles of Association to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. The 2021 annual general meeting is expected to be held in or before June 2021. Prior to the amendment to our Articles, we undertake to convene general meetings at the request of shareholders holding in aggregate not less than 10% of the Company’s voting rights, on a one vote per share basis.

Furthermore, if 55% or more of the total worldwide trading volume, by dollar value, of our Class A ordinary shares and ADSs over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO, which could result in us having to amend our corporate structure and Articles of Association and we may incur of incremental compliance costs.

**The trading price of our ADSs has been and is likely to continue to be, and the trading price of our Class A ordinary shares can be, volatile, which could result in substantial losses to holders of our Class A ordinary shares and/or ADSs.**

The trading price of our ADSs has been and is likely to continue to be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. The trading price of our Class A ordinary shares, likewise, can be volatile for similar or different reasons. For example, the trading price of our ADSs ranged from US\$15.30 to US\$23.67 per ADS in 2019.

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Fluctuation in the trading prices of our listed securities may occur due to broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong and/or the United States. Furthermore, stock markets in general have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies like us. Volatility or a lack of positive performance in the trading price of our listed securities may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives. In addition to market and industry factors, the price and trading volume for our listed securities may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new offerings, solutions and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our services or our industry;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

**Our dual-class share structure with different voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.**

We have a dual-class share structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share based on our dual-class share structure. Our ADSs represent underlying Class A ordinary shares. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person who is not an affiliate of the holder of such Class B ordinary shares, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares.

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As of the Latest Practicable Date, Zto Lms Holding Limited, a British Virgin Islands company wholly beneficially owned by The LMS Family Trust, with Mr. Meisong Lai as the settlor and Mr. Meisong Lai and his family members as beneficiaries, holds 206,100,000 Class B ordinary shares. Due to the disparate voting powers associated with our dual-class share structure, Mr. Meisong Lai holds 78.4% of the aggregate voting power of our company as of the Latest Practicable Date. As a result of the dual-class share structure and the concentration of ownership, Mr. Meisong Lai has considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. He may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our listed securities. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and/or ADSs may view as beneficial.

For further details about our shareholding structure, see the section “Share Capital — Weighted Voting Rights Structure.”

As we are seeking a listing as a Grandfathered Greater China Issuer pursuant to Chapter 19C of the Hong Kong Listing Rules (Secondary Listings of Qualifying Issuers) with a WVR structure, certain shareholder protection measures and governance safeguards under Chapter 8A of the Hong Kong Listing Rules (Weighted Voting Rights) do not apply to us pursuant to Rule 19C.12 and our Articles differ from Chapter 8A in a number of ways. As a result, our Articles provide less shareholder protection and have fewer governance safeguards than if our Company were subject to Chapter 8A in its entirety. For a summary of the key differences between our Articles and Chapter 8A, see the section “Information about the Listing — Our Articles of Association”.

### **Techniques employed by short sellers may drive down the market price of our ADSs.**

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller’s interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies listed in the United States that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

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It is not clear what effect such negative publicity could have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and stockholder's equity, and any investment in our ADSs could be greatly reduced or rendered worthless.

**Certain existing shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders.**

As of the Latest Practicable Date, our directors and officers collectively own an aggregate of 83.0% of the total voting power of our outstanding ordinary shares. As a result, they have substantial influence over our business, including significant corporate actions such as mergers, consolidations, sales of all or substantially all of our assets, election of directors and other significant corporate actions. They may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our Class A ordinary shares and ADSs. These actions may be taken even if they are opposed by our other shareholders, including our ADS holders. In addition, the significant concentration of share ownership may adversely affect the trading price of our Class A ordinary shares and/or ADSs due to investors' perception that conflicts of interest may exist or arise.

**We have granted, and may continue to grant, share incentives, which may result in increased share-based compensation expenses.**

In 2016, we adopted the 2016 Share Incentive Plan for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. We account for compensation costs for all share options using a fair value-based method and recognize expenses in our consolidated statements of comprehensive income in accordance with U.S. GAAP. In June 2016, we also established an employee shareholding platform to allow our employees in the PRC to receive share incentives. We account for share-based compensation for these share incentive awards using a fair value-based method and recognize expenses in our consolidated statements of comprehensive income in accordance with U.S. GAAP. We will incur additional share-based compensation expenses in the future as we continue to grant share incentives using the ordinary shares reserved for this platform. We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

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**If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our Class A ordinary shares and/or ADSs, the market price for our Class A ordinary shares and/or ADSs and trading volume could decline.**

The trading market for our Class A ordinary shares and/or ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our Class A ordinary shares and/or ADSs, the market price for our Class A ordinary shares and/or ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price of or trading volume for our Class A ordinary shares and/or ADSs to decline.

**The sale or availability for sale of substantial amounts of our listed securities could adversely affect their respective market price.**

Sales of substantial amounts of our Class A ordinary shares and/or ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of such securities and could materially impair our ability to raise capital through equity offerings in the future. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our Class A ordinary shares and/or ADSs.

**Negative publicity may harm our brand and reputation and have a material adverse effect on our business.**

Negative publicity about us, including our services, management, business model and practices, compliance with applicable rules, regulations and policies, or our network partners may materially and adversely harm our brand and reputation and have a material adverse effect on our business. We cannot assure you that we will be able to defuse any such negative publicity within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted on the internet by anyone on a named or anonymous basis, and can be quickly and widely disseminated. Information posted may be inaccurate, misleading and adverse to us, and it may harm our reputation, business or prospects. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of negative and potentially inaccurate or misleading information about our business and operations, which in turn may materially adversely affect our relationships with our customers, employees or business partners, and adversely affect the price of our Class A ordinary shares and/or ADSs.

**Because we do not expect to pay regular dividends in the foreseeable future, investors must mainly rely on price appreciation of our Class A ordinary shares and/or ADSs for return on their investments.**

We intend to retain most of our available funds and any future earnings to fund the development and growth of our business. On March 13, 2020, our board of directors approved a special dividend of US\$0.30 per ADS for 2019, to be paid to shareholders of record as of the close of business on April 8, 2020. Investors should not rely on an investment in our Class A ordinary shares and/or ADSs as a source for any future dividend income.

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Our board of directors has discretion as to whether to distribute dividends. In addition, our shareholders may by ordinary resolution declare dividends, but no dividend may exceed the amount recommended by our directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on investments in our Class A ordinary shares and/or ADSs will likely depend entirely upon any future price appreciation of such securities. There is no guarantee that our listed securities will appreciate in value or even maintain the price at which investors purchased the securities. Investors may not realize a return on investment in our Class A ordinary shares and/or ADSs and may even lose the entire investment.

**Our Articles of Association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our Class A ordinary shares and ADSs.**

Our Articles of Association contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. For example, such provisions include a dual-class share structure that gives greater voting power to the Class B ordinary shares beneficially owned by our founder. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our Class A ordinary shares and/or ADSs may fall and the voting and other rights of the holders of our ordinary shares and/or ADSs may be materially and adversely affected.

**You may face difficulties in protecting your interests, and your ability to protect your rights through Hong Kong or U.S. courts may be limited, because we are incorporated under Cayman Islands law.**

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Articles of Association, the Companies Law (2020 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take actions against the directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States or in Hong Kong. In particular, the Cayman Islands has a less developed body of securities laws than the United States or Hong Kong. For example, some U.S. states, such as Delaware, have more fully



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developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States or a Hong Kong court.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our Articles of Association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States and Hong Kong. To the extent we choose to follow home country practice with respect to corporate governance matters, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers or companies incorporated in Hong Kong.

Furthermore, our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of the requirement that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders. See “Information about the Listing” and “Waivers and Exemptions.”

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States or Hong Kong.

**Certain judgments obtained against us by our shareholders may not be enforceable.**

We are a Cayman Islands exempted company. We conduct our operations in China and substantially all of our assets are located in China. In addition, many of our directors and senior management named in this document reside outside the United States or Hong Kong, and most of the assets of these persons are located outside the United States or Hong Kong. As a result, it may be difficult or impossible for shareholders to bring an action against us or against these individuals in the United States or Hong Kong in the event that shareholders believe that their rights have been infringed under the U.S. federal securities laws, Hong Kong securities laws or otherwise. Even if shareholders are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render them unable to enforce a judgment against our assets or the assets of our directors and officers.

**Holders of our ADSs may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.**

Holders of ADSs do not have the same rights as our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares represented by the ADSs in accordance with the provisions of the deposit agreement. Holders of ADSs may not call a shareholders’ meeting, and do not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. Under our Articles of Association, the minimum notice period required to convene a general meeting is ten (10) days. We undertake that we will (i) provide 14 days’ notice for any general meetings after the Listing and (ii) put

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forth a resolution at or before our 2021 annual general meeting of the Company which is expected to be held in or before June 2021 after the Listing to revise our Articles of Association, so that the minimum notice period required to convene a general meeting will be changed to 14 days. Under the deposit agreement, ADS holders must vote by giving voting instructions to the depositary. If we ask for ADS holders' instructions, then upon receipt of such voting instructions, the depositary will try to vote the underlying Class A ordinary shares in accordance with these instructions. If we do not instruct the depositary to ask for ADS holders' instructions, the depositary may still vote in accordance with instructions given by ADS holders, but it is not required to do so. ADS holders will not be able to directly exercise their rights to vote with respect to the underlying Class A ordinary shares represented by the ADSs unless they withdraw the Class A ordinary shares and become the registered holders of such Class A ordinary shares prior to the record date for the general meeting.

When a general meeting is convened, holders of ADSs may not receive sufficient notice of a shareholders' meeting to permit withdrawal of the underlying Class A ordinary shares represented by their ADSs to allow them to cast their votes with respect to any specific matter. If we ask for ADS holders' instructions, the depositary will notify ADS holders of the upcoming vote and will arrange to deliver our voting materials to the ADS holders. We have agreed to give the depositary at least 30 days' prior notice of our shareholder meetings. Nevertheless, the depositary and its agents may not be able to send voting instructions to holders of ADSs or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of ADSs in a timely manner, but we cannot assure that holders of ADSs will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote and may lack recourse if the underlying ordinary shares represented by their ADSs are not voted as they requested.

### **Holders of our ADSs may be subject to limitations on transfer of their ADSs.**

Our ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as an offering of rights, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

### **We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.**

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including: (i) the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC; (ii) the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act; (iii) the sections of the Exchange Act requiring

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insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iv) the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file with the SEC an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of the New York Stock Exchange. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information that we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, investors may not be afforded the same protections or information, which would be made available to investors, were they investing in a U.S. domestic issuer.

**We incur increased costs as a result of being a public company, particularly after we have ceased to qualify as an “emerging growth company.”**

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the New York Stock Exchange, impose various requirements on the corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costlier. As we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We will also incur additional costs as a result of the Listing on the Hong Kong Stock Exchange. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

We are named as a defendant in a putative shareholder class action lawsuit in the United States, and we may be involved in more class action lawsuits in the future. See “Business — Legal Proceedings.” Such lawsuits could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the lawsuits. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

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**There can be no assurance that we will not be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year, which could result in adverse U.S. federal income tax consequences to U.S. Holders of our ADSs or Class A ordinary shares.**

Depending upon the value of our assets, which may be determined based, in part, on the market value of our ADSs and ordinary shares, and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes. A non-U.S. corporation will be considered a PFIC, for any taxable year if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income (the “income test”); or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income (the “asset test”). The average percentage of a corporation’s assets that produce or are held for the production of passive income is generally determined on the basis of the fair market value of the corporation’s assets at the end of each quarter. This determination is based on the adjusted tax basis of the corporation’s assets.

In addition, we will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock. Although the law in this regard is unclear, we treat our variable interest entities as being owned by us for United States federal income tax purposes because we control their management decisions and we are entitled to substantially all of the economic benefits, and, as a result, we consolidate their results of operations in our U.S. GAAP financial statements and treat them as being owned by us for United States federal income tax purposes. If it were determined, however, that we are not the owner of our variable interest entities for United States federal income tax purposes, we may be treated as a PFIC for our taxable year ended December 31, 2019 and in future taxable years.

Based on the nature of our income and assets and the market price of our ADSs, we do not believe we were a PFIC for the taxable year ended December 31, 2019, and we do not anticipate becoming a PFIC on the current taxable year or in the foreseeable future. Because PFIC status is a fact-intensive determination, no assurance can be given that we will not be classified as a PFIC for that year. While we do not anticipate becoming a PFIC, changes in the nature of our income or assets, or fluctuations in the market price of our Class A ordinary shares and/or ADSs, may cause us to become a PFIC for future taxable years. In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our market capitalization, which may fluctuate over time. Under circumstances where revenues from activities that produce passive income significantly increase relative to our revenues from activities that produce non-passive income or where we determine not to deploy significant amounts of cash for working capital or other purposes, our risk of becoming classified as a PFIC may substantially increase.

**The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the trading prices of our Class A ordinary shares and/or ADSs.**

Upon the Listing, we will be subject to Hong Kong and NYSE listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and NYSE have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Class A ordinary shares and our ADSs may not be the same, even allowing for currency differences. Fluctuations in the price of our ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of our Class A ordinary shares, or vice versa. Certain events having significant

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negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our Class A ordinary shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our ADSs may not be indicative of the trading performance of our Class A ordinary shares after the Global Offering.

**Exchange between our Class A ordinary shares and our ADSs may adversely affect the liquidity and/or trading price of each other.**

Our ADSs are currently traded on the NYSE. Subject to compliance with U.S. securities law and the terms of the deposit agreement, holders of our Class A ordinary shares may deposit Class A ordinary shares with the depository in exchange for the issuance of our ADSs. Any holder of ADSs may also withdraw the underlying Class A ordinary shares represented by the ADSs pursuant to the terms of the deposit agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Class A ordinary shares are deposited with the depository in exchange for ADSs or vice versa, the liquidity and trading price of our Class A ordinary shares on the Hong Kong Stock Exchange and our ADSs on the NYSE may be adversely affected.

**The time required for the exchange between Class A ordinary shares and ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Class A ordinary shares into ADSs involves costs.**

There is no direct trading or settlement between the NYSE and the Hong Kong Stock Exchange on which our ADSs and our Class A ordinary shares are respectively traded. In addition, the time differences between Hong Kong and New York, unforeseen market circumstances or other factors may delay the deposit of Class A ordinary shares in exchange of ADSs or the withdrawal of Class A ordinary shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any exchange of Class A ordinary shares into ADSs (and vice versa) will be completed in accordance with the timelines that investors may anticipate.

Furthermore, the depository for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Class A ordinary shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange Class A ordinary shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.



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## RISK FACTORS

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### RISKS RELATED TO THE GLOBAL OFFERING

**An active trading market for our Class A ordinary shares on the Hong Kong Stock Exchange might not develop or be sustained and trading prices of our Class A ordinary shares might fluctuate significantly.**

Following the completion of the Global Offering, we cannot assure you that an active trading market for our Class A ordinary shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for our ADSs on the NYSE might not be indicative of those of our Class A ordinary shares on the Hong Kong Stock Exchange following the completion of the Global Offering. If an active trading market of our Class A ordinary shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Global Offering, the market price and liquidity of our Class A ordinary shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai and Shenzhen markets. Stock Connect allows mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, mainland Chinese investors would not otherwise have a direct and established means of engaging in Southbound Trading. In October 2019, the Shanghai and Shenzhen Stock Exchanges separately announced their amended implementation rules in connection with Southbound Trading to include shares of WVR companies to be traded through Stock Connect. However, since these rules are relatively new, there remains uncertainty as to the implementation details, especially with respect to shares of those companies with a secondary listing on the Hong Kong Stock Exchange. It is unclear whether and when the Class A ordinary shares of our Company, a WVR company with a secondary listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Class A ordinary shares for trading through Stock Connect will affect mainland Chinese investors' ability to trade our Class A ordinary shares and therefore may limit the liquidity of the trading of our Class A ordinary shares on the Hong Kong Stock Exchange.

**Since there will be a gap of several days between pricing and trading of our Class A ordinary shares, the price of our ADSs traded on the NYSE may fall during this period and could result in a fall in the price of our Class A ordinary shares to be traded on the Hong Kong Stock Exchange.**

The pricing of the Offer Shares will be determined on the Price Determination Date. However, our Class A ordinary shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be about four Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Class A ordinary shares during that period. Accordingly, holders of our Class A ordinary shares are subject to the risk that the trading price of our Class A ordinary shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins. In particular, as our ADSs will continue to be traded on the NYSE and their price can be volatile, any fall in the price of our ADSs may result in a fall in the price of our Class A ordinary shares to be traded on the Hong Kong Stock Exchange.



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## RISK FACTORS

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**There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our Class A ordinary shares on the Hong Kong Stock Exchange.**

In connection with our initial public offering of Class A ordinary shares in Hong Kong, or the Hong Kong IPO, we will establish a branch register of members in Hong Kong, or the Hong Kong share register. Our Class A ordinary shares that are traded on the Hong Kong Stock Exchange, including those to be issued in the Hong Kong IPO and those that may be converted from ADSs, will be registered on the Hong Kong share register, and the trading of these Class A ordinary shares on the Hong Kong Stock Exchange will be subject to the Hong Kong stamp duty. To facilitate ADS-ordinary share conversion and trading between the NYSE and the Hong Kong Stock Exchange, we also intend to move a portion of our issued Class A ordinary shares from our register of members maintained in the Cayman Islands to our Hong Kong share register.

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.2% of the greater of the consideration for, or the value of, shares transferred, with 0.1% payable by each of the buyer and the seller. See “Information About the Listing — Dealings and Settlement of Class A Ordinary Shares in Hong Kong.”

To the best of our knowledge, Hong Kong stamp duty has not been levied in practice on the trading or conversion of ADSs of companies that are listed in both the United States and Hong Kong and that have maintained all or a portion of their ordinary shares, including ordinary shares underlying ADSs, in their Hong Kong share registers. However, it is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs of these dual-listed companies constitutes a sale or purchase of the underlying Hong Kong-registered ordinary shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. If Hong Kong stamp duty is determined by the competent authority to apply to the trading or conversion of our ADSs, the trading price and the value of your investment in our Class A ordinary shares and/or ADSs may be affected.

**Purchasers of our Class A ordinary shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Class A ordinary shares in the future.**

The initial Public Offer Price of our Class A ordinary shares in Hong Kong is higher than the net tangible assets per Share of the outstanding Class A ordinary shares issued to our existing shareholders immediately prior to the Global Offering. Therefore, purchasers of our Class A ordinary shares in the Global Offering will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Class A ordinary shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Class A ordinary shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Class A ordinary shares in the future at a price that is lower than the net tangible asset value per Share.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY STATEMENT**

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

### **THE HONG KONG PUBLIC OFFERING AND THIS DOCUMENT**

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this document set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this document and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this document, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the pricing of the Hong Kong Offer Shares. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

Neither the delivery of this document nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this document or imply that the information contained in this document is correct as of any date subsequent to the date of this document.

### **PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES**

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this document.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this document.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING**

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### **OVER-ALLOTMENT OPTION AND STABILIZATION**

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure of the Global Offering” in this document.

### **RESTRICTIONS ON OFFERS AND SALES OF SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by their acquisition of Offer Shares to, confirm that they are aware of the restrictions on offers of the Offer Shares described in this document.

No action has been taken to permit a public offering of the Offer Shares (except for a registration of Shares on a registration statement on Form F-3 to be filed with the SEC) or the general distribution of this document in any jurisdiction other than in Hong Kong or the United States. Accordingly, this document may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **COMMENCEMENT OF DEALINGS IN OUR CLASS A ORDINARY SHARES**

We expect that dealings in our Class A ordinary shares on the Hong Kong Stock Exchange will commence on Tuesday, September 29, 2020. The Class A ordinary shares will be traded in board lots of 50 Shares each. The stock code of our Class A ordinary shares will be 2057.

### **CLASS A ORDINARY SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Class A ordinary shares and we comply with the stock admission requirements of HKSCC, our Class A ordinary shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable our Class A ordinary shares to be admitted into CCASS.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING**

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### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our Class A ordinary shares or ADSs or exercising any rights attaching to our Shares. We emphasize that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, our Class A ordinary shares or ADSs or your exercise of any rights attaching to our Class A ordinary shares.

### **REGISTER OF MEMBERS AND STAMP DUTY**

Our principal register of members will be maintained by our Principal Share Registrar in the Cayman Islands, and our Hong Kong branch register of members will be maintained by the Hong Kong Share Registrar in Hong Kong.

Dealings in our Class A ordinary shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, our Class A ordinary shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of our Class A ordinary shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

To facilitate ADS-ordinary share conversion and trading between the NYSE and the Hong Kong Stock Exchange, we also intend to move a portion of our issued ordinary shares from our Cayman share register to our Hong Kong Share Register. It is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs constitutes a sale or purchase of the underlying Hong Kong-registered ordinary shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. See “Risk Factors — Risks Related to the Global Offering — There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our Class A ordinary shares on the Hong Kong Stock Exchange.”

### **EXCHANGE RATE CONVERSION**

Our reporting currency is the Renminbi. This document contains translations of financial data in Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise stated, all translations of financial data in Renminbi and Hong Kong dollars into U.S. dollars and from U.S. dollars into Renminbi in this document were made at a rate of RMB7.0651 to US\$1.00 and HK\$7.7501 to US\$1.00, the respective exchange rate on June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board.

No representation is made that any amounts in RMB or US\$ were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING**

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### **ROUNDING**

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

### **LANGUAGE**

If there is any inconsistency between the English version of this document and its Chinese translation, the English version of this document shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this document and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

### **OTHER**

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

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## INFORMATION ABOUT THE LISTING

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### THE LISTING

We have applied for a listing of our Class A ordinary shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers).

We have a track record of good regulatory compliance of at least two full financial years on the NYSE as required by Rule 19C.04 of the Hong Kong Listing Rules for the purposes of our Listing.

We have applied to the Listing Committee for the listing of, and permission to deal in, our Class A ordinary shares in issue and to be issued pursuant to the Global Offering (including the Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares.

Our ADSs are currently listed and traded on the NYSE. Other than the foregoing, no part of our Shares or loan capital is listed on or traded on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong Share Registrar in order to enable them to be traded on the Hong Kong Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Class A ordinary shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange.

### REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

Our register of members holding unlisted Shares not represented by the ADSs will be maintained by our Principal Share Registrar in the Cayman Islands, and our branch register of members holding Class A ordinary shares listed on the Hong Kong Stock Exchange and our Class A ordinary shares represented by the ADSs will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

### OWNERSHIP OF ADSs

An owner of ADSs may hold his or her ADSs either by means of an ADR (evidencing certificated ADSs) registered in his or her name, through a brokerage or safekeeping account, or through an account established by the depositary bank in his or her name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank, commonly referred to as the “direct registration system,” or DRS. The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and DTC. If an owner of ADSs decides to hold his or her ADSs through his or her brokerage or safekeeping account, he or she



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## INFORMATION ABOUT THE LISTING

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must rely on the procedures of his or her broker or bank to assert his or her rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. All ADSs held through DTC will be registered in the name of a nominee of DTC.

### DEALINGS AND SETTLEMENT OF CLASS A ORDINARY SHARES IN HONG KONG

Our Class A ordinary shares will trade on the Hong Kong Stock Exchange in board lots of 50 Shares. Dealings in our Class A ordinary shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars.

The transaction costs of dealings in our Class A ordinary shares on the Hong Kong Stock Exchange include:

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK\$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.2% of the value of the transaction, with 0.1% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong Share Registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

Investors must settle their trades executed on the Hong Kong Stock Exchange through their brokers directly or through custodians. For an investor who has deposited his or her Class A ordinary shares in his or her stock account or in his or her designated CCASS participant's stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his or her broker or custodian before the settlement date.

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## INFORMATION ABOUT THE LISTING

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### **CONVERSION BETWEEN CLASS A ORDINARY SHARES TRADING IN HONG KONG AND ADSs**

In connection with our initial public offering of Class A ordinary shares in Hong Kong, or the Hong Kong IPO, we have established a branch register of members in Hong Kong, or the Hong Kong share register, which will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members, or the Cayman share register, will continue to be maintained by our principal share registrar, Maples Fund Services (Cayman) Limited.

All Class A ordinary shares offered in the Hong Kong IPO will be registered on the Hong Kong share register in order to be listed and traded on the Hong Kong Stock Exchange. As described in further detail below, holders of Class A ordinary shares registered on the Hong Kong share register will be able to convert these shares into ADSs, and vice versa.

#### **Our ADSs**

Our ADSs are traded on the NYSE. Dealings in our ADSs on the NYSE are conducted in U.S. Dollars.

ADSs may be held either:

- directly, by having a certificated ADS, or an ADR, registered in the holder's name, or by holding in the direct registration system, pursuant to which the depository may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depository to the ADS holders entitled thereto; or
- indirectly, through the holder's broker or other financial institution.

The depository for our ADSs is JPMorgan Chase Bank, N.A., whose office is located at 383 Madison Avenue, Floor 11, New York, NY 10179.

#### **Converting Class A Ordinary Shares Trading in Hong Kong into ADSs**

An investor who holds Class A ordinary shares registered in Hong Kong and who intends to convert them to ADSs to trade on the NYSE must deposit or have his or her broker deposit the Class A ordinary shares with the depository's Hong Kong custodian, JPMorgan Chase Bank, N.A., Hong Kong Branch, or the custodian, in exchange for ADSs.

A deposit of Class A ordinary shares trading in Hong Kong in exchange for ADSs involves the following procedures:

- If Class A ordinary shares have been deposited with CCASS, the investor must transfer ordinary shares to the depository's account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed conversion form to the depository via his or her broker.
- If Class A ordinary shares are held outside CCASS, the investor must arrange to deposit his or her Class A ordinary shares into CCASS for delivery to the depository's account with the custodian within CCASS, submit and deliver a request for conversion form to the custodian and after duly completing and signing such conversion form, deliver such conversion form to the custodian.

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## INFORMATION ABOUT THE LISTING

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- Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will issue the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs to the designated DTC account of the person(s) designated by an investor or his or her broker.

For Class A ordinary shares deposited in CCASS, under normal circumstances, the above steps generally require two business days. For Class A ordinary shares held outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

### **Converting ADSs to Class A Ordinary Shares Trading in Hong Kong**

An investor who holds ADSs and who intends to convert his/her ADSs into Class A ordinary shares to trade on the Hong Kong Stock Exchange must cancel the ADSs the investor holds and withdraw Class A ordinary shares from our ADS program and cause his or her broker or other financial institution to trade such Class A ordinary shares on the Hong Kong Stock Exchange.

An investor that holds ADSs indirectly through a broker should follow the broker's procedure and instruct the broker to arrange for cancellation of the ADSs, and transfer of the underlying Class A ordinary shares from the depositary's account with the custodian within the CCASS system to the investor's Hong Kong stock account.

For investors holding ADSs directly, the following steps must be taken:

- To withdraw Class A ordinary shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the depositary will instruct the custodian to deliver Class A ordinary shares underlying the canceled ADSs to the CCASS account designated by an investor.
- If an investor prefers to receive Class A ordinary shares outside CCASS, he or she must receive ordinary shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register Class A ordinary shares in their own names with the Hong Kong Share Registrar.

For Class A ordinary shares to be received in CCASS, under normal circumstances, the above steps generally require two business days. For Class A ordinary shares to be received outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. The investor will be unable to trade the Class A ordinary shares on the Hong Kong Stock Exchange until the procedures are completed.

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## INFORMATION ABOUT THE LISTING

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Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancellations. In addition, completion of the above steps and procedures is subject to there being a sufficient number of Class A ordinary shares on the Hong Kong Share Register to facilitate a withdrawal from the ADS program directly into the CCASS system. We are not under any obligation to maintain or increase the number of Class A ordinary shares on the Hong Kong share register to facilitate such withdrawals.

### **Depositary Requirements**

Before the depositary issues ADSs or permits withdrawal of Class A ordinary shares, the depositary may require:

- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver, transfer, or register issuances, transfers and cancellations of ADSs generally when the transfer books of the depositary or our Hong Kong or Cayman Share Register are closed or at any time if the depositary or we determine it advisable to do so or it would violate any applicable law or the depositary's policies or procedures.

All costs attributable to the transfer of ordinary shares to effect a withdrawal from or deposit of Class A ordinary shares into our ADS program will be borne by the investor requesting the transfer. In particular, holders of ordinary shares and ADSs should note that the Hong Kong Share Registrar will charge between HK\$2.50 to HK\$20, depending on the speed of service (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of Class A ordinary shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong. In addition, holders of ordinary shares and ADSs must pay up to US\$5.00 (or less) per 100 ADSs for each issuance of ADSs and each cancellation of ADSs, as the case may be, in connection with the deposit of Class A ordinary shares into, or withdrawal of ordinary shares from, our ADS program.

### **SUMMARY OF EXEMPTIONS AS A FOREIGN PRIVATE ISSUER IN THE U.S.**

As required by Rule 19C.14 of the Hong Kong Listing Rules, set forth below is a summary of the exemptions from obligations under U.S. securities laws and NYSE rules that we enjoy as a foreign private issuer in the U.S.

#### **Exemptions from NYSE rules**

Foreign private issuers are exempted from certain corporate governance requirements of the NYSE. Foreign private issuers are permitted to follow home country practice in lieu of such corporate governance requirements, as long as they disclose any significant ways in which their corporate governance practices differ from those required under the NYSE listing standards and explain the basis for the conclusion that the exemption is applicable. Currently, we do not rely on home country exemption for corporate governance matters. There are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under the Corporate Governance Rules of the NYSE.

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## INFORMATION ABOUT THE LISTING

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### **Exemptions from SEC rules and regulations under U.S. federal securities laws**

Foreign private issuers are exempted from Regulation FD under the U.S. Exchange Act. Regulation FD provides that when a domestic U.S. issuer, or someone acting on its behalf, discloses material nonpublic information to certain persons (including securities analysts, other securities market professionals, and holders of the issuer's securities who could reasonably be expected to trade on the basis of the information), it must make simultaneous public disclosure of that information (in the case of intentional disclosure) or prompt public disclosure (in the case of non-intentional disclosure). However, the SEC expects foreign private issuers to conduct themselves in accordance with the basic principles underlying Regulation FD.

Section 16 of the U.S. Exchange Act does not apply to foreign private issuers. Therefore, directors, executive officers and 10% beneficial owners of foreign private issuers are not required to file Forms 3, 4 and 5 with the SEC, and are not required to disgorge to the issuer any profits realized from any non-exempt purchase and sale, or non-exempt sale and purchase, of the issuer's equity securities or security-based swap agreements within a period of less than six months.

Foreign private issuers are exempt from the SEC's rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act, which specify the procedures and required documentation for soliciting shareholder votes. Accordingly, foreign private issuers are not required to disclose certain information in their annual proxy statements, such as whether the work of any compensation consultant has played any role in determining or recommending the form or amount of executive and director compensation has raised a conflict of interest, and, if so, the nature of the conflict and how it is being addressed.

Foreign private issuers are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. issuers with securities registered under the U.S. Exchange Act. As a result, our shareholders may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. issuers. Unlike domestic U.S. issuers, foreign private issuers are not required to file quarterly reports (including quarterly financial information) on Form 10-Q. They also are not required to use Form 8-K for current reports, and instead furnish (not file) current reports on Form 6-K with the SEC.

Annual reports on Form 10-K by domestic U.S. issuers are due within 60, 75, or 90 days after the end of the issuer's fiscal year, depending on whether the company is a "large accelerated filer," a "accelerated filer," or a "non-accelerated filer." By contrast, the deadline for foreign private issuers to file annual reports on Form 20-F is four months after the end of their fiscal year.

### **OUR ARTICLES OF ASSOCIATION**

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Law and the common law of the Cayman Islands.

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## INFORMATION ABOUT THE LISTING

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The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong. For example:

- Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that an issuer such as us seeking a listing under Chapter 19C has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules for standards of shareholder protection if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07.
- Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors to be approved by a majority of a Qualifying Issuer's (as defined in the Hong Kong Listing Rules) members or other body that is independent of the issuer's board of directors, but our Articles of Association do not contain this or a similar provision.
- Rule 19C.07(4) of the Hong Kong Listing Rules requires a Qualifying Issuer to hold a general meeting each year as its annual general meeting, but holding a general meeting each year is not specifically required under our Articles of Association. Pursuant to Section 302 of the New York Stock Exchange Listed Company Manual, the Company is required to hold an annual general meeting in each fiscal year. The Company has not sought, and as of the Latest Practicable Date had no intention to seek, an exemption from the requirement to hold an annual general meeting in each fiscal year. The Company has in fact convened an annual general meeting every year since its listing on the NYSE in October 2016.
- Rule 19C.07(5) requires a Qualifying Issuer to give its members reasonable written notice of its general meetings, and our Articles of Association provide that any general meetings may be called by not less than 10 days' notice. While the Company is of the view that such notice period is reasonable and this notice period has been adopted since its listing on the NYSE in 2016, the Company undertakes to provide 14 days' notice for any general meetings to be held by the Company after the Listing and to put forth a resolution at or before our 2021 annual general meeting to revise our Articles of Association to provide for 14 days' notice for any general meetings.
- Pursuant to Rule 19C.07(6) of the Hong Kong Listing Rules, a member must abstain from voting to approve a matter in circumstances required by the Hong Kong Listing Rules. We undertake to put forth a resolution at or before the 2021 annual general meeting of our Company to revise our Articles of Association so that a member's right to vote is subject to the Hong Kong Listing Rules.
- Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority shareholding in an issuer's total number of issued shares must be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the of the issuer, while the minimum stake set out in our Articles of Association is not less than one-third of the votes attaching to all issued and outstanding Shares. We undertake to put forth resolutions at or before the 2021 annual general meeting of our Company to revise our Articles of Association, so that (i) the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in the share capital of our Company; and (ii) the quorum for a general meeting of our Company will be lowered from the current one-third of the aggregate voting power of our



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## INFORMATION ABOUT THE LISTING

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Company to 10% of the aggregate voting power of our Company on a one vote per share basis. Prior to the amendment to our Articles, we undertake to convene general meetings at the request of shareholders holding in aggregate not less than 10% of the Company's voting rights, on a one vote per share basis.

The 2021 annual general meeting is expected to be held in or before June 2021. Our Controlling Shareholder(s) will provide an irrevocable undertaking to the Company prior to the Listing to vote in favor of the proposed resolutions outlined above with a view to ensuring that there may be adequate votes in favor of such resolutions. See "Waivers and Exemptions" and "Summary of our Constitution and Cayman Companies Law" as set out in Appendix III to this document for further details.

As we are seeking a listing as a Grandfathered Greater China Issuer pursuant to Chapter 19C of the Hong Kong Listing Rules (Secondary Listings of Qualifying Issuers) with a WVR structure, certain shareholder protection measures and governance safeguards under Chapter 8A of the Hong Kong Listing Rules (Weighted Voting Rights) do not apply to us pursuant to Rule 19C.12 and our Articles differ from Chapter 8A in a number of ways, including the following:

- Chapter 8A prohibits the increase in the proportion of shares with WVRs after the Listing and, where there is a reduction in the number of issued shares, requires shares with WVRs to be reduced proportionately. Our Articles do not contain such restrictions on the Class B ordinary shares;
- our Articles do not provide for WVRs to terminate in the circumstances specified in Chapter 8A, such as where the WVR beneficiary is deceased or no longer a director;
- Chapter 8A requires (a) amendments to a listed issuer's constitutional documents, (b) variation of rights attached to any class of shares, (c) the appointment or removal of an independent non-executive director, (d) the appointment or removal of auditors and (e) the voluntary winding-up of a listed issuer to be subject to shareholder approval on a one vote per share basis. Our Articles do not contain such provisions;
- the charter of our nominating and corporate governance committee does not contain the terms otherwise required under Rule 8A.30 and Code Provision D.3.1 of Appendix 14 to the Hong Kong Listing Rules; and
- the independent non-executive directors of a listed issuer with a WVR structure must be subject to retirement by rotation at least once every three years under Chapter 8A, whereas our Articles provide that our directors are not subject to a term of office and hold office until such time as they are removed from office by an ordinary resolution of the shareholders.

As a result, our Articles provide less shareholder protection and have fewer governance safeguards than if our Company were subject to Chapter 8A in its entirety.

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## INFORMATION ABOUT THE LISTING

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### COMPLIANCE ADVISOR

We have appointed Somerley Capital Limited as our compliance advisor, or the Compliance Advisor, upon listing of our Class A ordinary shares on the Hong Kong Stock Exchange in compliance with Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the Compliance Advisor will provide advice to us when consulted by us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where the business activities, development or results of our Company deviate from any forecast, estimate or other information in this document; and
- (c) where the Hong Kong Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of our Class A ordinary shares or any other matters in accordance with Rule 13.10 of the Hong Kong Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date.

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## WAIVERS AND EXEMPTIONS

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In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and have applied for a ruling under the Takeovers Codes:

<b>Rules</b>	<b>Subject matter</b>
Rule 2.07A of the Hong Kong Listing Rules	Printed Corporate Communications
Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements Relating to the Accountants' Report
Rule 9.09(b) of the Hong Kong Listing Rules	Dealings in Shares prior to Listing
Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules	Printed Prospectus
Rule 13.25B of the Hong Kong Listing Rules	Monthly Return
Rule 13.48(1) and Practice Note 10 of the Hong Kong Listing Rules	Publication of Interim Report for the six months ended June 30, 2020
Rule 19C.07(3) and 19C.07(7) of the Hong Kong Listing Rules	Shareholder Protection Requirements
Paragraphs 13 and 26 of Appendix 1A to the Hong Kong Listing Rules and Paragraphs 11, 14 and 25 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Particulars of any Commissions, Discounts and Brokerages, Alterations of Capital and Authorized Debentures
Paragraph 29(1) of Appendix 1A to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure of Information on Subsidiaries Whose Profits or Assets Make Material Contributions to Us
Guidance Letter HKEX-GL37-12	Timing Requirement of Liquidity Disclosure
Paragraphs 33(2), 33(3), 46(2), 46(3) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements of the Remuneration of Directors and Five Individuals Whose Emoluments Were Highest

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## WAIVERS AND EXEMPTIONS

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<b>Rules</b>	<b>Subject matter</b>
Paragraph 15(2)(c) of Appendix 1A to the Hong Kong Listing Rules	Disclosure of Offer Price
Paragraphs 28(1)(b)(i), (ii) and (v) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements in respect of Suppliers
Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules	Subscription for Shares by existing Shareholders and subscription for Shares by Alibaba (through its affiliates) pursuant to the exercise of anti-dilution rights
Paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules	Clawback mechanism
Section 4.1 of the Introduction to the Takeovers Codes	Not a Public Company in Hong Kong under the Takeovers Code
Part XV of the SFO	Disclosure of Interests under Part XV of SFO
Paragraphs 41(4) and 45 of Appendix 1A to and Practice Note 5 of the Hong Kong Listing Rules	Disclosure of Interests Information

### PRINTED CORPORATE COMMUNICATIONS

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

Our ADSs have been listed on the NYSE since October 2016. We have a diverse shareholder base with ADS holders globally.

We do not currently produce or send out any corporate communications to our shareholders or holders of ADSs in printed form unless requested or in limited circumstances. We publicly file or furnish various corporate communications with the SEC which are posted on the SEC's website. Our annual reports on Form 20-F and current reports on Form 6-K and all amendments to these reports, are also available free of charge on our website as soon as reasonably practicable after they are filed with or furnished to the SEC. Further, we will post our proxy materials and notices to our shareholders and holders of ADSs on a publicly accessible website. Those documents will also be available on our website.

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## WAIVERS AND EXEMPTIONS

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Apart from the Hong Kong Offer Shares that we will offer for subscription by the public in Hong Kong, the International Offer Shares will be placed to professional, institutional, corporate and other investors in Hong Kong and elsewhere in the world. Given our diverse shareholder base and the potential number of countries in which our shareholders are located, we consider that it would not be practicable for us to send printed copies of all our corporate communications to all of our shareholders. Further, we consider that it would also not be practicable for us to approach our existing shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communications in printed form instead.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 2.07A of the Hong Kong Listing Rules on the conditions that we will:

- (a) issue all future corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese;
- (b) provide printed copies of proxy materials in English to our shareholders at no costs upon request; and
- (c) ensure that the "Investor Relations" page of our website ([zto.investorroom.com](http://zto.investorroom.com)) will direct investors to all of our future filings with the Hong Kong Stock Exchange.

### **DISCLOSURE REQUIREMENTS RELATING TO THE ACCOUNTANTS' REPORT**

Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance set out certain historical financial information to be included in a listing document that is not required to be disclosed under U.S. GAAP, including in particular:

- (a) balance sheet at a company level;
- (b) aging analysis of accounts receivables;
- (c) aging analysis of accounts payables; and
- (d) adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on.

In accordance with U.S. GAAP, we have applied the modified retrospective transition approach to account for the impact of the adoption of the new accounting standards in the Track Record Period. Under the modified retrospective method adopted by us, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

During the Track Record Period, we adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2014-09 "Revenue from Contracts with Customers (Topic 606)" and related amendments and implementation guidance, or ASC 606, Accounting Standards Update 2016-01 "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", including related technical corrections and improvements, or ASU 2016-01, Accounting Standards Update 2016-02 "Leases" (Topic 842)", including certain transitional guidance and subsequent amendments, or ASC 842, and Accounting Standards Update 2016-13 "Financial Instruments-Credit Losses (Topic 326)", including certain

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## WAIVERS AND EXEMPTIONS

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transitional guidance and subsequent amendments, or ASC 326. The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the Accountants' Reports in Appendix I to this document.

ASC 606 was adopted beginning January 1, 2018 using the modified retrospective transition method. The adoption of ASC 606 does not have any significant impact on the consolidated financial statements and there was no adjustment to the beginning retained earnings on January 1, 2018.

ASU 2016-01 was adopted on January 1, 2018 prospectively. The adoption of ASU 2016-01 does not have any significant impact on the consolidated financial statements and there was no adjustment to the beginning retained earnings on January 1, 2018. The full retrospective application of ASU 2016-01 is not permitted under U.S. GAAP.

ASC Topic 842, Leases (“**ASC 842**”) was adopted on January 1, 2019 using the modified retrospective transition approach by applying the new lease standard to all leases existing as of January 1, 2019, and no adjustments were made to the comparative periods. The adoption of the new lease standard does not have any significant impact on the consolidated statements of operations and comprehensive income and cash flows and there was no adjustment to the beginning retained earnings on January 1, 2019.

ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326)” was adopted on January 1, 2020 using the modified retrospective transition method. The adoption of ASC 326 does not have any significant impact on the consolidated financial statements and there was no adjustment to the beginning retained earnings on January 1, 2020.

This document includes the following alternative disclosures:

- (a) disclosure of the accounting policies for the adoption of ASC 606, ASU 2016-01, ASC 842 and ASC 326 as well as the impact of adoption, if any, in the Accountants' Report in Appendix I to this document; and
- (b) for the new accounting standard that came into effect during the Track Record Period, the accounting policy as well as the impact of adoption, if any, to the beginning retained earnings of initial application (i.e. January 1, 2018, 2019 and 2020) has been disclosed in the Accountants' Report in Appendix I to this document in accordance with the relevant requirements under U.S. GAAP.

As this document has included the above alternative disclosures and the current disclosure in this document contains all information which is necessary for the investors to make an informed assessment of the business, asset and liability, financial position, trading position, management and prospect of the Group, we believe that it would be of no material value to the Hong Kong investors and be unduly burdensome for the Accountants' Report in Appendix I to this document to include certain required information pursuant to Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and that the non-disclosure of such information will not prejudice the interests of investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current



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## WAIVERS AND EXEMPTIONS

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disclosure in this document. The SFC has granted the above exemption on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before September 17, 2020.

### DEALINGS IN SHARES PRIOR TO LISTING

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the “**Relevant Period**”).

We had more than 200 subsidiaries and operating entities as of June 30, 2020, and our ADSs are widely held, publicly traded and listed on the NYSE. We considers that we are therefore not in a position to control the investment decisions of our shareholders or the investing public in the U.S.. Solely based on public filings with the SEC as of the Latest Practicable Date, other than Mr. Meisong Lai, our Controlling Shareholder, executive Director and Chief Executive Officer, and Zto Lms Holding Limited, a company beneficially owned by The LMS Family Trust, the beneficiaries of which are Mr. Lai and his family members, there are no shareholders who held more than 10% of the total issued share capital of us.

Mr. Meisong Lai (our Controlling Shareholder, executive director and chief executive officer) may from time to time use his Shares as security (including charges and pledges) in connection with financing activities. As of June 30, 2020, Mr. Meisong Lai, through Zto Lms Holding Limited and ZTO ES, beneficially owned 213,708,313 Shares and none of his Shares was used as security.

On the basis of the above, we consider that the following categories of persons (collectively, the “**Permitted Persons**”) should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

- (a) Mr. Meisong Lai, our Controlling Shareholder, executive director and chief executive officer, in respect of use of his Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period (“**Category 1**”);
- (b) our directors other than Mr. Meisong Lai, and the directors and chief executives of our Major Subsidiaries, in respect of their respective use of the Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period (“**Category 2**”);
- (c) directors, chief executives and substantial shareholders of our non-Major Subsidiaries and their close associates (“**Category 3**”); and

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## WAIVERS AND EXEMPTIONS

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- (d) any other person (whether or not an existing Shareholder) who may, as a result of dealings, become our substantial shareholder and who is not our director or chief executive, or a director or chief executive of our subsidiaries, or their close associates (“**Category 4**”).

For the avoidance of doubt:

- (a) as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and
- (b) persons in Category 1 and Category 2 who use their respective Shares other than as described in this section headed “Dealings in the Shares prior to Listing” are subject to the restrictions under Rule 9.09(b) of the Hong Kong Listing Rules.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules to be granted on the following conditions:

- (a) Where Categories 1 and 2 of the Permitted Persons use the Shares as security, there will be no change in the beneficial ownership of the Shares during the Relevant Period;
- (b) Categories 3 and 4 of the Permitted Persons do not have any influence over the Global Offering and do not possess any non-public inside information of our Company given that such persons are not in a position with access to information that is considered material to our Company taken as a whole. Given the large number of our subsidiaries and our vast ADS holder base, our Company and our management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in our ADSs;
- (c) we will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the U.S. and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any non-public inside information of which we are aware;
- (d) we will notify the Hong Kong Stock Exchange of any breaches of the dealing restrictions by any of our core connected persons during the Relevant Period when it becomes aware of the same other than dealings by the core connected persons who are Permitted Persons within the permitted scopes set out above; and
- (e) prior to the Listing Date, other than within the permitted scopes set out above, our directors and chief executive and the directors and chief executives of our Major Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period provided that such prohibited dealing in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, and share payments under the Group’s share incentive plans.

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## WAIVERS AND EXEMPTIONS

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### PRINTED PROSPECTUS

Pursuant to Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules, we are required to make available copies of this document in printed form.

The waiver from the requirements to make available printed copies of this document is in line with recent amendments to the Hong Kong Listing Rules relating to environmental, social and governance (“ESG”) matters. As the Hong Kong Stock Exchange noted on page 1 of its Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules dated December 2019, such amendments relating to ESG matters “*echo the increasing international focus on climate change and its impact on business.*” Electronic, *in lieu of* printed, prospectuses and application forms will help mitigate the environmental impact of printing, including the exploitation of precious natural resources such as trees and water, the handling and disposal of hazardous materials, air pollution, among others.

It is noted that in light of the severity of the ongoing COVID-19 pandemic, the provision of a printed prospectus and printed application forms will elevate the risk of contagion of the virus through printed materials. As of the Latest Practicable Date, the government of Hong Kong continued to have in place social distancing measures to restrict public gatherings. While the government of Hong Kong may relax such restrictions as the local COVID-19 situation improves, it is possible that stricter social distancing measures may be necessary later if the number of cases of infection in the territory dramatically increases. In any event, it is impossible to accurately predict the development of the COVID-19 pandemic as of the Latest Practicable Date. In this uncertain environment, an electronic application process with a paperless prospectus will reduce the need for prospective investors to gather in public, including branches of the receiving bank and other designated points of collection, in connection with the Hong Kong Public Offering.

We propose to adopt a fully electronic application process for the Hong Kong Public Offering and will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. We also anticipate that our share registrar appointed in connection with the Listing and the Hong Kong Public Offering will implement enhanced measures to support White Form eIPO Service, including increasing its server capacity and making available a telephone hotline to answer investors’ queries in connection with the fully electronic application process.

We also expect to publish the formal notice with respect to our Hong Kong Public Offering on the official websites of the Hong Kong Stock Exchange and our Company and in selected English and Chinese local newspapers describing the fully electronic application process including the available channels for share subscription and the enhanced support provided by our appointed Hong Kong Share Registrar in relation to the Hong Kong Public Offering and reminding investors that no printed prospectus or application form will be provided. We also propose to issue a press release to highlight the available electronic channels for share subscription.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules in respect of providing copies of this document in printed form.

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## WAIVERS AND EXEMPTIONS

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### MONTHLY RETURN

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in our equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates.

Under the Joint Policy Statement Regarding the Listing of Overseas Companies jointly issued by the Hong Kong Stock Exchange and the SFC on September 27, 2013, this common waiver is subject to the condition that the issuer can meet one of the following three conditions:

- (a) it has received a relevant partial exemption from Part XV of the SFO; or
- (b) it publishes a “next day disclosure return” in strict compliance with Rule 13.25A of the Hong Kong Listing Rules, regardless of the waiver of general effect from this Rule for secondary listed issuers; or
- (c) it is subject to overseas laws or regulations that have a similar effect to Rule 13.25B of the Hong Kong Listing Rules and any differences are not material to shareholder protection.

We have obtained a relevant partial exemption from strict compliance with Part XV of the SFO. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the continuing obligations under Rule 13.25B of the Hong Kong Listing Rules. We will disclose information about share repurchases, if material, in our quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

### **PUBLICATION OF INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2020**

Rule 13.48(1) of the Hong Kong Listing Rules requires an issuer to send an interim report or a summary interim report in respect of the first six months of the financial year within three months after the end of that period. Practice Note 10 of the Hong Kong Listing Rules requires newly listed issuers to prepare and publish interim reports in respect of the first six month period where the deadline for publishing the reports falls after the date on which dealings in the securities of the issuer commenced.

As we included in this document the audited financial information in respect of the six months ended June 30, 2020 and other financial disclosure, the publication of an interim report for the six months ended June 30, 2020 would not provide shareholders and potential investors with additional material information not already contained in this document. The preparation, publication and sending of the interim report shortly after the Listing would require us to incur unnecessary administrative cost and time on the part of our management and be unduly burdensome for us.

In relation to our not preparing, publishing and sending the interim report for the six months ended June 30, 2020, we confirm (a) that, based on the advice provided by our legal adviser as to the laws of the Cayman Islands, we would not be in breach of our constitutional documents or laws or regulations of the Cayman Islands and (b) that we would not be in breach of any other regulatory requirements.

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## WAIVERS AND EXEMPTIONS

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We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 13.48(1) and Practice Note 10 of the Hong Kong Listing Rules in respect of the interim report for the six months ended June 30, 2020.

### SHAREHOLDER PROTECTION REQUIREMENTS

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Grandfathered Greater China Issuer seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07 of the Hong Kong Listing Rules. We are a Grandfathered Greater China Issuer under Chapter 19C of the Hong Kong Listing Rules.

#### Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors to be approved by a majority of the Qualifying Issuer's members or other body that is independent of the issuer's board of directors (the "**Auditors Provision**").

Our Articles of Associations do not contain an equivalent Auditors Provision. Pursuant to our Articles, the Board has the power to appoint, remove and remunerate the auditors instead. Although the Board has such a power, it has formally delegated this function to our audit committee (the "**Audit Committee**") since our listing on the NYSE in October 2016.

The Audit Committee is akin to an independent body of the Board on the basis of the independence requirements set out in applicable U.S. laws and the NYSE rules. The Audit Committee comprises of three members, all of whom are independent directors as required by the U.S. Exchange Act and applicable NYSE rules.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 19C.07(3) of the Hong Kong Listing Rules.

#### Requisition of extraordinary general meetings by shareholders

Requisition of extraordinary general meeting by shareholders Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority shareholding in an issuer's total number of issued shares to be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the issuer, while the minimum stake as currently set out in the Articles is not less than one-third of the votes attaching to all issued and outstanding Shares. In addition, the Articles provide that the quorum for a general meeting of our Company shall be one or more members holding Shares which represent, in aggregate, not less than one-third of the votes attaching to all issued and outstanding Shares.

We will amend the Articles after the Listing to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. Prior to the amendment to our Articles, we undertake to convene general meetings at the request of shareholders holding in aggregate not less than 10% of the Company's voting rights, on a one vote per share basis.

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We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the following conditions:

- (a) we will put forth resolutions at or before the 2021 annual general meeting of our Company (which will be held by June 2021) to revise the Articles, so that (i) the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in the share capital of our Company; and (ii) the quorum for a general meeting of our Company will be lowered from the current one-third of the aggregate voting power of our Company to 10% of the aggregate voting power of our Company on a one vote per share basis; and
- (b) Our Controlling Shareholder(s) will provide an irrevocable undertaking to the Company prior to the Listing to vote in favor of the proposed resolutions outlined above with a view to ensuring that there may be adequate votes in favor of such resolutions.

### **PARTICULARS OF ANY COMMISSIONS, DISCOUNTS AND BROKERAGES AND ALTERATIONS OF CAPITAL AND AUTHORIZED DEBENTURES**

Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraphs 11 and 14 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of the listing document in connection with the issue or sale of any capital of any member of the group and the particulars of any alterations of capital within two years immediately preceding the issue of the listing document.

Paragraph 25 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires particulars of the authorized debentures of our Company and our subsidiaries to be disclosed in this document.

We have identified 4 entities as our Major Subsidiaries. For further details, see the section headed “History — Corporate Structure — Major Subsidiaries” in this document. We had more than 200 subsidiaries and operating entities as of June 30, 2020. We believe that it would be unduly burdensome for us to disclose this information in respect of all of our subsidiaries as we would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to investors.

The Major Subsidiaries include all the Company’s subsidiaries that meet the financial threshold for “significant subsidiaries” under Regulation S-X in the U.S. (i.e. contributing more than 10% of the Group’s total assets and income) and are representative of the Company’s business (including those that hold major assets and intellectual property rights). None of the non-Major Subsidiaries is individually material to the Company in terms of its contribution to the Company’s total net revenues, net income or total assets or holds any major assets and intellectual property rights. By way of illustration, the aggregate net income of the Major Subsidiaries accounted for approximately 111.5% and 139.0% of the net income of the Group for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively, and the total assets of the Major Subsidiaries represented 69.6% and 69.2% of the total assets of the Group as at December 31, 2019 and June 30, 2020, respectively. As such, we have disclosed the particulars of the changes in our share capital and the Major Subsidiaries in the section headed “Statutory and General Information — Further Information About Us” in Appendix IV to this document, and particulars of the commissions, discounts, brokerage fee



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and authorized debentures in respect of the Major Subsidiaries and our Company are set out in the section headed “Statutory and General Information — Other Information — Miscellaneous” of Appendix IV to this document.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from the requirements under paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under paragraphs 11, 14 and 25 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted the above exemption on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before September 17, 2020.

### **DISCLOSURE OF INFORMATION ON SUBSIDIARIES WHOSE PROFITS OR ASSETS MAKE MATERIAL CONTRIBUTIONS TO US**

Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held by us, or whose profits or assets make, or will make, a material contribution to the figures in the accountants’ report or the next published accounts.

We believe that it would be unduly burdensome for us to procure this information for the reasons as set out in this section headed “-Particulars of any Commissions, Discounts and Brokerages and Alteration of Capital and Authorized Debentures” above. As such, only the particulars in relation to the Major Subsidiaries are set out in this document under the sections headed “History — Corporate Structure — Major Subsidiaries” and “Statutory and General Information — Further Information About Us” in Appendix IV to this document, which should be sufficient for potential investors to make an informed assessment of our Company in their investment decisions.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from the requirements under Paragraph 29 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted the above exemption on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before September 17, 2020.

### **TIMING REQUIREMENT OF LIQUIDITY DISCLOSURE**

Paragraph 32 of Part A of Appendix 1 to the Listing Rules requires a listing document to include a statement (or an appropriate negative statement) of a new applicant’s indebtedness as at a specified most recent practicable date (the “**Most Recent Practicable Date**”), and a commentary on its liquidity, financial resources and capital structure (together, the “**Liquidity Disclosure**”).

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In accordance with Hong Kong Stock Exchange's Guidance Letter HKEX-GL37-12 ("GL37-12"), the Hong Kong Stock Exchange normally expects that the Most Recent Practicable Date for the Liquidity Disclosure, including, among other things, commentary on liquidity and financial resources such as net current assets (liabilities) position and management discussion on this position, in a listing document to be dated no more than two calendar months before (a) the date of the application proof of the listing document and (b) the final date of the listing document.

As this document is expected to be published in September 2020, we would otherwise be required to make the relevant indebtedness and liquidity disclosures no earlier than July 2020 pursuant to GL37-12. Given that we included in this document an accountants' report incorporating the audited consolidated financial information of the Group for the three years ended December 31, 2019 and the six months ended June 30, 2020, it would be unduly burdensome for us to re-arrange information for similar liquidity disclosures on a consolidated basis shortly after the end of the second quarter of our current financial year.

Strict compliance with the Liquidity Disclosure requirements would constitute an additional one-off disclosure by us of our liquidity position on a date that would fall within the third quarter of our financial year, which would otherwise not be required to be disclosed to investors in the U.S. under applicable U.S. regulations and NYSE listing rules, because we are required to announce quarterly results at the end and not in the middle of each quarter of our financial year. Such a one-off disclosure would likely confuse our existing investors and deviate from our customary practice and that of other U.S. listed companies.

In any event, if there are any material changes to such disclosures, we would be required to make an announcement pursuant to U.S. regulations and NYSE rules and disclose relevant material facts in this document pursuant to the Hong Kong Listing Rules.

In the event that there is no material change to such disclosures, any similar disclosures made pursuant to GL37-12 would not give additional meaningful information to investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the timing requirement for the Liquidity Disclosure in this document under GL37-12, such that the reported date of indebtedness and liquidity information in this document will not exceed the requirement under GL37-12 by one calendar month (i.e. the time gap between the reported date of our indebtedness and liquidity information and the date of this document would be no more than three calendar months).

### **DISCLOSURE REQUIREMENTS OF THE REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WHOSE EMOLUMENTS WERE HIGHEST**

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors' emoluments during the three financial years ended 31 December 2017, 2018 and 2019. Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year, and Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

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Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in the group for the year if one or more individuals whose emoluments were the highest have not been included under paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

The aggregate fees, salaries and benefits paid and accrued to our directors and executive officers as a group are disclosed in the section headed “Directors and Senior Management — Compensation” in this document. We confirm that the current disclosure complies with U.S. annual reporting requirements and is in line with our disclosure in our annual reports on Form 20-F.

We believe that additional disclosure required by Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules would be unduly burdensome and would not provide additional meaningful disclosure for potential Hong Kong investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document.

### **DISCLOSURE OF OFFER PRICE**

Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules provides that the issue price or offer price of each security must be disclosed in the listing document.

The Public Offer Price will be determined by reference to, among other factors, the closing price of our ADS price on the NYSE on the last trading date on or before the price determination date and we have no control on the market price of our ADSs traded on the NYSE. Given the ADSs of our Company are freely tradable on the NYSE, there may be price fluctuations in the ADSs as a result of market volatility and other factors during the period from the bulk-printing of this document until the pricing of the Global Offering.

Setting a fixed price or a price range with a low end offer price per Offer Share may adversely affect the market price of the ADSs and the Hong Kong Offer Shares considering, among other factors, that this may indicate an arbitrary floor price and may potentially prejudice our ability to price in the best interest of us and our Shareholders.

A maximum Public Offer Price will be disclosed in this document and the Green Application Form. This alternative disclosure approach would not prejudice the interests of the investing public in Hong Kong.

Given in no circumstances will the Public Offer Price for the Hong Kong Offer Shares be greater than the maximum Public Offer Price as stated in this document and the Green Application Form, the disclosure of the maximum Public Offer Price in this document will be in compliance with the requirement to disclose the “amount payable on application and allotment on each share” as required by paragraph 9 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraph 15(2)(c) of Part A of Appendix 1 to the Listing Rules.

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### DISCLOSURE REQUIREMENTS IN RESPECT OF SUPPLIERS

Paragraphs 28(1)(b)(i) and (ii) of Part A of Appendix 1 to the Hong Kong Listing Rules require the listing document to include a statement of the percentage of purchases attributable to the group's largest supplier and a statement of the percentage of purchases attributable to the group's five largest suppliers combined, respectively.

Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include a statement of the interest of any of the directors, their close associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the issuer) in the group's top five suppliers. Sub-paragraph (vi) further provides that in the event that the percentage which would fall to be disclosed under sub-paragraphs (i), (ii) and (v) above is less than 30, a statement of that fact shall be given and the information required in sub-paragraphs (i), (ii) and (v) (in respect of suppliers) may be omitted.

The Company believes that the specific percentage figures required to be disclosed by Paragraphs 28(1)(b)(i) and (ii) of Part A of Appendix 1 to the Hong Kong Listing Rules are commercially sensitive and could be exploited by its competitors. The Company has not publicly disclosed the information strictly required by Paragraphs 28(1)(b)(i) and (ii) of Part A of Appendix 1 to the Hong Kong Listing Rules in its SEC filings, nor is it required to do so under U.S. laws and regulations. The Company has however made alternative disclosures in the section headed "Our Business — Procurement and Suppliers" and believes that the current disclosure in this document provides sufficient information to investors to make an informed assessment of the Company's business.

Some of the Company's top five suppliers are public companies (or entities controlled by them) whose shares are traded on various stock exchanges. As a NYSE-listed company, the Company is not in a position to compel its public shareholders who own more than 5% in its issued shares based on public filings to disclose to the Company their shareholding interests in its top five suppliers during the Track Record Period. It would also be unduly burdensome for these public shareholders of the Company to ascertain their shareholding interests in the Company's top five suppliers (especially the companies whose shares are publicly traded), because the disclosure requirements under Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules are not subject to any materiality or de minimis exemptions or "safe harbors" provisions. The same difficulties would apply to the Company's directors who are otherwise required to disclose their, and their close associates', shareholding interests in the Company's top five suppliers including the companies whose shares are publicly traded. As of the Latest Practicable Date, based on publicly available information, none of our directors and their close associates or our Controlling Shareholders, held a 5% or more shareholding interest in our top five suppliers.

In addition, the Company does not believe that the information strictly required by Paragraph 28(1)(b)(v) of Part A of Appendix 1 to the Hong Kong Listing Rules would provide any additional meaningful information to investors given that it will not in any event be subject to the connected transaction requirements under Chapter 14A of the Hong Kong Listing Rules, and details of its related party transactions are disclosed in the section headed "Related Party Transactions" in this document.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the disclosure requirements under Paragraphs 28(1)(b)(i), (ii) and (v) of Part A of Appendix 1 to the Hong Kong Listing Rules in respect of the Company's suppliers, to the extent not strictly met by the current disclosure in this document.

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### SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought that are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 are fulfilled.

We have been listed on the NYSE since October 2016 and has a wide and diverse shareholder base. Other than the Company's directors and senior management and any Shareholders who hold special rights in the Company, any person who may, as a result of dealings, become a shareholder of the Company (each a "**Permitted Existing Shareholder**") have no influence over the Global Offering and are not in possession of any non-public inside information in relation to the Global Offering and are effectively in the same positions as our public investors. Considering the nature of those investors and as the Company's Shares are publicly traded on the NYSE, the Company is not in the position to prevent any person or entity from acquiring listed securities of the Company prior to the Global Offering. In addition, the Company will only be able to ascertain the change in the shareholding of the relevant Shareholder after it makes public disclosure. It would therefore be unduly burdensome for the Company to seek the prior consent of the Hong Kong Stock Exchange for each of the Company's existing shareholders or their close associates who subscribe for shares in the Global Offering.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules in respect of the restriction on Permitted Existing Shareholders to subscribe for or purchase Shares in the Global Offering, subject to the following conditions:

- each Permitted Existing Shareholder is interested in less than 5% of the Company's voting rights before the Listing;
- the Permitted Existing Shareholders do not have the power to appoint directors of the Company or any other special rights in the Company;
- the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and placees in the Global Offering;
- the Permitted Existing Shareholder and their close associates will be subject to the same book-building and allocation process as other investors in the Global Offering; and
- to the best of their knowledge and belief, each of the Company, the Sponsor and the Sole Global Coordinator (based on its discussions with and the confirmations from the Company and the Joint Bookrunners (for itself and on behalf of the Underwriters)), confirms to the Hong Kong Stock Exchange in writing that no preferential treatment has been, nor will be, given to the Permitted Existing Shareholders and their close associates as a placee in the International Offering by virtue of their relationship with the Company.

Allocation to the Permitted Existing Shareholders and/or their close associates will not be disclosed in our allotment results announcement (other than to the extent that such Permitted Existing Shareholders or close associates subscribe for shares as cornerstone investors) unless such Permitted Existing Shareholders are interested in 5% or more of our issued share capital



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after the Global Offering as disclosed in any of their public filings with the SEC (the “**Available Information**”). It would be unduly burdensome for us to disclose such information other than the Available Information given that there is no requirement to disclose interests in equity securities under the U.S. Exchange Act unless the beneficial ownership of a person reaches 5% or more, and when there is a subsequent change of ownership of 1% or more, in our issued share capital.

### **SUBSCRIPTION FOR SHARES BY ALIBABA (THROUGH ITS AFFILIATES) PURSUANT TO THE EXERCISE OF ANTI-DILUTION RIGHTS**

Rule 10.04 of the Hong Kong Listing Rules provides that an existing shareholder of an issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or her own name or through nominees if the conditions in Rule 10.03(1) and (2) are satisfied. The applicable requirements of Rule 10.03 of the Hong Kong Listing Rules are that no securities are offered to the existing shareholder on a preferential basis and no preferential treatment is given to the existing shareholder in the allocation of the securities. Paragraph 5(2) of Appendix 6 to the Listing Rule prohibits allocation of shares in a global offering to existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions in Rule 10.03 and 10.04 are fulfilled or prior written consent of the Hong Kong Stock Exchange has been obtained.

Alibaba, an existing shareholder of the Company, through its affiliates, Ali ZT and Cainiao Smart Logistics Investment Limited (“**Cainiao Smart**”) together hold 63,657,407 Class A ordinary shares of the Company (or approximately 8.1% of the Company’s total issued share capital) as at 30 June 2020. See “Major Shareholders” in this document for further details. Pursuant to an investor right agreement dated June 12, 2018 (the “**Investor Rights Agreement**”), we granted preemptive rights to Ali ZT and Cainiao Smart, such that if our Company proposes to issue any of its securities, each of Ali ZT and Cainiao Smart shall have the right to acquire (a) a portion of such securities equal to the quotient obtained by dividing (i) the number of shares of all securities owned by such shareholder by (ii) the total number of shares of all securities issued and outstanding or such other percentage as may be mutually agreed among such shareholders following discussions with our Company, *plus* (b) any securities not purchased by its affiliates. Ali ZT and Cainiao Smart may assign all or a portion of their preemptive rights to any of their affiliates under the Investor Rights Agreement in accordance with its terms. See “Related Party Transactions – Investor Rights Agreement” in this document for further details. The preemptive rights function as typical anti-dilution rights as, if exercised, they would allow Ali ZT and/or Cainiao Smart (and/or their respective affiliates) to subscribe for additional Class A ordinary shares, to the extent permitted by the Hong Kong Listing Rules, in order to reduce the dilutive effect of the Global Offering on Alibaba’s aggregate percentage interest in the Company that is currently held through Ali ZT and Cainiao Smart.

On September 15, 2020, Ali ZT and/or Cainiao Smart (and/or their respective affiliates) have agreed to exercise their preemptive rights pursuant to the Investor Rights Agreement to subscribe for an aggregate of 3,654,250 Class A ordinary shares on an assured basis, representing approximately 8.1% of the Offer Shares and approximately 0.4% of the Shares in issue immediately upon completion of the Global Offering, without taking into account (i) the Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, (ii) the Company’s repurchase of Class A ordinary shares in the form of ADSs; and (iii) any allotment



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and issuance of Class A ordinary shares upon exercise of the Over-allotment Option. No preferential treatment will be given to Ali ZT and/or Cainiao Smart (and/or their respective affiliates) other than the assured allocation of 3,654,250 Class A ordinary shares in connection with the Global Offering.

Given that:

- (a) full disclosure of the pre-existing contractual arrangement is made in this document, including the number of Class A ordinary shares that may be subscribed by Ali ZT and/or Cainiao Smart (and/or their respective affiliates) pursuant to the preemptive rights under the Investor Rights Agreement and the fact that the subscription price per Share will be at the International Offer Price. In addition, the allotment results announcement will contain details of any allocation made to Ali ZT and/or Cainiao Smart (and/or their respective affiliates) (if any). On the basis of full disclosure, no investor will be prejudiced or unfairly treated in their investment decision making process, and
- (b) if the preemptive rights are exercised:
  - i. the subscription for additional Class A ordinary shares by Ali ZT and/or Cainiao Smart (and/or their respective affiliates) will be conducted at the International Offer Price on the same terms and conditions as other investors pursuant to the Global Offering;
  - ii. the subscription by Ali ZT and/or Cainiao Smart (and/or their respective affiliates) will form part of the International Offering, and will not have an impact on the Class A ordinary shares to be offered to public investors in Hong Kong under the Hong Kong Public Offering;
  - iii. the subscription of the additional Class A ordinary shares by Ali ZT and/or Cainiao Smart (and/or their respective affiliates) is a pre-existing contractual arrangement between Ali ZT, Cainiao Smart and the Company and was agreed on an arm's length basis, and the subscription is for the purpose of giving effect to such pre-existing arrangement;
  - iv. the subscription rights of Ali ZT and Cainiao Smart are, in substance, similar in nature to the typical anti-dilution rights granted to pre-IPO investors and, in particular, the subscription by Ali ZT and/or Cainiao Smart (and/or their respective affiliates) will not result in Alibaba's aggregate percentage interest in the Company that is held currently through Ali ZT and Cainiao Smart increasing above its aggregate percentage interest immediately prior to the Global Offering. Such rights are permitted to be exercised at the time of IPO pursuant to Paragraph 3.10 of Guidance Letter HKEX-GL43-12; and
  - v. the allotment results announcement will contain details of any allocation made to Ali ZT and/or Cainiao Smart (and/or their respective affiliates) (if any),

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we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules in respect of the allocation of shares to Alibaba (through its affiliates), subject to the following conditions:

- (a) full disclosure of the pre-existing contractual arrangement between Ali ZT, Cainiao Smart and the Company contained in the Investor Rights Agreement and the number of Class A ordinary shares that may be subscribed by Ali ZT and/or Cainiao Smart (and/or their respective affiliates);
- (b) the proposed subscription of Class A ordinary shares by Ali ZT and/or Cainiao Smart (and/or their respective affiliates) will form part of the International Offering and be conducted at the International Offer Price and, in any event, will not result in Alibaba increasing its aggregate percentage interest in the Company that is currently held through Ali ZT and Cainiao Smart above its aggregate percentage interest in the Company immediately prior to the Global Offering;
- (c) the Company, the Sole Global Coordinator, and the Sole Sponsor will confirm to the Hong Kong Stock Exchange in writing that no preferential treatment, other than the assured allocation, will be given to the Ali ZT and/or Cainiao Smart (and/or their respective affiliates) as placees in the International Offering; and
- (d) information on the amount of Class A ordinary shares actually allocated to Ali ZT and/or Cainiao Smart (and/or their respective affiliates) will be disclosed in the allotment results announcement and the placees lists to be submitted to the Hong Kong Stock Exchange before Listing.

### CLAWBACK MECHANISM

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of the Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, provided the initial allocation of Offer Shares under the Hong Kong Public Offering shall not be less than 5% of the Global Offering, in the event of over-subscription, the Sole Global Coordinator shall apply a clawback mechanism following the closing of the application lists on the following basis:

- (i) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 3,375,000 Offer Shares, representing 7.5% of the Offer Shares initially available under the Global Offering;

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- (ii) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 4,500,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering; and
- (iii) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 9,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

See “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation.”

### **NOT A PUBLIC COMPANY IN HONG KONG UNDER THE TAKEOVERS CODE**

Section 4.1 of the Introduction to Takeovers Codes provides that the Takeovers Codes apply to takeovers, mergers and share buy-backs affecting, among others, public companies in Hong Kong and companies with a primary listing in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes. We have applied for, and the SFC has granted, a ruling that we are not a “public company in Hong Kong” for the purposes of the Takeovers Codes. Therefore, the Takeovers Codes do not apply to us. In the event that the bulk of trading in our Shares migrates to Hong Kong such that we would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Codes will apply to us.

### **DISCLOSURE OF INTERESTS UNDER PART XV OF SFO**

Part XV of the SFO imposes duties of disclosure of interests in Shares. Under the U.S. Exchange Act, which we are subject to, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any

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## WAIVERS AND EXEMPTIONS

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acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject our corporate insiders to a second level of reporting, which would be unduly burdensome to them, would result in additional costs and would not be meaningful, since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to us and our corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our significant shareholders.

We have applied for, and the SFC has granted, a partial exemption under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO), on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules; (ii) all disclosures of interest filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (iii) we will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

### DISCLOSURE OF INTERESTS INFORMATION

Part XV of the SFO imposes duties of disclosure of interests in shares. Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests in this document.

The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholder's interests can be found in the section headed "Major Shareholders" in this document.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Practice Note 5 and Paragraphs 41(4) and 45 of Part A of Appendix 1 to the Hong Kong Listing Rules is to be granted on the following conditions:

- (a) the SFC granting us and our shareholders a partial exemption from strict compliance with Part XV of the SFO;
- (b) our undertaking to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC; and
- (c) our undertaking to disclose in present and future listing documents any shareholding interests as disclosed in an SEC filing and the relationship between our directors, officers, members of committees and their relationship to any controlling shareholders.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

Name		Address	I.D. issuing countries/ territories
Meisong Lai	賴梅松	No. 19, Yangtian, Tianjing Group 3 Gewu Village, Zhongshan Country Tonglu County, Zhejiang Province, China	China
Jianfa Lai	賴建法	Tianjing Group 3, Gewu Village Zhongshan Country, Tonglu County Zhejiang Province, China	China
Jilei Wang	王吉雷	No. 100, North Nanyang Road Hongqiao Town, Yueqing City Zhejiang Province, China	China
Lin Wan	萬霖	No. 12, Yuexiang Village Taohuayuan South Area Taoyuan Community, Zhongtai Street Yuhang District, Hangzhou City Zhejiang Province, China	China
Xing Liu	劉星	Flat B, 51/F, Block T5 South Towers Bel-Air Phase 2 38 Bel-Air Avenue Cyber Port, Hong Kong	Hong Kong
Frank Zhen Wei	魏臻	No. 36, Lane 2000, Jianhe Road Shanghai, China	Hong Kong
Qin Charles Huang	黃沁	Flat C, 16/F, Block 12A Costa Del Sol Laguna Verde Hung Hom, Kowloon, Hong Kong	Hong Kong
Herman Yu	餘正鈞	Gate 2, Unit 36 Yanlanshan Manor Houshayu, Shunyi District, Beijing, China	Hong Kong
Tsun-Ming (Daniel) Kao	高遵明	1201, Unit 1, No 9 Building Cuiping Chengyuan 3000 Shuanglong Road Jiangning, Nanjing, China 210000	Taiwan

Further information about the directors and other senior management members are set out in the section headed “Directors and Senior Management” in this document.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor</b>	<b>Goldman Sachs (Asia) L.L.C.</b> 68th Floor, Cheung Kong Center 2 Queen's Road Central, Hong Kong
<b>Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager</b>	<b>Goldman Sachs (Asia) L.L.C.</b> 68th Floor, Cheung Kong Center 2 Queen's Road Central, Hong Kong
<b>Joint Bookrunners and Joint Lead Managers</b>	<b>UBS AG Hong Kong Branch</b> 52/F, Two International Finance Centre 8 Finance Street, Central, Hong Kong
	<b>UBS Securities LLC</b> <i>(in relation to the International Offering only)</i> 1285 Avenue of the Americas New York NY 10019 United States
	<b>China International Capital Corporation Hong Kong Securities Limited</b> 29/F One International Finance Centre 1 Harbour View Street, Central, Hong Kong
	<b>Citigroup Global Markets Asia Limited</b> 50/F, Champion Tower 3 Garden Road, Central, Hong Kong
	<b>Citigroup Global Markets Limited</b> <i>(in relation to the International Offering only)</i> 33 Canada Square, Canary Wharf London E14 5LB United Kingdom
<b>Joint Lead Managers</b>	<b>BOCI Asia Limited</b> 26th Floor, Bank of China Tower 1 Garden Road, Central, Hong Kong
	<b>China Renaissance Securities (Hong Kong) Limited</b> Units 8107-08, Level 81 International Commerce Centre 1 Austin Road West, Kowloon, Hong Kong
	<b>CLSA Limited</b> 18/F, One Pacific Place 88 Queensway, Hong Kong



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**CMB International Capital Limited**  
45/F, Champion Tower  
3 Garden Road, Central, Hong Kong

**Mizuho Securities Asia Limited**  
14-15/F K11 Atelier, 18 Salisbury Road  
Tsim Sha Tsui, Kowloon, Hong Kong

### **Our Legal Advisers**

*As to Hong Kong and U.S. laws:*  
**Skadden, Arps, Slate, Meagher & Flom and affiliates**  
42nd Floor, Edinburgh Tower, The Landmark  
15 Queen's Road Central, Hong Kong

*As to PRC laws:*  
**Global Law Office Shanghai**  
36th Floor, Shanghai One ICC  
No.999 Middle Huai Hai Road  
Xuhui District, Shanghai

*As to Cayman Islands laws:*  
**Maples and Calder (Hong Kong) LLP**  
26th Floor, Central Plaza, 18 Harbour Road  
Wanchai, Hong Kong

### **Legal Advisers to the Sole Sponsor and the Underwriters**

*As to Hong Kong and U.S. laws:*  
**Freshfields Bruckhaus Deringer**  
55th Floor, One Island East, Taikoo Place  
Quarry Bay, Hong Kong

*As to PRC laws:*  
**JunHe LLP**  
26/F HKRI Centre One, HKRI Taikoo Hui  
288 Shimen Road (No.1), Shanghai 200041, PRC

### **Auditor and Reporting Accountants**

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
35/F, One Pacific Place, 88 Queensway, Hong Kong

### **Industry Consultant**

**Shanghai iResearch Co., Ltd, China**  
Rm 701, Building B, Zhongjin Building  
333 North Caoxi Rd., Shanghai, China

### **Receiving Banks**

**Bank of China (Hong Kong) Limited**  
1 Garden Road  
Hong Kong

**Standard Chartered Bank (Hong Kong) Limited**  
15/F Standard Chartered Tower  
388 Kwun Tong, Kowloon, Hong Kong

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## CORPORATE INFORMATION

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<b>Registered Office</b>	<b>Maples Corporate Services Limited</b> PO Box 309, Uglan House Grand Cayman, KY1-1104, Cayman Islands
<b>Principal Executive Offices of Main Operations</b>	Building One, No.1685 Huazhi Road, Qingpu District Shanghai, 201708, People's Republic of China
<b>Address in Hong Kong</b>	Unit A1 of Unit A, 11th Floor Success Commercial Building 245-251 Hennessy Road, Hong Kong
<b>Company's Website</b>	<b><a href="http://zto.investorroom.com/">http://zto.investorroom.com/</a></b> (The information on the website does not form part of this document)
<b>Authorized Representative</b>	Feng Xu Building One, No. 1685 Huazhi Road, Qingpu District, Shanghai, 201708, People's Republic of China
<b>Audit Committee</b>	Herman Yu (Chairman) Xing Liu Qin Charles Huang
<b>Compensation Committee</b>	Xing Liu (Chairman) Frank Zhen Wei Qin Charles Huang
<b>Nominating and Corporate Governance Committee</b>	Frank Zhen Wei (Chairman) Qin Charles Huang Tsun-Ming (Daniel) Kao
<b>Cayman Islands Principal Share Registrar</b>	<b>Maples Fund Services (Cayman) Limited</b> P.O. Box 1093, Boundary Hall, Cricket Square Grand Cayman, KY1-1102, Cayman Islands
<b>Hong Kong Share Registrar</b>	<b>Computershare Hong Kong Investor Services Limited</b> Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wan Chai, Hong Kong
<b>Compliance Advisor</b>	<b>Somerley Capital Limited</b> 20th Floor, China Building 29 Queen's Road Central Hong Kong

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## CORPORATE INFORMATION

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### Principal Banks

#### **Industrial Bank Co., Ltd.**

1608 Gongyuan East Road, Qingpu District  
Shanghai, People's Republic of China

#### **Industrial and Commercial Bank of China**

1750 Xinfu Middle Road, Huaxin Town  
Qingpu District, Shanghai,  
People's Republic of China

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## HISTORY AND CORPORATE STRUCTURE

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### OVERVIEW

Founded in 2002, our business has quickly grown to become the largest express delivery service provider among the Tongda Operators in scale and profitability. Our Company is a holding company incorporated in the Cayman Islands on April 8, 2015. We conduct our business in China through our subsidiaries and variable interest entity.

### KEY MILESTONES

Our key business milestones are summarized below:

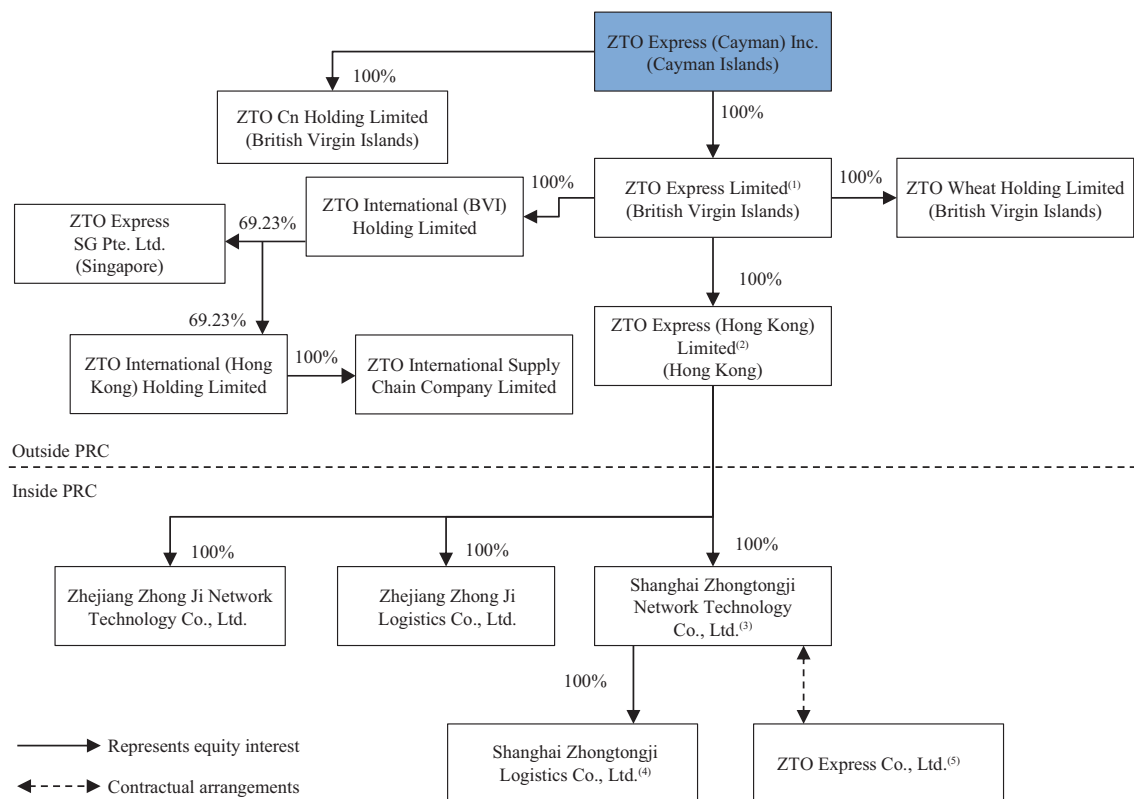
<b>Date</b>	<b>Event</b>
2002	Commencement of our business
2009	Shanghai Zhongtongji Express Service Co., Ltd. commenced express delivery operation upon the enactment of the PRC Postal Law (Revised in 2009) 《邮政法》
2013	Restructured our business to combine assets of Shanghai Zhongtongji Express Service Co., Ltd. and some of our network partners to form ZTO Express Co., Ltd.  Received investment from Sequoia Capital, a leading international private equity firm
2014	Acquired eight regional network partners' business and their operating assets
2015	Established a centrally controlled national delivery network after acquiring 16 network partners
2016	Achieved leading position and became the top player in China in terms of parcel volume  IPO on the NYSE in October raising US\$1.4 billion
2017	Achieved 90% digital waybill adoption  Shanghai Zhongtongji Network Technology Co. Ltd., our subsidiary, was recognized as a national High and New Technology Enterprise in China
2018	Received US\$1.38 billion strategic equity investment led by Alibaba and Cainiao Smart Logistics Investment Limited
2019	Included in the MSCI Global Standard Index

# HISTORY AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

### *Our corporate structure*

For illustrative purposes, we summarize our corporate group structure in the diagram below, including our principal subsidiaries and consolidated affiliated entity as of June 30, 2020:



### Notes:

- (1) ZTO Express Limited has approximately 150 subsidiaries that engage in the provision of express delivery services and logistics.
- (2) ZTO Express (Hong Kong) Limited has approximately 130 onshore subsidiaries (including Zhejiang Zhong Ji Network Technology Co., Ltd. and Zhejiang Zhong Ji Logistics Co., Ltd.) that engage in the provision of express delivery services and logistics.
- (3) Shanghai Zhongtongji Network Technology Co., Ltd. has approximately 100 subsidiaries that engage in the provision of express delivery services and logistics.
- (4) Shanghai Zhongtongji Logistics Co., Ltd. has approximately 20 subsidiaries that engage in logistics.
- (5) Meisong Lai, Jianfa Lai, Jilei Wang, Xiangliang Hu, Shunchang Zhang, Jianying Teng, Xuebing Shang, Baixi Lan and Jianchang Lai are beneficial owners of the shares of our Company and hold 34.35%, 12.00%, 10.00%, 7.05%, 6.00%, 5.02%, 4.40%, 1.40% and 1.06% equity interests in ZTO Express Co., Ltd., respectively. Mr. Jianchang Lai is the Vice President of Overseas Operations of the Company. Please refer to “Directors and Senior Management — Our Senior Management” for further details. Mr. Xiangliang Hu, Mr. Shunchang Zhang, Mr. Baixi Lan and Mr. Xuebing Shang were the first shareholders of ZTO Express when it was first established in 2013. Mr. Jianying Teng is currently a director of treasury at Shanghai Zhongtongji Network. The remaining 18.72% equity interest in ZTO Express Co., Ltd. are held by 34 other shareholders who are, or whose beneficial owners are, also beneficial owners of the Shares of our Company. None of these 34 shareholders hold more than 4.00% of the equity interest in ZTO Express Co., Ltd.. ZTO Express Co., Ltd. has approximately 50 subsidiaries that engage in the provision of express delivery services.

## HISTORY AND CORPORATE STRUCTURE

### Major Subsidiaries

As of June 30, 2020, we conducted our business operations across more than 200 subsidiaries and operating entities, four of which are our Major Subsidiaries. Their principal business activities and dates of establishment are shown below:

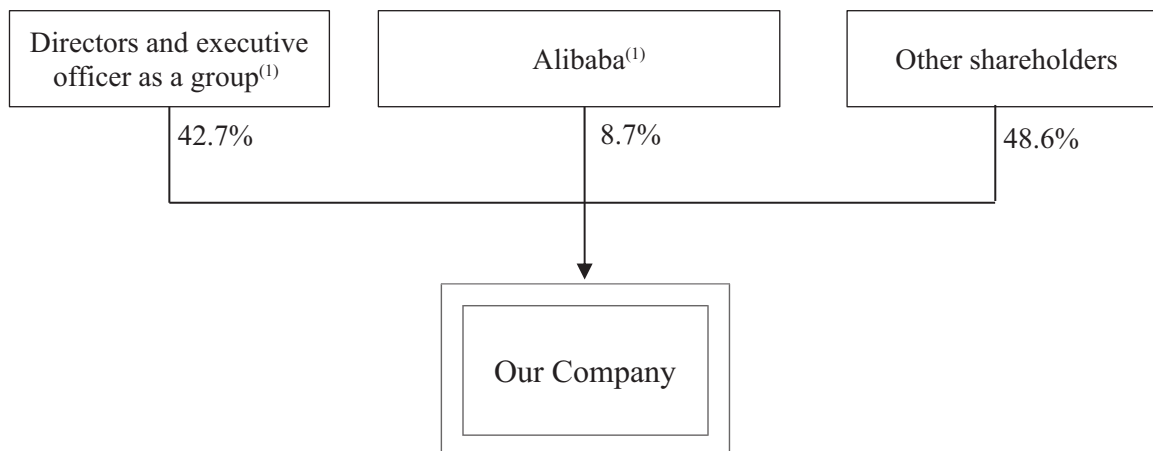
Name of company	Principal business activities	Date and jurisdiction of establishment	Issued share capital/Registered capital
ZTO Express Limited	a holding company	April 6, 2015, BVI	US\$50,000
ZTO Express (Hong Kong) Limited	a holding company	May 4, 2015, Hong Kong	HK\$1 and US\$200,000,000
Shanghai Zhongtongji Network Technology Co., Ltd. (“ <b>Shanghai Zhongtongji Network</b> ”)	a company providing technical support and consulting services	July 22, 2015, PRC	US\$200,000,000
ZTO Express Co., Ltd. (“ <b>ZTO Express</b> ”)	an affiliated consolidated entity providing express delivery services	January 17, 2013, PRC	RMB600,000,000

### Major Acquisition and Disposal

We have not conducted any major acquisition or disposal during the Track Record Period.

### Shareholding structure

The following diagram illustrates our shareholding structure as at June 30, 2020 (excluding (i) Class A ordinary shares issuable upon the exercise of outstanding share options and Class A ordinary shares reserved for issuance under our 2016 Share Incentive Plan, (ii) Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, and (iii) the Company’s repurchase of Class A ordinary shares in the form of ADSs):



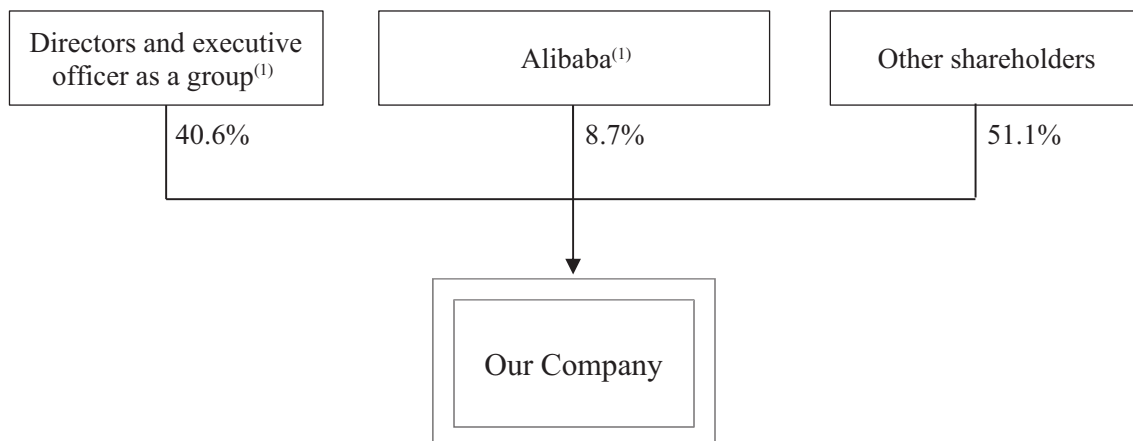
*Note:*

- (1) See “Major Shareholders” for further details on the voting rights and the beneficial ownership of our directors and executive officers as a group, Alibaba and other shareholders. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 10 votes on all matters that require a shareholder’s vote.



## HISTORY AND CORPORATE STRUCTURE

The following diagram illustrates our shareholding structure immediately upon the completion of the Global Offering (assuming all major shareholders' shareholdings remain unchanged as of the Latest Practicable Date, the Over-allotment Option is not exercised, and no additional Shares are issued under the Share Incentive Plans):

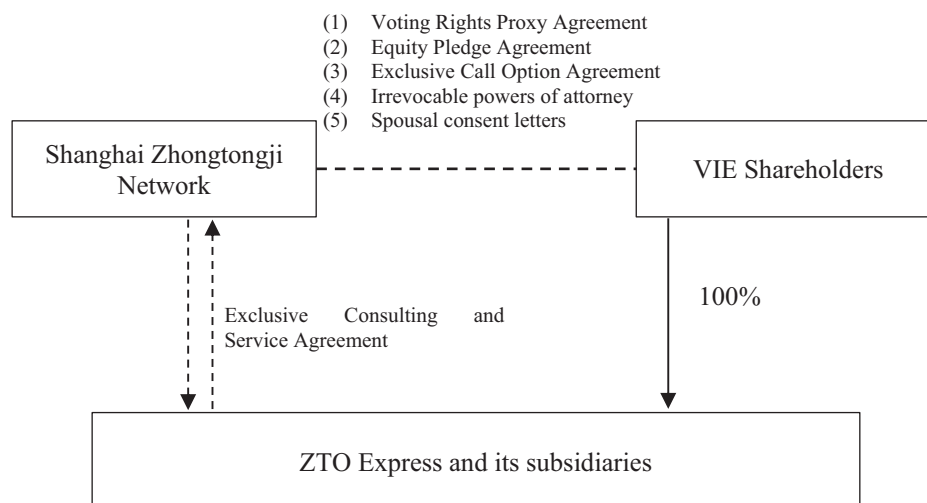


Please refer to the details contained in Note (1) above.

### Contractual Arrangements

Due to the PRC legal restrictions on foreign ownership in companies that provide mail delivery services in China, we carry out our express delivery business through ZTO Express, a domestic PRC company, the equity interests in which are held by PRC citizens and companies established under PRC law.

The diagram below illustrates the general structure of the economic flow and control under the VIE structure created by the contractual arrangements:



Notes:

- (1) “- - ▶” denotes the direction of legal and beneficial ownership.
- (2) “—▶” denotes the contractual arrangements among ZTO Express, its VIE shareholders, and Shanghai Zhongtongji Network.

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## HISTORY AND CORPORATE STRUCTURE

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The contractual arrangements enable us to: (a) exercise effective control over ZTO Express and its subsidiaries; (b) receive substantially all of the economic benefits of ZTO Express and its subsidiaries; and (c) have an exclusive option to purchase all or part of the equity interests and assets in ZTO Express when and to the extent permissible under PRC laws. These contractual agreements include shareholders' voting rights proxy agreements, exclusive call option agreements, equity pledge agreements, irrevocable powers of attorney, exclusive consulting and services agreements and spousal consent letters. As a result of the contractual arrangements, the shareholders of ZTO Express irrevocably granted Shanghai Zhongtongji Network the power to exercise all voting rights to which they were entitled. In addition, Shanghai Zhongtongji Network has the option to acquire all of the equity interests in ZTO Express, to the extent permitted by the then-effective PRC laws and regulations, for nominal consideration. Finally, Shanghai Zhongtongji Network is entitled to receive service fees for certain services to be provided to ZTO Express.

As a result of these contractual arrangements, we bear the risks of, and enjoy the rewards associated with, and therefore are the primary beneficiary of, ZTO Express.

### **Terms of the VIE Agreements under the contractual arrangements**

The following is a summary of the currently effective contractual arrangements by and among Shanghai Zhongtongji Network, ZTO Express and the shareholders of ZTO Express.

#### *Agreements that provide us effective control over ZTO Express*

##### *Voting Rights Proxy Agreement*

On August 18, 2015, ZTO Express and the shareholders of ZTO Express entered into a voting rights proxy agreement with Shanghai Zhongtongji Network. Pursuant to the voting rights proxy agreement, each of the shareholders of ZTO Express irrevocably appointed Meisong Lai, Shanghai Zhongtongji Network's designated person, as their attorney-in-fact to exercise all applicable shareholder rights, including, but not limited to: (i) calling for and attending shareholders meetings as the proxy of the shareholders; (ii) exercising voting rights and all other shareholder's rights provided under PRC laws and the articles of association of ZTO Express, including but not limited to, selling, transferring, pledging or disposing all or a portion of the shares held by such shareholder or the assets of ZTO Express; (iii) voting on all matters submitted to shareholders meetings, including but not limited to, the election of directors and senior management officers who shall be appointed by shareholders; and (iv) exercising other voting rights granted to the shareholders by the articles of association of ZTO Express, as may be amended from time to time. Shanghai Zhongtongji Network and Meisong Lai both have the right to execute documents in connection with and perform other obligations under the equity pledge agreement and exclusive call option agreement. Any conduct of Shanghai Zhongtongji Network or Meisong Lai in connection with ZTO Express will be deemed as conduct of the shareholders of ZTO Express. Any documents executed by Shanghai Zhongtongji Network or Meisong Lai in connection with ZTO Express will be deemed to be executed by the shareholders of ZTO Express. Each of the shareholders of ZTO Express agreed to acknowledge, accept and approve such conduct of or execution by Shanghai Zhongtongji Network and Meisong Lai. The voting rights proxy agreement will remain in force for an unlimited term, unless all the parties to the agreement mutually agree to terminate the agreement in writing. The authorization and appointment above is premised on Shanghai Zhongtongji Network's designated person being a PRC citizen and Shanghai Zhongtongji Network's consent of such authorization and appointment. If and only if Shanghai Zhongtongji Network sends a written notice to the shareholders of ZTO Express to replace its designated person, the shareholders of ZTO Express shall promptly appoint the replaced designated person

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## HISTORY AND CORPORATE STRUCTURE

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as their new attorney-in-fact under their power of attorney. Otherwise, the voting rights proxy agreement shall be binding on the legal assignees or heirs of all parties, and the authorization and appointment by the shareholders of ZTO Express shall not be revoked.

### *Equity Pledge Agreement*

On August 18, 2015, Shanghai Zhongtongji Network, ZTO Express and the shareholders of ZTO Express entered into an equity pledge agreement and this agreement shall be binding on the legal assignees or heirs of all parties. Pursuant to the equity pledge agreement, each of the shareholders of ZTO Express pledged all of their equity interests in ZTO Express to guarantee their and ZTO Express's performance of their obligations under the contractual arrangements, including the exclusive consulting and services agreement, its related agreements and the equity pledge agreement. If ZTO Express or its shareholders breach their contractual obligations under this agreement, Shanghai Zhongtongji Network, as pledgee, will have the right to dispose of the pledged equity interests in ZTO Express and priority in receiving the proceeds from such disposal. The shareholders of ZTO Express also agreed that, during the term of the equity pledge agreement, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the term of the equity pledge agreement, subject to specified exceptions therein, Shanghai Zhongtongji Network has the right to receive all of the dividends and profits distributed on the pledged equity interests. The equity pledge became effective in September 2015, which is when the pledge of equity interests contemplated in the equity pledge agreement was registered with the relevant administration for market regulation in accordance with the PRC Property Rights Law, and will remain effective until ZTO Express and its shareholders have completed all of their obligations under the contractual arrangements or discharged all of their obligations under the contractual arrangements.

### *Exclusive Call Option Agreement*

On August 18, 2015, Shanghai Zhongtongji Network, ZTO Express and the shareholders of ZTO Express entered into an exclusive call option agreement. Pursuant to the exclusive call option agreement, each of the shareholders of ZTO Express irrevocably granted Shanghai Zhongtongji Network an exclusive option to purchase, or have its designated entity or person to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholders' equity interests in ZTO Express. The purchase price shall be the lower of (i) the amount that the shareholders contributed to ZTO Express as registered capital for the equity interests to be purchased, or (ii) the lowest price permitted by applicable PRC law. In addition, ZTO Express granted Shanghai Zhongtongji Network an exclusive option to purchase, or have its designated entity or person purchase, at its discretion, to the extent permitted under PRC law, all or part of ZTO Express's assets at the lowest price permitted by applicable PRC law. Without the prior written consent of Shanghai Zhongtongji Network, among other applicable issues, the shareholders of ZTO Express may not increase or decrease the registered capital, dispose or cause the management of ZTO Express to dispose of its material assets (other than those disposal during ordinary operation), terminate or cause the management of ZTO Express to terminate any material contract or enter into any contract that is in conflict with its existing material contracts, appoint or remove any directors, supervisors or other relevant management members, cause ZTO Express to distribute or announce to distribute dividends to the shareholders, amend its articles of association, provide any loans or guarantees to any third parties or acquire any loans or guarantees from any third parties, and shall guarantee the continuance of ZTO Express. The exclusive call option agreement will remain effective until all equity interests in ZTO Express held by its shareholders and all assets of ZTO Express are transferred or assigned to Shanghai Zhongtongji Network or its designated entity or person. The exclusive call option agreement shall be binding on the legal assignees or heirs of all parties.

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## HISTORY AND CORPORATE STRUCTURE

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### *Irrevocable Powers of Attorney*

Pursuant to the powers of attorney dated August 18, 2015, the shareholders of ZTO Express each irrevocably appointed Shanghai Zhongtongji Network's designated person, Meisong Lai, as the attorney-in-fact to exercise all of applicable shareholder's voting and related rights with respect to such shareholder's equity interests in ZTO Express, including but not limited to: (i) calling for and attending shareholders meetings as the proxy of the shareholders; (ii) exercising voting rights and all other shareholder's rights provided under PRC laws and the articles of association of ZTO Express, including but not limited to, selling, transferring, pledging or disposing all or a portion of the shares held by such shareholder or the assets of ZTO Express; (iii) voting on all matters submitted to shareholders meetings, including but not limited to, the election of directors and senior management officers that shall be appointed by shareholders; and (iv) exercising other voting rights granted to the shareholders by the articles of association of ZTO Express, as may be amended from time to time. Shanghai Zhongtongji Network and Meisong Lai both have the right to execute documents in connection with and perform other obligations under the equity pledge agreement and exclusive purchase option agreement. Any conduct of Shanghai Zhongtongji Network or Meisong Lai in connection with ZTO Express will be deemed as conduct of the shareholders of ZTO Express. Any documents executed by Shanghai Zhongtongji Network or Meisong Lai in connection with ZTO Express will be deemed to be executed by the shareholders of ZTO Express. Each of the shareholders of ZTO Express agreed to acknowledge, accept and approve such conduct of or execution by Shanghai Zhongtongji Network and Meisong Lai. Each power of attorney will remain in force until the voting rights proxy agreement expires or is terminated.

### *Spousal Consents*

Each of the spouses of six key shareholders of ZTO Express, namely Meisong Lai, Jianfa Lai, Jilei Wang, Xiangliang Hu, Shunchang Zhang and Xuebing Shang, signed a spousal consent letter. These six key shareholders collectively hold 73.8% equity interest in ZTO Express. Under the spousal consent letters, each signing spouse unconditionally and irrevocably agreed that the spouse is aware of the abovementioned exclusive call option agreement, voting right proxy agreement, irrevocable powers of attorney, equity pledge agreement and the exclusive consulting and services agreement, and has read and understood the contractual arrangements. Each signing spouse has committed not to impose any adverse assertions upon the validity and existence of such contractual arrangement based on the existence or termination of the marital relationship with the relevant VIE shareholder, or exert any impediment or adverse influence over the relevant VIE shareholder's performance of any contractual arrangement.

### ***Agreement that allows us to receive economic benefits from ZTO Express***

#### *Exclusive Consulting and Services Agreement*

Under the exclusive consulting and services agreement and its supplemental agreement between Shanghai Zhongtongji Network and ZTO Express, respectively dated August 18, 2015 and August 10, 2020, Shanghai Zhongtongji Network has the exclusive right to provide ZTO Express with the technical support and consulting services required by ZTO Express's business. Shanghai Zhongtongji Network owns the exclusive intellectual property rights created as a result of the performance of this agreement. ZTO Express agrees to pay Shanghai Zhongtongji Network an annual service fee, at an amount equal to 100% of the net income of ZTO Express and its affiliates. This agreement will remain effective for an unlimited term,

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## HISTORY AND CORPORATE STRUCTURE

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unless Shanghai Zhongtongji Network and ZTO Express mutually agree to terminate the agreement in writing, or the agreement is required to be terminated by applicable PRC law. ZTO Express is not permitted to unilaterally terminate the agreement in any event unless required by applicable law.

### **Confirmations and risks relating to the variable interest entity structure**

Our PRC Legal Adviser is of the opinion that:

- (a) the current ownership structure of ZTO Express and our corresponding subsidiaries in China is not in violation of applicable PRC laws and regulations currently in effect;
- (b) the VIE agreements entered into by ZTO Express, Shanghai Zhongtongji Network and the respective VIE shareholders governed by PRC laws and regulations are validly executed and binding in accordance with their terms, and do not result in violation of any applicable PRC laws and regulations or their respective articles of association currently in effect; and
- (c) the VIE agreements entered into by ZTO Express, Shanghai Zhongtongji Network and the respective VIE shareholders governed by PRC laws and regulations are not deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law.

Based on the above, our directors believe that the agreements underlying the contractual arrangements as described above that confer significant control and economic benefits from ZTO Express on us are enforceable under the relevant laws. Nevertheless, any violations by ZTO Express of our agreements with them could disrupt our operations or adversely affect our services. See “Risk Factors — Risks Related to Our Corporate Structure.” Appropriate arrangements have been made to protect the Company’s interests in the event of death or bankruptcy of the VIE shareholders.

Additionally, we have been advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of current and future PRC Laws. Accordingly, PRC regulatory authorities or courts may take a view that is contrary to the opinion of our PRC Legal Adviser. It is uncertain whether any new PRC Laws relating to contractual arrangements will be adopted, or if adopted, what the Laws would provide. If we or ZTO Express is found to be in violation of existing or future PRC Laws, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authority would have broad discretion to take action in dealing with the violation or failure, in which case we could be subject to severe penalties, including being prohibited from continuing our operations or unwinding the contractual arrangements. See “Risk Factors — Risks Related to Our Corporate Structure” and “Risk Factors — Risks Related to Doing Business in China.”

We have considered the costs and difficulties of acquiring insurance on commercially reasonable terms, and consider it impractical for us to have insurance to cover these risks. Accordingly, we have not purchased insurance to cover the risks relating to the contractual arrangements.

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC regulators in operating our business through ZTO Express under the contractual arrangements.

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## HISTORY AND CORPORATE STRUCTURE

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### Listing on the NYSE

On October 27, 2016, we listed our ADSs on the NYSE under the ticker symbol “ZTO.” Since the date of our listing on the NYSE and up to the Latest Practicable Date, our directors confirm that we had no instances of non-compliance with the rules of the NYSE in any material respects and to the best knowledge of our directors having made all reasonable enquiries, there is no matter that should be brought to investors’ attention in relation to our compliance record on the NYSE.

We believe that the Listing on the Hong Kong Stock Exchange will present us with an opportunity to further expand our investor base and broaden our access to capital markets.

### SAFE Registration

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知, “**SAFE Circular 37**”), promulgated by SAFE on July 4, 2014 and which replaced the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知, “**SAFE Circular 75**”), (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

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

In 2015, our 40 major shareholders (including Meisong Lai, Jianfa Lai, Jilei Wang, Xiangliang Hu, Shunchang Zhang, Jianying Teng, Xuebing Shang, Baixi Lan and Jianchang Lai) that we are aware of being subject to the SAFE regulations have completed all initial registrations with the local SAFE branch or qualified banks as required by SAFE Circular 37.



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## INDUSTRY OVERVIEW

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The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications, and from the market research report prepared by iResearch, which was commissioned by us. We believe that the information has been derived from appropriate sources such as iResearch's database, publicly available information sources, industry reports, as well as data obtained from interviews and other sources. We believe that we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, any of the Underwriters or any of our or their respective directors, officers, representatives, employees, agents or professional advisers, or any other person or party (except iResearch) involved in the Global Offering, and no representation is given as to the completeness, accuracy, or fairness of such information. Accordingly, such information should not be unduly relied upon.

### SOURCE OF INFORMATION

Founded in 2002, iResearch is an independent and a PRC-based market research institution that provides consumer insights and market data to companies in various industries, including consumer goods, advertising, mobile internet, finance, e-commerce, big data, information technology, etc.

iResearch has agreed to be paid a commission fee of approximately RMB0.65 million to issue a report (the "**iResearch Report**") on China's logistics industry. The iResearch Report was compiled using both primary and secondary research conducted in China. The primary research involved interviews with industry experts, enterprises and channels. The secondary research utilized relevant economic data, industry data, information and statistics published by government departments, publications and studies by industry experts, public company annual and quarterly reports, iResearch's other research reports, online resources and data from iResearch's research database.

iResearch's projection on the size of the related markets in China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information regarding major logistics services providers and those companies' projections of the related industries from iResearch's interviews or communications with them, and (iii) iResearch's views and estimates of industry developments. iResearch has prepared the iResearch Report on the assumptions that (i) the social, economic and political environments of China will remain stable during the forecast period, which ensures a sustainable and steady development of China's logistics industry, (ii) the data quoted from authoritative agencies remain unchanged, (iii) related key industry drivers remain relevant and applicable in the forecast period, and (iv) there will be no subversive changes to the related industries. The reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

iResearch believes that the basic assumptions used in preparing the iResearch Report, including those used to make future projections, are factual, correct and not misleading. iResearch has independently analyzed the information, but the reliability of this report may be affected by the accuracy of the foregoing assumptions and factors.

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## INDUSTRY OVERVIEW

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### CHINA LOGISTICS MARKET OVERVIEW

#### Momentous Growth in the Chinese Economy

Over the past decade, the Chinese economy has witnessed an extraordinary growth. According to the National Bureau of Statistics of China, China's GDP grew at a CAGR of 11.0% from 2009 to 2019. China's GDP was RMB99.1 trillion in 2019, up by 7.8% over 2018, ranked number two in the world. According to the National Bureau of Statistics of China, Chinese economy contributed approximately 30% of the global economic growth in 2019, and has become the growth engine for the world's economic expansion.

#### Steady Uptrend in Household Consumption

China's per capita GDP in 2019 was RMB70,892, up by 7.4% compared to 2018; and per capita disposable income has reached RMB30,733 in 2019, up by 8.9% from 2018, according to the National Bureau of Statistics of China. China's rising middle class consumers and continued increase in household income have supported a steady upgrade of consumer demand, resulting in consumption of higher quality products as well as goods acquired with greater convenience.

#### Increasing Penetration of Internet Use and Omni-channel Digital Commerce

According to the 45th Statistical Report on Internet Development in China issued by the China Internet Network Information Center, there were 904 million internet users in China, and 710 million of them were online shoppers as of March 2020. With increasing use of the internet and smart devices, and associated suite of functionalities such as electronic payment and livestreaming, e-commerce penetration is expected to further increase.

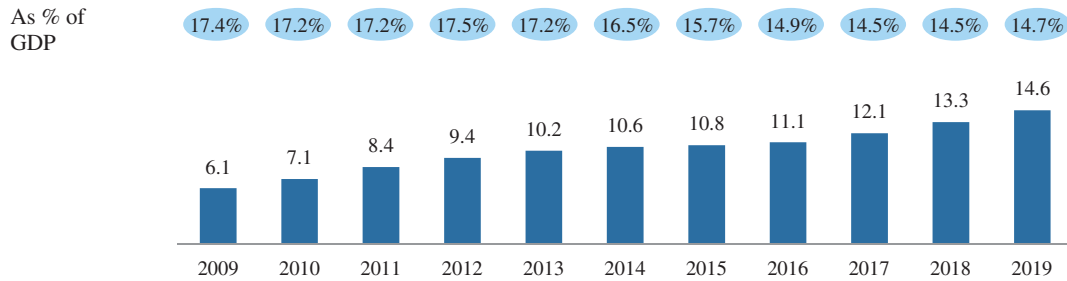
#### Massive Scale and Improving Efficiencies in Logistics

According to the iResearch report, total value of social logistics has reached RMB298.0 trillion in 2019, which more than tripled that of RMB96.7 trillion in 2009. The addressable market sizes of many logistics sub-segments are huge. For example, in 2019, the market sizes of cold chain logistics, less-than-truckload, warehousing services, just-in-time logistics and full truck load transportation industries are RMB339 billion, RMB1.4 trillion, RMB1.7 trillion, RMB153 billion, and RMB2.2 trillion respectively; and are expected to grow to RMB685 billion, RMB2.1 trillion, RMB2.4 trillion, RMB442 billion, and RMB2.3 trillion by 2024, respectively, according to the iResearch report.

Deeper implementation of supply-side structural reforms and increased high-tech and information infrastructure investments have helped to improve efficiencies in logistics services. According to the iResearch report, total social logistics costs as a percentage of GDP in 2019 was 14.7%, compared to 17.4% a decade ago in 2009.

## INDUSTRY OVERVIEW

### Total Social Logistics Costs in China (in RMB trillions)

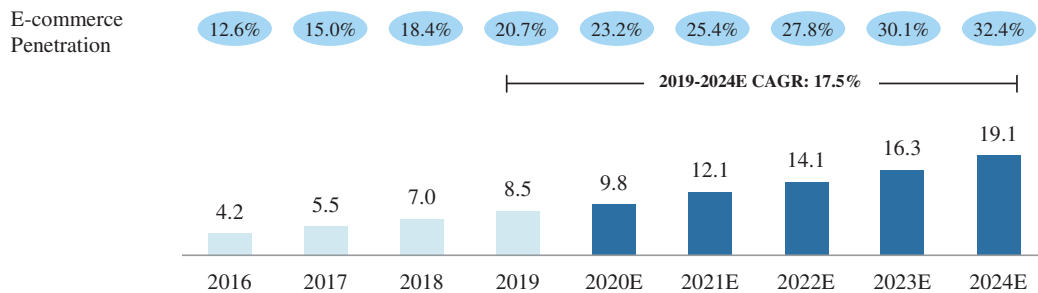


Source: China Federation of Logistics & Purchasing

### E-commerce as a Major Growth Driver for Commerce Logistics

According to the iResearch report, online retail sales of physical goods in China is expected to reach RMB19.1 trillion by 2024, representing a CAGR of 17.5% from 2019, which is more than double the CAGR of total social retail sales, which is 7.4% in the same period. E-commerce penetration in China, defined by online retail sales of physical goods as a percentage of total social retail sales, is expected to increase from 20.7% in 2019 to 32.4% in 2024. The recent COVID-19 outbreak has contributed to an accelerated shift of offline consumption to online, further enhanced the penetration rate of online retail, accelerated the development of the e-commerce industry, and thus supported the development of the express delivery industry. Consumers have also shifted from purchasing fashion attires towards buying food and daily household products. Among online retail sales of physical goods in first half of 2020, food and use goods increased by 38.8% and 17.3% respectively, while wearing goods decreased by 2.9%, according to the National Bureau of Statistics of China.

### Total Online Retail Sales of Physical Goods in China (in RMB trillions)



Source: iResearch, National Bureau of Statistics of China

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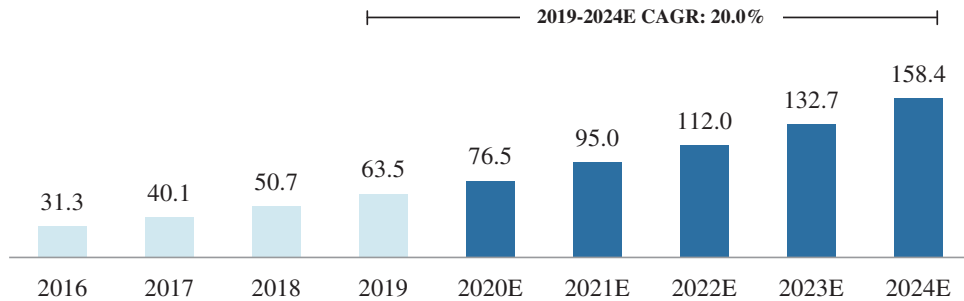
## INDUSTRY OVERVIEW

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### High-Volume Growth of Express Delivery Industry

As a sub-set of logistics<sup>1</sup>, China's express delivery industry grew side-by-side with the e-commerce industry, being both an enabler and a direct beneficiary of e-commerce's robust growth. With volume growth exceeding 10 billion in both 2018 and 2019, express delivery volume in China exceeded 63.5 billion parcels in 2019. E-commerce accounts for most of the parcel volume and China's express delivery industry will continue to experience medium to high growth at a CAGR of 20.0%, according to the iResearch report.

**China Express Delivery Market Size (Parcel Volume in billions)**



Source: iResearch, State Post Bureau of China

### Favorable Government Policies

Over the past several years, the PRC government introduced a series of favorable policies and reforms to support the development of the logistics sector in China, which has greatly benefited the development of the industry and the market players. These policies generally pertain to logistics infrastructure, taxation, and technology.

Year	Policies
2015	The State Council issued <i>Opinions on Development of the Express Delivery Industry</i> , which sets forth principles for China's express delivery industry to facilitate the integration and efficiency of the Internet and logistics industries
2016	The 13th Five-Year Plan (2016 - 2020) sets the goal of creating a modern transportation and logistics system especially in China's rural areas, and to further develop third-party logistics

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<sup>1</sup> Logistics industry can be generally divided into transportation services and warehousing services. Main sub-sectors within transportation services include express delivery, less-than-truckload transportation, full truck load transportation, just-in-time logistics, cold-chain logistics etc.

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## INDUSTRY OVERVIEW

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Year	Policies
2018	The Ministry of Finance and the State Taxation Administration issued a policy under which urban land use tax is reduced by 50% for logistics companies that lease land for commodities warehousing. In March 2020, the implementation period of the policy has been extended to December 31, 2022.
2019	Together with 24 other Ministries and Commissions, the National Development and Reform Commission (NDRC) issue an opinion which sets forth principles to perfect the logistics system between urban and rural areas, including encouraging enterprises to establish distribution outlets in cities and villages, and strengthen the infrastructure for community deliveries
2019	The State Post Bureau issued <i>Opinions on Supporting the Development of Private Express Delivery Enterprises</i> , which promotes reduction of institutional transaction costs, and guides private express delivery enterprises to fully enjoy tax reduction and benefits offered by the government
2019	Together with 15 other Ministries and Commissions, the National Development and Reform Commission (NDRC) issued the implementation guidance on encouraging logistics and express delivery companies to assimilate into manufacturing procurement, production, warehousing, distribution, delivery in order to further lower logistics costs and promote efficiencies
2020	The National Development and Reform Commission (NDRC) and the Ministry of Transport issued an opinion which promotes the application of new technologies and smart equipment, in order to improve the automation and intelligent level of the logistics chain including warehousing, transportation, sorting and delivery

### CHALLENGES IN CHINA'S LOGISTICS MARKET

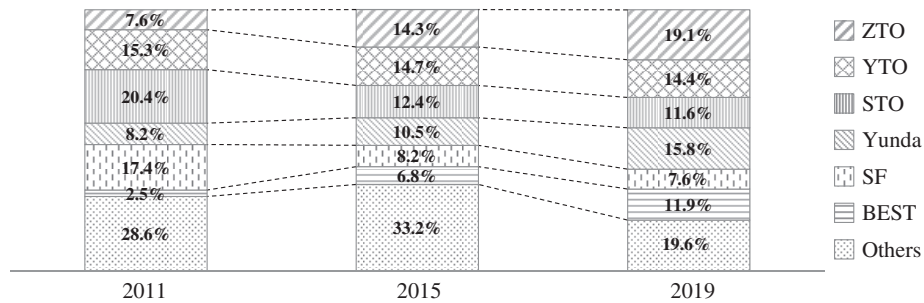
The following present challenges to logistics enterprises in China:

- **Low Efficiency and Changing Demands Require Full-Range Upgrade of Logistics Supply System:** China's economy has been moving from high-speed growth to higher-quality development. Consumption is also shifting from subsistence towards higher-quality. Integrated regional, urban and rural logistics networks are lacking or less developed. There are insufficient logistics facilities and equipment for high standard general use as well as for specialized purposes such as pharmaceutical warehouses, cold storage and hazardous material transport vehicles. Logistics operational efficiency in China is also in need of improvement. According to the iResearch report, total logistics spending as a percentage of GDP in China is 14.7% in 2019, which was significantly higher than that of 7.6% in the U.S.. China was ranked 26th in World Bank's Logistics Performance Index in 2018, lagging behind major developed economics in terms of overall score and major sub-indicators including infrastructure, logistics competence, tracking and tracing, and timeliness.

## INDUSTRY OVERVIEW

- Highly Fragmented Market:** China's logistics market is highly fragmented. According to the iResearch report, there were over 570,000 logistics companies in China at the end of 2018. Most of these players are small, poorly organized and only have basic logistics infrastructure and technologies. In the more rapidly evolving and consolidating express delivery market in China, the top five players accounted for over 70% of market share in terms of parcel volume in 2019, whereas in the U.S., the top two express delivery players accounted for more than 75% of the market share, according to the iResearch report.

### Market Share Evolution in China's Express Delivery Market (By Parcel Volume)



Source: iResearch, company financial reports

Due to the fragmented market landscape, competition is fierce within each logistics sub-segment, capacity utilization is low, and profits for the players have been compressed particularly in the low-end market.

Industry fragmentation is also demonstrated by the fact that most players in China's logistics industry focus on one particular sub-segment or a limited number of sub-segments, such as simple transportation and storage functions, without the ability to provide integrated logistics services. Whereas in more mature logistics markets such as the U.S., integrated operators (such as FedEx and DHL) that cover the full spectrum of logistics services are more mainstream.

- Limited Operational Scale and Scalability:** The level of economic activities and development in China is imbalanced between the eastern coastal regions and western inland regions. The merchant and consumer bases are geographically dispersed. As a result, only limited industry players with sufficient capital and management experience can establish nationwide network coverage to serve a broader customer base with varied logistics demands. As the flow of goods continue to increase, logistics service providers need to overcome challenges in scaling up and continue to improve their network coverage, such as by increasing the density of their last-mile posts.
- Less Developed Technology Infrastructure and Lack of Standardization:** China's logistics industry remains a labor intensive industry with a relatively low level of automation and mechanization. For many logistics players, logistics tasks such as loading and sorting are done manually, which led to error-prone processes. As wages continue to rise in China and the labor shortage issue intensifies, logistics players will have to better utilize technologies to improve efficiencies and maintain a competitive cost structure. Furthermore, the collection, analyses and sharing of logistics data sharing among industry participants remains weak due to underdeveloped IT infrastructure, which led to information fragmentation and isolation, and hindered more efficient allocation of logistics resources.



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## INDUSTRY OVERVIEW

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### EMERGENCE OF THE EXPRESS DELIVERY INDUSTRY

Within the logistics value chain, the express delivery segment is one of the sub-segments that requires rapid expansion, high capacity and operational efficiency given the large e-commerce driven volume, and large geographically dispersed senders and recipients.

Express delivery players have broadly adopted the network partner model, which relies on network partners to handle first-mile pickup and last-mile deliveries. Historically, the network partner model has continuously gained market share as it better addressed the unique demands arising from rapid e-Commerce growth, such as network scalability and flexibility. According to iResearch, 79.8% of express deliveries in 2019 were provided through a network partner model, compared to 65.7% in 2011 as opposed to through a vertically owned and operated model. In the future, e-commerce penetration into lower-tier cities and rural markets is expected to continuously increase, driving further demands for express delivery services at efficient costs. Network infrastructure under the network partner model is also expected to continuously improve while gradually connecting with the “last mile” of poverty-stricken areas. As a result, the market share of network partner model is expected to further increased, according to iResearch.

The network partner model provides scalability to rapidly expand geographical coverage, flexibility to adjust resource utilization between low and peak seasons, and lower costs and less capital outlay with regards to first- and last-mile buildout and operations for which the network partners are responsible. However, the network partner model also presents challenges such as maintaining standardized operations, consistent service quality, reliable last mile courier, low turn-over rate and hence, stability of the entire network.

In overcoming these challenges, most of the express delivery players turn to technology for solutions. The most successful ones have digitalized their operations to streamline the flow of parcels, payments and data from end to end. Further, transparent and fair network pricing policies and incentive measures are crucial to equitable sharing of costs and profits, and consequently, ensure network stability.

### TRENDS & OPPORTUNITIES IN CHINA’S LOGISTICS MARKET

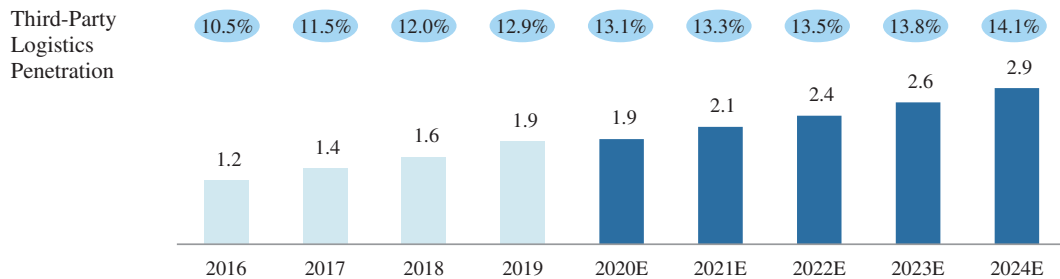
The development of China’s logistics industry is still in its early stages compared to other developed countries, with significant room to grow and opportunities for players who can capitalize on market trends.

- **Continued Positive Policy Environment and Elevated Social Awareness:** The government remains supportive of the logistics industry given its strategic importance to overall economic development, and has continuously rolled out policies to reduce operation costs and encourage innovations for logistics players. Society in general has also been increasingly focused on ESG, which encourages logistics players to adopt new practices including green packaging (such as e-waybills, environmentally-friendly packing bags) and green transportation (such as high-capacity trailer trucks and alternative fuel vehicles).
- **Accelerating Differentiation in Logistics Supply:** Driven by an increasing demand for high-tech industrial and equipment manufacturing, and upgraded household consumption such as expanded online retail that include perishable or fresh foods, cross-border e-commerce and medicine, logistics supply is gearing towards more specialized and diversified services including varied timeliness commitments for consumers.

## INDUSTRY OVERVIEW

- Third Party Logistics on the Rise:** In China, the third-party logistics market is growing rapidly. According to the iResearch report, China's third party logistics spending is expected to grow from RMB1.9 trillion in 2019 to RMB2.9 trillion in 2024, representing a CAGR of 8.7%. Third-party logistics penetration, defined as third-party logistics spending as a percentage of total social logistics costs, is expected to increase from 10.5% in 2016 to 14.1% in 2024. Such increase is primarily attributable to enterprises trying to avoid significant costs in building their own logistics infrastructure, and to leverage third-party logistics providers who can achieve better efficiencies through professional management and expertise.

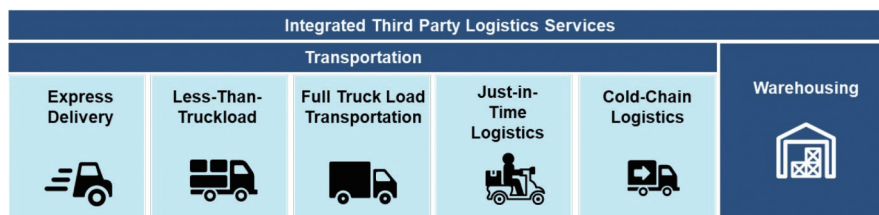
**China Third Party Logistics Market Size (in RMB trillions)**



Source: iResearch, Statista

- Increasing Demands for Integrated Logistics Services:** As customers' demands become more multifaceted, logistics service providers operating in single sub-segments are unlikely able to fulfill customers' needs. Customers will choose the most well-integrated logistics service provider with wide geographical coverage, integrated management, cost efficiency, and standardized service quality to drive down overall costs. The borders of logistics sub-segments will become more blurred as logistics players move from offering single logistics services to provide integrated logistics services. Leading express delivery players are well-positioned to contend as integrated logistics players due to their established scale and reach, strong network infrastructure including first- and last-mile access to business and consumers, and sophisticated technological capabilities. These core competencies are difficult for logistics players in other sub-segments to replicate.

The diagram below illustrates the sub-segments covered by integrated logistics service providers:



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## INDUSTRY OVERVIEW

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- **Market Consolidation:** As a result of divergence in operational capabilities and efficiencies, smaller logistics service players within their respective sub-segments would find it difficult to compete with leading players due to lack of scale and infrastructure. Leading players will continue to consolidate resources and capacity along the logistics value chain, and take share from smaller players organically. The logistics industry will continue to consolidate, but the vast market size of China's logistics industry would be able to support multiple major integrated logistics service providers, with other leading players competing within their respective sub-segments.
- **New Technology Innovations and Digitization of Supply Chain:** New technologies such as artificial intelligence, big data, cloud computing and Internet of Things (IoT) offer huge opportunities for the transformation and upgrading of the logistics industry. As logistics workflows become more integrated, digitization of the supply chain is imperative to allow more real-time sharing of data and information. Innovative solutions across the supply chain will also continue to emerge, such as last mile solutions (e.g. pick-up lockers and convenience stores as collection points) and use of unmanned delivery solutions such as drones and self-driving vehicles.

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## BUSINESS

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### OUR MISSION

Our mission is to bring happiness to more people through our services.

### OUR OBJECTIVE AND VISION

Our objective is to become a world-leading comprehensive logistics service provider. Our vision for ZTO is a respected enterprise with dignity, sustainability and longevity for centuries to come (“受人尊重的百年中通”).

### OUR VALUES

Our values are fundamental to the way in which we operate and achieve continued and sustainable growth. Our core values are:

- **Shared success** — “Shared success” is a guiding principle that encourages everyone under the ZTO brand to build together and share results. It prioritizes the collective greater good, aligns interest and resolves conflicts among stakeholders, and promotes equitable allocation of risks and rewards.
- **Trust and accountability** — The intention of a shared success aligns interests, and trust and accountability reinforce effective execution. At ZTO, we foster a culture of mutual trust and clear accountability among our network partners, employees and us, and each is expected to fulfill their part of the commitment.
- **Innovation and entrepreneurship** — “Innovation and entrepreneurship” is ZTO’s cultural approach with which we identify and solve problems, and create opportunities with a novel business model, relationships with partners and use of technologies that improve the way we operate and serve.

### OVERVIEW

We are a leading express delivery company in China. Founded in 2002, we are China’s leading express delivery service provider based on total parcel volume, with a 19.1% market share in 2019. We are the youngest among the scaled express delivery companies in China and the largest in scale and the most profitable among the Tongda Operators. We provide express delivery services and other value-added logistics services through our nationwide network.

Under a network partner model, we operate the mission-critical line-haul transportation and sorting network within the express delivery service value chain, whereas our network partners operate the outlets that provide first-mile pickup and last-mile delivery services. The network partner model enables us to scale our network rapidly with limited capital outlay and fixed costs, consequently driving higher return on invested capital and equity.

We have developed one of the most extensive and reliable delivery networks in China. As of June 30, 2020, our network infrastructure consists of 90 sorting hubs with 282 automation lines, over 3,400 line-haul routes serviced by approximately 9,050 self-owned line-haul vehicles, and over 5,000 direct network partners operating approximately 30,000 pickup/delivery outlets and over 50,000 last-mile posts. Our network covers over 99.2% of cities and counties in China.

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## BUSINESS

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In April 2008, we were the first among the Tongda Operators to implement a sharing mechanism (which started compensating delivery outlets with last-mile delivery service fees) to address inequitable burden of cost and the associated inequitable allocation of fee revenue between pickup and delivery outlets. Before the implementation of such mechanism, service outlets relied on pickup fees to sustain their business, which was difficult for outlets with significantly higher delivery volumes than pickup volumes due to the uneven nature of economic development, geographic concentration of e-commerce merchants and geographical distribution of consumers in China. The principle design for this balancing mechanism came from our distinctive “shared success” philosophy, which was formally introduced in 2010 and fully established by 2015 when we completed the conversion of part of our major network partners to shareholder-employees. Through this reorganization, we were the first and the only among the Tongda Operators to reengineer the traditional network partner model into a structure of centralized strategic, financial and human resource decision making, and build trust and foster a win-win mindset among network participants. Throughout the years, we have successfully built a more cohesive and stable network by adhering to our differentiated philosophy and core values in day-to-day decision making and execution.

Our openness to and adoption of new and innovative technologies allows us to maintain cost leadership in the industry. Our proprietary Zhongtian system is the technology backbone for our end-to-end operational management encompassing activities conducted in our network and by our network partners. A network partner model can be as effective and more efficient than a vertically owned and operated network through digitization, which helps to overcome standardization and stability challenges. Since 2015, we have collaborated with the Chinese Academy of Sciences and developed multiple generations of proprietary automated sorting equipment and specialized software to achieve high-speed sorting. In addition, we continuously improve the mix of our line-haul vehicles, and apply innovative design and technology to improve route planning, enhance safety and achieve greater productivity.

We have achieved rapid growth while maintaining superior profitability and high customer satisfactions. Our total parcel volume increased from 6.2 billion in 2017 to 12.1 billion in 2019, and from 5.4 billion in the six months ended June 30, 2019 to 7.0 billion for the six months ended June 30, 2020. ZTO has been consistently ranked top for overall customer satisfaction among the Tongda Operators. Our net income increased from RMB3.2 billion in 2017 to RMB5.7 billion in 2019. Our non-GAAP adjusted net income increased from RMB3.2 billion in 2017 to RMB5.3 billion in 2019. Our net income and non-GAAP adjusted net income for the six months ended June 30, 2020 was RMB1.8 billion and RMB2.1 billion, respectively. Leveraging scale and continuous gain in operational efficiency, our net profit per parcel is the highest among the Tongda Operators.

We strive to become a world leading comprehensive logistics service provider and sustain profitable growth. While our core express business is performing well, we are leveraging our resources and capabilities by expanding into adjacent markets such as cross-border, less-than-truckload and integrated warehousing and delivery fulfillment services. We believe more segments will evolve out of our core competencies and resource build-up to address logistics and commerce needs as the overall Chinese economy continues to grow. As China’s logistics industry develops steadily to catch up with developed countries in terms of scale and efficiencies, we strive to devote the right amount of resources to the right things at the right time. We believe this disciplined approach to business expansion will propel us to steadily but surely transform ultimately into a platform with leading capabilities serving the entire logistics eco-system. Our journey has just begun.

### **OUR STRENGTHS**

Our culture is the framework of how we operate our business. Our mission, to bring happiness to more people through our services, was founded by a few entrepreneurs led by our founder seeking better lives for themselves. Soon after, more and more people gathered around the founding team, having been attracted by the distinct values and practices of shared-success, trust and accountability, innovation and entrepreneurship, and together we built a strong network that connects tens of thousands of employees, entrepreneurs, businesses and customers. Our mission, vision and values together shape our business purpose, form the guiding principles of strategic decision-making processes and have directly contributed to our growth and development over the years. We believe our competitive strengths are the embodiment of, and are inseparable from, our distinguishing culture. These competitive strengths include:

#### **Superior scale and capability**

We are the leading express delivery company in China and in the world in terms of total parcel volume, according to iResearch. We achieved this leadership position through years of consistent investment and innovations. We have established the largest self-operated modern facilities space, we have assembled the largest and more efficiently-run self-owned line-haul vehicle fleet among the Tongda Operators, we have cumulated strong financial resources, we have cultivated a stable partner network, and most importantly, we have developed a team of loyal, customer-centric and results-driven people. Over the years, we have firmly established ourselves as the trusted express delivery partner for millions of commerce customers, including online merchants and consumers selling and buying products on Chinese e-commerce sites such as Alibaba, Pinduoduo and JD.com.

Our total parcel volume in the first six months of 2020 was 6,969.9 million, which accounted for 20.6% of the total express delivery parcel volume in China during the period.

As of June 30, 2020, our nationwide logistics network comprises of 90 sorting centers with a total of 282 sets of installed automation equipment, connected by over 3,400 line-haul routes serviced by approximately 9,050 self-owned line-haul vehicles, over 5,000 direct network partners and approximately 30,000 pickup/delivery outlets that covers 99.2% of the cities and counties of China, as well as over 50,000 last-mile posts that provided an alternative to in-person delivery in our network.

Such scale and capabilities like ours cannot be replicated overnight.

#### **Our distinct partner network built upon a “shared-success” philosophy**

We believe that a highly scalable network partner model has provided the crucial support for the phenomenal e-commerce growth in China and will serve as the catalyst for continued economic growth.

With our network partner model, we were able to expand our nationwide network quickly and provide e-commerce merchants with greater geographic reach at low cost. We continue to deepen the penetration of our network, the number of our network partners increased to over 5,000 as of June 30, 2020, and the number of outlets in our logistics network increased to approximately 30,000 as of June 30, 2020.



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## BUSINESS

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To ease the burden of last-mile delivery driven by increasing volume, we have encouraged our network partners to invest early and secure physical presence with last-mile capabilities and consumer access by establishing last-mile posts. With a goal to reach over 70,000 by the end of 2020, we currently have over 50,000 last-mile posts, representing the largest number of last-mile posts among our peers, according to the iResearch report. Our early-mover lead in last-mile presence ensures not only lower pickup and delivery costs for our network partners but also network stability and economic viability for the future.

We differentiate our network partner model by implementing features reflecting our unique “shared success” philosophy. We are the first express delivery company in China to introduce a “delivery fee” mechanism by requiring the pickup outlet to share part of their fee to the delivery outlet. This sharing arrangement has resolved the problem of mismatch of revenue and costs among pickup and delivery outlets in regions with different levels of economic development and imbalanced pickup and delivery volumes.

According to the iResearch report, we are the first among Tongda Operators to convert major network partners to shareholders of the Company, with which we successfully aligned interests and built a more cohesive alliance. We strive to ensure interests are aligned across our network, which in turn provides higher network stability, better network partner service quality and performance, and stronger network partner loyalty to the ZTO brand.

### **Best-in-class operational capabilities and cost efficiencies through continued innovation**

Our best-in-class operational capabilities have enabled us to achieve cost leadership in the industry. Over the years, we continue to innovate, and have adopted newer and better designs and technologies in both hardware and software to enhance efficiencies.

Our average transportation cost per parcel has decreased from RMB0.77 in 2017 to RMB0.62 in 2019. As volume increased, we gradually reduced use of third-party trucking services which are often more costly than using our own vehicles. We have systematically increased the proportion of high capacity (15- to 17-meter-long) models to maximize our fleet’s unit output and reduce cost. As of June 30, 2020, 78% of our self-owned vehicles were high capacity vehicles. We have patented our proprietary design of curved aluminum trailer, which is not only lighter, rust-resistant but also has more load capacity and is more aerodynamic with improved fuel economy compared with traditional rectangular-shaped steel containers. In addition, by equipping our line-haul vehicles with RFID chip embedded tires, we can better assess real-time operating conditions such as vehicle speed, estimated fuel consumption and normal wear and tear so as to schedule proper maintenance intervals. We also equipped our vehicles with safety monitoring and accident prevention devices and reduced claims consistently. Meanwhile, our route planning effectiveness continue to improve as we implemented advance technology for better data analytics and resource planning.

Our average sorting cost per parcel has decreased from RMB0.39 in 2017 to RMB0.34 in 2019. We kept improving the level of automation to keep pace with volume increase and gradually eliminated labor headcount to achieve best economy. The number of automated sorting lines increased substantially from 58 sets in 2017 to 265 sets in 2019. Since 2015, we collaborated with the Chinese Academy of Sciences in the development of several generations of automated sorting equipment, such as cross belt sorting equipment, fully integrated dynamic weighing machine, and line shaft diverter. Our high-speed automated sorting is supported by increasingly more sophisticated software (including data-enabled algorithm, real-time analytics and recalibration) to ensure faster and more reliable package data capturing and dispatching, and to reduce sorting errors and costs of re-work.

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Our cost leadership enables us to achieve the highest profitability among the Tongda Operators. While our express delivery business represented an increase from 15.5% to 19.1% of the industry volume from 2017 to 2019, our net profit market share has been consistently close to 50% from 2017 and exceeded 50% in 2019, according to the iResearch report.

Shanghai Zhongtongji Network Technology Co. Ltd., our wholly owned PRC subsidiary has been certified as the High and New Technology Enterprise (“HNTE”), and contributed significant technology-driven profit to the consolidated group. As HNTEs are awarded a preferential tax rate, lower effective tax rate at the consolidated group level indicates higher contribution of technology-driven profit by the HNTE. According to the iResearch report, we achieved the lowest effective tax rate among the Tongda Operators consistently for tax years 2017 to 2019. Shanghai Zhongtongji Network Technology Co. Ltd. is in the process of applying for the renewal of HNTE status for another three years.

### **Experienced and entrepreneurial management team**

We have an experienced and entrepreneurial management team with a proven track record of strategic thinking and sound execution. Our founder, chairman of the board and chief executive officer, Mr. Meisong Lai, is well regarded in the China’s express delivery industry for his thought leadership and sharp and practical business acumen. We have a stable management team with long-standing industry experiences, and the majority of our senior management have been with the Company since inception. Leadership team has been responsible for breakthrough ideas and innovations in, and has been consistently reinventing ourselves and transforming the Company to become bigger in scale, stronger in capabilities and better at execution and delivering results.

We design results-oriented performance metrics and incentive programs with clear accountability and fair measurement for our team of general managers who are responsible for regional operations and financial results. We have established ZTO University, an institution tasked to develop and promote future generations of leaders and form growing talent pools for continued enterprise vitality.

### **OUR STRATEGIES**

Our goal is to become a world-leading comprehensive logistics service provider and we set the following strategies to achieve that goal:

#### **Strengthen culture and improve brand recognition**

As we grow and expand our business and increase our sphere of influence, our mission of “bringing happiness to more people through our services” means we are taking on greater responsibilities. We will continue thinking green and becoming more environmentally sensible, supporting efforts to alleviate poverty and revitalize villages in China, and creating opportunities for entrepreneurs to return to their hometowns and start new businesses. We strive to become ubiquitous and an integral part of daily lives.

#### **Develop young talents and maintain vitality**

The founding generations of managers are mentors and coaches to our future generations of managers. We are building varied leadership pipelines and putting a greater emphasis on promoting internally. Our management trainee programs seek fresh enrollment each year from

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universities and technical schools, and we conduct on-the-job training and in-classroom learning for the trainees to develop comprehensive skills. We promote healthy competition for career advancement and cultivate an environment where true talents can thrive.

### **Achieve greater scale and capacity and further our reach**

We plan to further improve our network infrastructure and expand our capacity to not only meet the increasing volume demand but also enrich express delivery service offerings to our customers and end consumers. We will transform our network to achieve a new level of efficiencies by delayering and building direct links across different levels of network nodes. We will continue building last mile presence and extending our reach to frontline personnel and end customers. We intend to ensure our couriers earning a high level in the market so that they are motivated to provide better services to end customers and achieve greater customer satisfaction, which in turn allows our network partners to achieve greater economics and remain loyal to our brand.

### **Build technological advantages to better compete in the future**

We intend to continue to invest in technology and drive innovations, thereby further improve our operational efficiency. Our new generations of automation lines will be faster in throughput and smarter in precision dispatch, and we will soon be able to substantially reduce manual labor. We will leverage our vast volume of operational data to digitize business know-how and make managerial process calculable. We believe the use of technology shifts focus from solving problems to predict and prevent problems, and we expect technological advancement to create greater value as become one of our core competitive advantages in the near future.

### **Expand beyond express delivery**

The competitive landscape has been widening across China's logistics industries. By leveraging our existing strength and our increasingly stronger ability to assemble critical resources, we are well positioned to develop comprehensive logistics service capabilities. We will extend up and down logistic value chains, thereby capturing growth opportunities, realizing synergies across other logistics sub-segments such as less-than-truckload, one-stop warehousing and delivery services and cold chain logistics.

Further, by combining our resources, best-in-class capabilities and our direct access not only to tens of millions of on-line and off-line end customers but also to businesses large or small across different industries, we are able to shorten the distance in space and time for commerce, for example, between raw material and manufacturing, and between farmland and dinner tables. We intend to transform beyond express delivery and develop into a platform with leading capabilities serving the entire logistics ecosystem and related commerce needs.

## **SERVICE OFFERINGS BY US AND OUR NETWORK PARTNERS**

We are a leading express delivery company in China. Through our network and together with our network partners, we provide domestic and international express delivery services supplemented by other value-added services. Our delivery network covers over 99.2% of China's cities and counties as of June 30, 2020.

We mainly provide express deliveries in China of parcels weighing under 50 kilograms with expected delivery time ranging from 24 to 72 hours. Our delivery time has improved over time.

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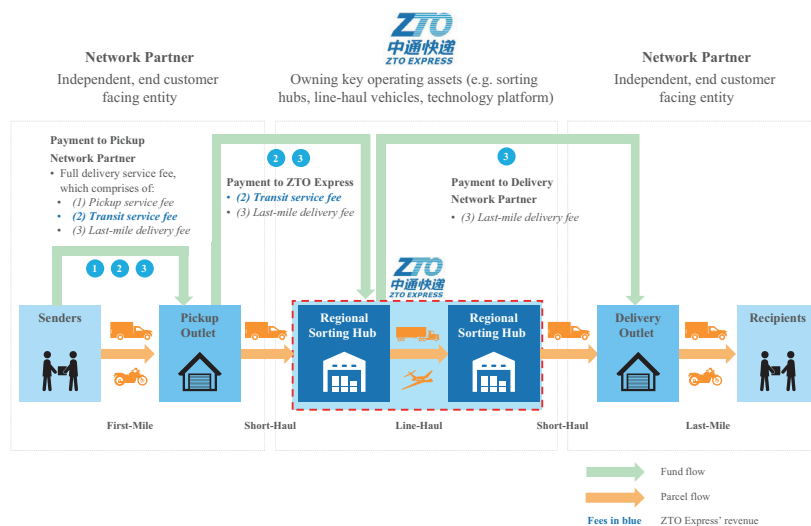
The following chart sets out the services provided by us and our network partners.

Key Category		Service Offerings
Domestic Express	Express Delivery	<ul style="list-style-type: none"> <li>Intra-city Delivery</li> <li>Inter-city Delivery</li> </ul>
	Enterprise Customer Services	<ul style="list-style-type: none"> <li>Customized one-stop express delivery solution for key accounts</li> </ul>
	Ancillary Services <sup>(1)</sup>	<ul style="list-style-type: none"> <li>Cash-on-Delivery Service</li> <li>Alternative Address Pick-up &amp; Delivery</li> <li>Proof-of-delivery Collection</li> <li>Parcel Interception Service</li> <li>Reverse Logistics</li> <li>Others</li> </ul>
	Regional	<ul style="list-style-type: none"> <li>Hong Kong/Taiwan Door-to-Door Express Service</li> </ul>
International Express	Cross-border	<ul style="list-style-type: none"> <li>International express services to key overseas markets in cooperation with business partners</li> </ul>

- (1) Alternative Address Pick-up & Delivery service enables the sender to change the pick-up and destination address. Proof-of-delivery Collection service is a kind of service where we collect the receipt signed by the recipient upon successfully delivering a parcel and send it to the sender. Parcel Interception Service allows senders to intercept and redirect a parcel before it is scheduled for delivery or delivered to its destination. As to Reverse Logistics service, the senders, such as the merchants on e-commerce platforms, may entrust us to pick up goods from the designated addresses, such as consumer's home and retail stores, and deliver the goods to the designated addresses, such as factories and warehouses.

### Express delivery service process

The following diagram illustrates the process for the completion of a typical domestic delivery order in our network.



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The full delivery fees collected by pickup outlets upfront from the senders typically comprise of (i) the pickup service fees, (ii) the network transit fees payable to our Company; and (iii) the last-mile delivery fees payable to the delivery outlets operated by other network partners. After collection, pickup outlets would keep the pickup service fees, and pay the network transit fees and the last-mile delivery fees to our Company. We would then pass the last-mile delivery fees on to the applicable delivery outlets.

***Step 1: Parcel Pickup.*** A pickup outlet operated by our network partner arranges for a courier to collect the parcel from the sender (such as a merchant on e-commerce platform or an enterprise customer) once the pickup outlet has received a delivery order. Unless the sender chooses pay-at-arrival service, the pickup outlet collects the full delivery service fee upfront from the sender at the time of pickup. All collected parcels are then forwarded to our regional sorting hub once or twice per day depending on parcel volume. Typically, parcels that are picked up before 6 p.m. will be shipped to our sorting hub on the same day. Each parcel is assigned a waybill with a unique tracking number and barcode which, together with our automated systems, allows us to track the status of each individual parcel throughout the entire pickup, sorting and delivery process.

***Step 2: Parcel Sorting and Line-Haul Transportation.*** Upon the receipt of parcels shipped from various pickup outlets from locations in their respective coverage area, the sorting hub sorts, further packs and dispatches parcels to the destination sorting hub. We provide line-haul transportation services between sorting hubs. Barcodes on each waybill attached to the parcels are scanned as they go through each sorting and transportation gateway, allowing us to keep track of the delivery service status of each parcel.

***Step 3: Parcel Delivery.*** Our destination sorting hub unloads and sorts the parcels, which are then delivered to the recipients by the delivery outlets operated by our network partners. Once the recipient signs the waybill to confirm receipt, a full-service cycle is completed, and settlement of the delivery service fee promptly ensues in our network payment settlement system.

### ***Express delivery service pricing***

The network transit fees that we charge our network partners for the express delivery services we provide to them primarily consist of (i) a fixed amount for a waybill attached to each parcel and (ii) a variable amount per parcel for sorting and line-haul transportation based on parcel weight and route distance. We evaluate our pricing and make adjustments from time to time based on our operating costs, market conditions and competitions as well as our service quality. For our direct network partners at the provincial level, we provide fee discounts to those who significantly outperform the performance targets that we set.

Our service pricing is also be affected by the pricing adopted by our network partners, who have full discretion over the pricing of their services; such pricing is reflected in the amount of full delivery service fees they collect upfront from senders. Our network partners determine their pricing mainly based on their total costs, which primarily consists of the network transit fees we charge, the last-mile delivery fees payable to the delivery network partners, as well as the outlet operating costs. We provide guidelines to set the last-mile delivery fees together with network partners operating delivery outlets, where the guidelines are based on a variety of factors including the economic environment, market conditions and business conditions of the outlets. We are able to monitor the “fee sharing” mechanism between pickup and delivery outlets as the guidelines are implemented and the fees are payable through our system. Our network partners also consider other factors including market conditions and competition as well as their service quality. We do not set any explicit limitations on pricing and allow pricing

latitude to our network partners so that they can effectively respond to the competitive dynamics in their local markets with tailor-made pricing based on the business volume and long-term prospect of each sender. Historically, the delivery service fees our network partners are able to charge have declined over time, partially as a result of competitive pressure.

### **Other logistics services**

Building on our core express delivery business, we strive to become an integrated logistics service provider. We are expanding our service offerings with a goal to build an ecosystem featuring express delivery, less-than-truckload, cross-border, warehousing, aviation, commerce and more. For example, we provide less-than-truckload (LTL) logistics services with a focus on heavy cargo and international express delivery services in Southeast Asia, Africa and other countries; we also provide customers with integrated logistics solutions for warehousing, distribution and transportation. Furthermore, we provide freight forwarding services through the acquired business of China Oriental Express Co., Ltd. and its subsidiaries, which is a major freight forwarding and international logistics services provider in Hong Kong and Shenzhen. Furthermore, we are also expanding into air cargo business.

### **OUR NETWORK AND INFRASTRUCTURE**

Our network consists of (i) our directly operated core sorting hubs and line-haul transportation network and (ii) network partner-operated outlets, as well as last-mile posts, across China. The below map illustrates the geographical coverage of our network.





**Sorting hubs**

Our sorting hubs are connected by the line-haul transportation network we operate. Each sorting hub collects parcels from outlets within its coverage area, sorts parcels according to their destination and dispatches them to the appropriate destination sorting hub. As of June 30, 2020, we operated 81 sorting hubs and our business partners operated 9 sorting hubs.

The sorting hubs operated by our business partners are located in remote areas in China and we work closely with independent third-party owners to effectively operate those hubs. In addition to the sorting hubs, our network partners also operate sorting facilities in certain remote areas in China.

Forty of the sorting hubs operated by us are located on premises we own, for 18 of which we also lease additional areas, and 41 of the sorting hubs operated by us are located on leased premises. We plan to make long-term investments in land and facilities on self-owned premises to support the stability of our operations. From time to time, we also provide temporary warehousing services to certain key account customers to store their products close to their target demographics.

We have continuously adopted new technology solutions in automation hardware and software to enhance the efficiency of our operations. For example, we adopted telescopic conveyor belts for loading and unloading trucks in 2015, as well as fully integrated dynamic-weighting machines capable of measuring the dimensions and weight of parcels simultaneously at a high speed without having to stop the flow of packages. In addition, we work with technology companies and academic institutions to customize and upgrade existing design concepts. For example, we successfully collaborated with the Chinese Academy of Sciences in the Academy's development of several variations of automated sorting equipment since 2015. We have also developed and continuously re-engineered sophisticated software (including data-enabled algorithm, real-time analytics and recalibration) to support high-speed sorting in order to ensure fast and reliable package data capturing and dispatch, and to reduce sorting errors and costs of re-work. In particular, we utilize an image-based learning algorithm in our safety inspection of packages to recognize prohibited illegal items during our inspection process and to reduce human error. The number and capacity of our automated sorting lines increased substantially from eight in 2016 (all of which were for small parcels) to 265 in 2019 (99 of which were for large parcels and the remaining 166 were for small parcels).

**Line-haul transportation network**

We connect our sorting hubs with over 3,400 well-planned line-haul routes. Our line-haul transportation network is serviced by (i) our own fleet, (ii) a fleet operated by Tonglu Tongze, a company majority-owned by our employees which works exclusively for us, and (iii) certain independent third-party vehicles. We control the route planning and vehicle dispatch of our entire line-haul transportation network.

As of June 30, 2020, our own fleet consisted of approximately 9,050 trucks, of which approximately 7,100 are high capacity 15 to 17-meter-long trailer models. Tonglu Tongze had a fleet of approximately 850 trucks as of June 30, 2020. Certain of our employees beneficially owned majority equity interests in Tonglu Tongze as of June 30, 2020. Tonglu Tongze purchases vehicles with its own funds, and they implement dispatching plans according to our network needs. The price we pay to Tonglu Tongze is based on our market insights on cost factors. We use the same criteria and pricing standards when we contract independent third-party transportation companies. We also contract other independent third-party

transportation companies to fulfil additional capacity needs, most of which are single trip transportation when we foresee a low return trip truckload. We carefully review the operating history, fleet condition, reliability and other comprehensive criteria of the bidders to select only suitable providers.

In order to further improve our operating efficiencies as volume increases, we have systematically increased the proportion of high capacity 15- to 17-meter-long trailer models within our fleet from 39% in 2016 to 72% in 2019 and further to 78% in the first half of 2020 to optimize unit output and reduce cost. Moreover, we have established a systematic data and technology driven program to optimize trailer designs to reduce costs as well as enable digital tracking for real-time analytics of our vehicles. Further, we also helped develop improved vehicle parts and patented trailer designs. For example, our proprietary patented design of curved aluminum trailer is not only lighter but also more aerodynamic compared with traditional square-shaped steel containers. The higher capacity of these trailers (145m<sup>3</sup> rather than 127m<sup>3</sup>) and lighter weight (6,700kg/ea rather than 9,000kg/ea) contributes to the increased fuel economy of our trailers and further contributes to the reduction in transportation cost. In addition, we have made RFID chip embedded Michelin tires a standard issue for line-haul vehicles. This allows us to better manage our moving assets by assessing real-time operating conditions such as vehicle speed and estimated fuel consumption and estimating normal wear and tear in order to schedule proper maintenance intervals.

We assess incoming volume (including maximum stress level) and simulated route planning (including road conditions) to inform our choice between deploying our own line-haul resources or supplementing capacity with third-party transportation services. We combine the programming interface of third-party map applications with our big data of parcel traffic and volume to feed our intelligent service routing algorithm to model the rate and direction of parcel flow, dynamically predict future capacity demands, and make adjustments in allocation of personnel and transport resources. Hence we are able to reduce inefficiency in parcel handling, increase fleet load rates and achieve optimal transportation time and costs.

### **Pickup and delivery outlets and last-mile posts**

The pickup and delivery outlets are all operated by our network partners and are not owned by us. Our network partners primarily provide pickup and last-mile delivery services through the outlets managed by them, although certain larger outlets also have regional sorting and dispatching capabilities. Each outlet has its own designated geographical scope of operation and can generally only take orders originating within that area. Our network partners also generally arrange the transportation between pickup/delivery outlets and our sorting hubs. As of June 30, 2020, our network had approximately 30,000 pickup and delivery outlets nationwide, covering 99.2% of China's cities and counties.

We have encouraged our network partners to invest early and secure physical presence with last-mile capabilities and consumer access by establishing last-mile posts. We currently have over 50,000 last mile posts across China. A last mile post is on average a 35-60 square meter space located near residential areas or office buildings or on university campuses where the couriers can leave delivery packages for recipients to pick up instead of delivering in person. A last mile post can be multifunctional and serve different purposes including receiving outgoing packages, collecting fees from couriers who leave packages for pickup (including processing packages left by competitors' couriers) and realizing retail profit, thereby achieving greater overall labor and facility costs efficiencies.

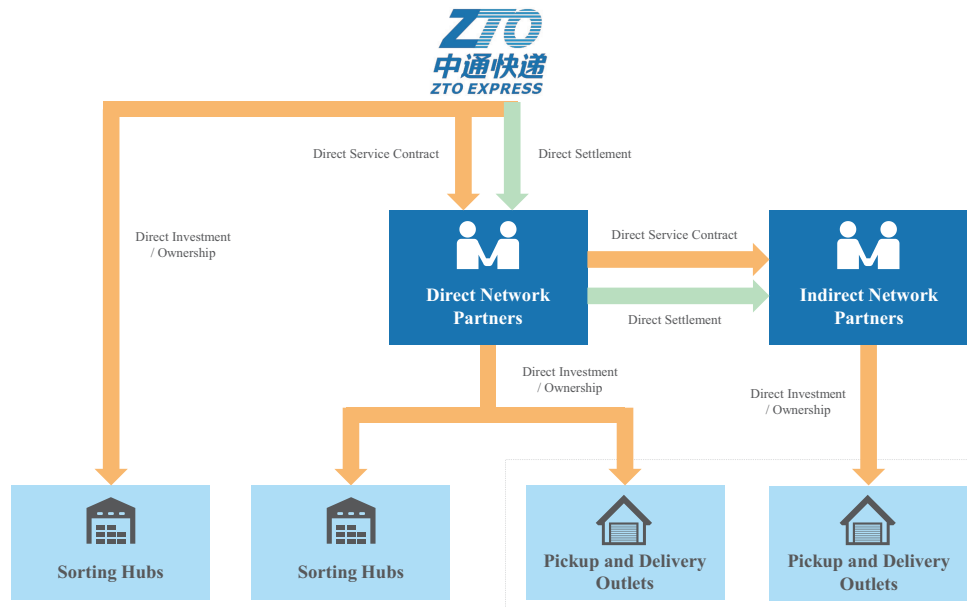
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### OUR NETWORK PARTNER MODEL

Our network partners own and operate the pickup and delivery outlets under our brand and form an important part of our network system. The diagram below illustrates our network partner model.



As of June 30, 2020, we had over 5,000 network partners with whom we have directly entered into agreements prescribing the terms and conditions of their operations of pickup and delivery outlets under our brand. We refer to such network partners as our direct network partners. These agreements with direct network partners are generally for a term of three years and each direct network partner may elect to negotiate with us for renewal of the agreement upon expiration if it wishes to remain in our network. Our network partners pay us network transit fees for the express delivery services we provide to them. The network transit fees that we charge our network partners for the express delivery services we provide to them primarily consist of (i) a fixed amount for a waybill attached to each parcel and (ii) a variable amount per parcel for sorting and line-haul transportation based on parcel weight and route distance. We have the right to impose monetary penalties on our direct network partners for failure to adhere to the terms of the agreements. A direct network partner is also required to place a deposit with us as a performance guarantee. We have authorized our direct network partners to conduct their express delivery business exclusively under our “Zhongtong” or “ZTO” brand and mandate the unified application of our logos on outlets, personnel uniforms, transportation vehicles and packaging materials.

Each of our direct network partners is authorized by us to operate within a designated area, the size of which ranges from a township to an entire province. Depending on the size of, and the business volume in, their respective authorized areas, many of our direct network partners subcontract a portion of their business to third parties with our consent. We do not directly enter into agreements with those third parties and refer to them as our indirect network partners. Indirect network partners are also authorized to operate ZTO-branded express delivery business.

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Our Zhongtian system provides the technological infrastructure for the management of our network partners. The Zhongtian system consists of our operational management system, network management system, settlement system, finance system and other integrated systems and mobile apps connecting our network partners. For more details, see “— Information Technology and Intellectual Property.” In particular, our Zhongtian system tracks each delivery order and calculates the network transit fees payable to us, and the last-mile delivery fees payable to our direct network partners and, where applicable, our indirect network partners. Starting from May 2018, we use Alipay to handle the settlement of payments from our network partners to us and among our direct network partners. All of our direct network partners have an Alipay account on our Zhongtian system, and we require them to make a prepayment from their respective account to our ZTO Alipay account through our Zhongtian system. The prepaid amount is used to settle network transit fees from our network partners to us and settle last-mile delivery fee from us to direct network partners.

All of our direct network partners and most of our indirect network partners work with us exclusively. A small number of our indirect network partners may process packages for other express delivery companies. This is typically limited to situations where an outlet is located in a remote or isolated area or newly established markets. Such exceptions to our exclusivity requirement are necessary in order to support the outlet’s start-up volume.

We control the qualification of new network partners and we provide extensive ongoing training to our network partners. We also periodically review the performance of our network partners on parcel volume, local market share, service quality and parcel safety/security scores. We consider the conditions and forecast of the local market to set guidance for those indicators. We also set guidance and review the performance of certain pickup and delivery outlets with large parcel volume. For our direct network partners at the provincial level, we provide fee discounts to those who significantly outperform the performance targets that we set.

If a direct network partner continuously fails to meet applicable performance targets set by us, we may unilaterally terminate our agreement with such direct network partner, which has only occurred in isolated cases historically. In those cases, we would introduce qualified buyers vetted by us or, in the cases where the exiting direct network partner has already identified a buyer itself, we would review the buyer’s credentials and decide whether to accept or reject it. In the case of voluntary departure by a direct network partner, it may choose to sell the outlet operating business to a buyer, where the foregoing review process would also apply. Moreover, under the agreement with us, the network partner may provide a three-month notice of termination and the agreement would be terminated upon mutual agreement between the parties. A network partner who discontinues cooperation with us may join a third party express delivery network.

Under the agreement with us, the network partner also has the right to unilaterally terminate the agreement within seven days from the date of execution of the agreement with notice to us; provided that, if the network partner has started to use our network resources, has begun to provide services to customers, or has exercised other major rights under the agreement, the network partner shall not terminate the agreement accordingly. The network partner’s major rights under the agreement are entitlements to the following products or services provided by us: (1) electronic documents or software in relation to enterprise management system; (2) guidance on the use of express delivery networks, business operation model and employee training; (3) sufficient, continuous and quality-guaranteed material supply; (4) advertising support; and (5) network transit service.

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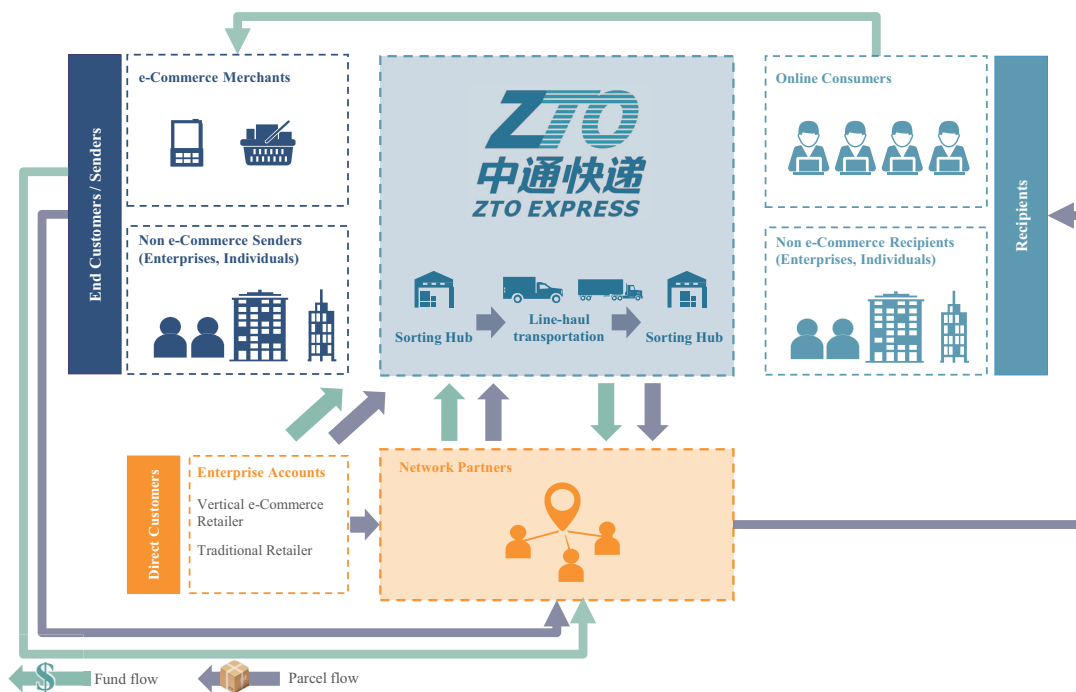
We provide our network partners latitude in their pricing decisions. The network partners have full discretion over their daily operations and can make localized decisions with respect to facilities, vehicles and recruitment to meet their operational needs.

We also provide financial services to qualified network partners. We select qualified network partners based on certain criteria set by us, such as having legal and stable income or source of income and engaging in operation activities that are legal and meet the national industrial policies and requirements. To provide such financial services, we enter into relevant agreements with qualified network partners under which the material terms (e.g. loan amount, maturity date, guarantee or pledge and event of default (as applicable)) of such financial services are stipulated. We have obtained the requisite business licenses and/or approvals under relevant PRC laws and regulations in order to provide such financial services to qualified network partners. Please also see “Risk Factors — Risks Related to Our Business and Industry — We face risks associated with the financial services we provide to network partners.”

We had a financing receivables balance of RMB64.0 million, RMB518.0 million, RMB1,060.9 million and RMB1,712.5 million as of December 31, 2017, 2018 and 2019 and June 30, 2020. No default occurred during the Track Record Period. For maturity profile of the financing receivables, please see “Financial Information — Critical Accounting Policies — Financing Receivables, Net of Allowance.”

### OUR CUSTOMERS

The following chart illustrates parcel and fund flows to and from our direct and end customers.



Our direct customers are our direct network partners, who, along with our indirect partners, own and operate pickup and delivery outlets. We provide our direct network partners with access to our line-haul transportation and sorting network, which form the infrastructure of their and our indirect partners' express delivery services. In addition, we also directly serve some enterprise customers, including vertical e-commerce and traditional merchants, in

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connection with the delivery of their products to consumers. Our top five customers accounted for less than 6% of our total revenues for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

Together with our network partners, we mainly serve e-commerce merchants and other express service users as our end customers. A significant portion of our end customers are merchants on China's e-commerce platforms. Our enterprise customers are typically larger, nationwide brands with customized requirements for express delivery services. For certain enterprise customers, we provide direct pickup services without going through the pickup outlets of our network partners. We collect the full amount of delivery service fees from our enterprise customers and pay a portion of these fees to the delivery outlets of our network partners for last-mile delivery services provided by them. Depending on the availability and capacity of our personnel at the relevant locations, orders from some enterprise customers may also be picked up through our network partners.

### CUSTOMER SERVICE

We believe our high-quality customer service enhances our customer loyalty and brand image. Our network partners directly interact with our end customers, and we provide ongoing training and conduct regular performance reviews to ensure they provide quality customer services.

We also operate a call center network providing real-time assistance during business hours, seven days a week. Our automated system continues to respond to inquiries outside of business hours and forwards complicated inquiries to our live call center representatives for further handling during business hours. Our call center network is localized with branch offices in over 31 provinces in China with mostly local hires to leverage their local knowledge. All branches can be reached via a unified number and use a centralized call system and database. Our call system automatically directs incoming calls to the local branch near the caller's location for localized handling. We have approximately 716 call center representatives who adhere to the same customer service standards nationwide and their local knowledge adds to our customer service effectiveness. We provide regular trainings to our representatives and periodically review callers' level of satisfaction with the service they received from us. At the end of each call, each caller is asked to grade the quality of our customer service and a designated call-back team follows up on all incidences of dissatisfaction.

### INFORMATION TECHNOLOGY AND INTELLECTUAL PROPERTY

We have built our proprietary technology systems with open-source and mainstream technologies and have refined and tailored those technologies to suit our operational needs. We design and utilize our technology systems to enhance the efficiency and scalability of our network and these systems play an important role in the success of our business. The principal components of our technology system include:

Zhongtian System — Our self-developed and centralized Zhongtian system serves as the technology backbone for our express delivery management and network operation. The Zhongtian system has hundreds of modules with numerous functionalities and features covering all scenarios of our business and operations, consisting of our operational management system, network management system, settlement system, finance system and other integrated systems and mobile apps connecting our network partners:

- *Parcel sorting, transportation and tracking management.* Our parcels are sorted and dispatched based on routing logic through the Zhongtian system. With this system, that is compatible with the digital waybill technology, we can track each parcel processed



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through the vast network based on a unique waybill barcode assigned to each parcel. As the parcel moves through each gateway, its barcode is scanned, and its route and other delivery information are captured in the Zhongtian system. We also monitor the capacity of our sorting hubs on the Zhongtian system and monitor the real-time movement of each on-duty truck with GPS and GIS technology that is synchronized with the Zhongtian system.

- *Settlement payment calculation.* The Zhongtian System tracks each delivery order and, according to pre-set formulae, calculates the network transit fees payable to us as well as last-mile delivery fees payable to the network partners.
- *Platform integration.* Our Zhongtian system is connected to the order systems of major e-commerce platforms and vertical e-commerce websites in China. Merchants can therefore seamlessly place delivery orders to the outlets via our Zhongtian system.
- *Mobile application.* The Zhongtian system also supports our mobile application so that pickup and delivery personnel are able to handle functions such as digital waybill printing, order pickup, parcel tracking, receipt signing on mobile devices. The mobile solutions are user centric and comprehensive in meeting the varied needs of different personnel.
- *Customer service support.* Our call center representatives have access to the Zhongtian system's database to provide better and more effective customer service. The automated customer service functions on our website and our WeChat official account allow end customers to track parcels and search outlet locations with the data support from the Zhongtian system.
- *Management of sale of accessories.* Our network partners make online purchases of accessories, such as (i) portable bar code readers, (ii) thermal paper used for digital waybill printing, and (iii) ZTO-branded packing materials and uniforms, from us utilizing the accessories management module available on the Zhongtian system. Our network partners can log on to our system and place orders for waybills, packing materials, portable barcode scanners and other accessories. We then send out the accessories to our network partners once we have processed the orders received.
- *Data analytics and decision support.* The Zhongtian system collects and provides valuable operational data such as parcel volume, hub utilization and parcel delivery speed to analyze and enhance our and our network partners' performance. It provides a dashboard available to our core management team with various data and analytical tools. By utilizing the dashboard, our management can monitor and evaluate our business in real-time.

We have leased a high-grade data center in Zhejiang province to support our core operational systems, such as Zhongtian, and our transportation management system. Our server center in Shanghai mainly provides the network infrastructure for our managerial, data backup and other non-core functions. We have adopted security policies and measures, including encryption technology, to protect our software, proprietary data and customer information. Our system is configured with multiple layers of security to prevent unauthorized access to our software and databases, and we implement security protocols for communication among applications. We utilize a system of firewalls to prevent unauthorized access to our internal systems. Exchange of critical data on our website and public and private interfaces use the Secure Sockets Layer

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networking protocol, a standard security technology for establishing encrypted network communications. We regularly back up our databases, including customer data, with both on-site and off-site storage. Encryption is used to secure sensitive information when it is in transit or being stored.

Since 2016, we have established a digital product innovation system with eight major digital product lines, covering end-to-end online and offline processes for customer engagement, customer care, franchisee enablement, sorting hub operations, transportation, finance, smart mobility equipment and e-collaboration. This system enables around 200 applications throughout our information technology platform.

We have been developing a suite of technologies focusing on applying new features to enable fast digital product iteration, such as micro-service architecture, deep learning and AI, big data, private and hybrid cloud, DevOps, among others. We have also developed proprietary algorithms for order dispatchment and forecasting, as well as capabilities for real-time monitoring of information systems, automatic failure detection and recovery and high-throughput processing of 100-million orders in a single day.

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success. As of June 30, 2020, we owned 162 computer software copyrights in China for various aspects of our operations, maintained 166 trademark registrations and 48 patents inside China. As of June 30, 2020, we had registered 14 domain names, including *zto.cn*, among others.

In addition, we demonstrate the wide use of our technology resources, including Application Programming Interfaces (APIs), in various digital services, such as the ZTO Open Platform at *zop.zto.com*, an express delivery service technology docking platform which shares ZTO's various service interfaces, and ZTO Security Response Center at *sec.zto.com*, an online platform for persons inside and outside the ZTO network to report security vulnerabilities to better protect customer information and enhance network security. We share with the public our achievements in improving digitization and intelligization in our operations through our annual ZTO Tech Open Day.

## COMPETITION

The express delivery industry in China is fragmented and we compete primarily with leading domestic express delivery companies including YTO Express, STO Express, Yunda Express, Best Express, SF Express and the express delivery services provided by China Post such as EMS. We also face competition from emerging players in our industry or existing players in adjacent markets who may choose to leverage their existing infrastructure and expand their services into express delivery. We believe that our core value framework, superior scale, distinct partner network, best-in-class operational capabilities and cost efficiencies provide us with a competitive advantage. Entry into the express delivery industry requires significant initial investment into network construction and partner attraction. However, certain more established e-commerce companies may establish or further improve their proprietary delivery infrastructure and compete with us. Furthermore, as we look to offer additional products and services and expand our customer base, we may face competition from established players in new sectors we may choose to enter.

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### **PROCUREMENT AND SUPPLIERS**

We have adopted centralized procurement for selecting, bidding and purchasing land use rights, certain sorting equipment, line-haul transportation vehicles and consumables such as waybills, barcode scanners and uniforms. We hold bidding processes where possible to select products and services with the best value. We provide favorable payment terms in exchange for discounts and to promote long-term stable relationships with reliable suppliers. We work with manufacturers and research institutions to design and modify equipment to best fit our needs. Compared with off-the-shelf products available in the market, our tailor-made equipment generally has lower procurement and maintenance costs and higher operational efficiency.

We also leverage the scale of our network and assist our network partners to negotiate better procurement terms with their suppliers.

Our five largest suppliers accounted for less than 30% of our purchases for each of the years over the Track Record Period and less than 35% for the six months ended June 30, 2020. None of the five largest suppliers in the six months ended June 30, 2020 individually accounted for more than 30% of the semi-annual purchases for the six months ended June 30, 2020. As of the Latest Practicable Date, based on publicly available information, none of the Company's directors and their close associates or the Company's controlling shareholders, held a 5% or more shareholding interest in the Company's top five suppliers.

### **SECURITY AND SAFETY**

We have established parcel security screening protocols to inspect parcels before we accept them for sorting and delivery. We have categorized prohibited items for land and air transport into a few classes, such as flammables and explosives, gunpowder, gasoline, opium and poultry. All senders are required to identify the content of their parcels. We require the pickup team to visually inspect items sent by end customers. We also have other measures such as X-ray screening of parcels for safety hazards or prohibited items. We have penalty measures in place for sorting hubs that handle pickup or delivery of prohibited items.

Workplace safety and transportation safety are important to our business. We have implemented safety protocols for our sorting hubs and ground transportation fleet to ensure safety and minimize accidents. We provide periodic training to our employees to recognize hazards, mitigate risk and avoid injury of themselves and others at work.

We have introduced and localized driver safety programs from overseas with the support of our vehicle insurance company China Pacific Insurance. In 2017, we equipped our line-haul vehicles with AI enabled smart devices that can decipher images, recognize unsafe gestures, and communicate with our home office data processing center that would automatically send escalating alarms to rectify unsafe driving behaviors. As a result, we reduced our accident rate by nearly 70% and reduced our unit premium cost by over 45% from 2016 to 2019.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

### **Financial reporting**

We have in place various accounting policies in connection with our financial reporting risk management, as well as procedures and modules in place on our Zhongtian system to implement our accounting policies, and our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department employees to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

### **Internal control**

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our internal audit and compliance department, with the assistance of third-party professional advisors from time to time, set up project team to conduct risk and internal control review. They work closely with our legal, compliance and finance departments as well as our business units to: (a) perform risk assessments and give advice on risk management strategies; (b) improve business process efficiency and monitor internal control effectiveness; and (c) promote risk awareness throughout our Company.

### **Data and technology system risk management**

We are committed to protecting user and customer data in our business and operations. We have a dedicated team and measures to safeguard data security. We have qualified for Grade III of China's Administrative Measures for the Graded Protection of Information Security. We have also implemented biometric authentication, password-less authentication and real-time data leakage risk management throughout our system. We have formed partnerships with key information technology and internet players to jointly enhance business performance in many innovation areas including workplace collaboration, cybersecurity, natural language processing and automatic sorting.

### **Compliance and discipline supervision**

We are committed to operating our business with integrity and abiding by the highest standards of business ethics. We have set up a discipline supervision committee (DSC), and adopted the Code of Business Conduct and Ethics. We require our employees to follow our employee manual and these policies. We also carry out regulatory on-the-job compliance training to our management and employees to maintain a corporate compliance culture and enhance their compliance perception and responsibility. We have a number of channels for reporting of misconducts or wrongdoings within our network, including a whistleblowing letter box, the President mailbox and 24/7 compliant hotlines. The DSC is responsible for conducting preliminary investigations into reported matters, and, where appropriate and necessary, our discipline inspection personnel will investigate further into the matters and recommend disciplinary actions. Findings of the investigations are periodically reported to our Chief Executive Officer, and regularly communicated with the internal audit and compliance department. Material incidents are reported to the audit committee of our board of directors.

### **Audit committee oversight**

We have established an audit committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations.

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The audit committee consists of three members, namely Herman Yu and Qin Charles Huang, our independent non-executive directors, and Xing Liu, our non-executive director. Mr. Yu is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see “Directors and Senior Management.”

### BRANDING AND MARKETING

We strive to enhance our brand awareness through the provision of high quality services and marketing initiatives. We won the China Express Golden Parcels Contribution Award for Ten Years in 2020, the 2019 China Express Volume and Quality Double Upgrade Award and 2019 China Express Social Responsibility Award. We won the Data Service Award at the 9th China Big Data Application Golden Bell Award in 2019 for our intelligent customer service products and systems. Mr. Meisong Lai, our chairman, was awarded the Ram Charan Management Practice Award in 2019 by the Chinese edition of Harvard Business Review, recognizing excellent management practices. We were awarded as one of the 2019 Shanghai Top 100 Enterprises (ranked 61). Shanghai Zhongtongji Network was awarded as one of Shanghai’s Top 100 Enterprises in the Software and Information Technology Service Industry in 2019. In 2018, we were awarded as one of the National Advanced Logistics Enterprises and China’s Top 100 Logistics Enterprises’ at the Commendation Congress of Advanced Logistics Enterprises. We were awarded as one of AAAAA logistics companies by China Federation of Logistics & Purchasing in August 2017.

We employ a variety of programs and marketing activities to promote our brand and our services. We regularly attend trade fairs, such as the China Beijing International Fair for Trade in Services, and speak at industry forums. We also operate a news feed channel and leverage various mobile social network applications, such as WeChat, to distribute business updates and corporate news. Our offline marketing activities include traditional media such as billboard and public relations activities. In addition, we require our network partners to apply our logos on personnel uniforms, transportation vehicles and packaging materials in a consistent and unified manner in order to further enhance our brand recognition during interactions with our end customers.

We train and guide our network partners to market their products to our end customers and maintain customer relationships. Our designated team maintains enterprise customer relationships directly through regular dialogue. In general, we and our network partners strive to continuously improve our service qualities to elevate our brand and attract and retain more customers.

### CORPORATE SOCIAL RESPONSIBILITY

We are committed to leveraging our technology and logistics infrastructure to benefit society. Since our founding, we have been highly committed to environmental, social and corporate responsibility matters, including environmental sustainability, employee care, poverty alleviation and more.

*Environmental Sustainability.* We have established a dedicated team to lead the formulation, implementation and supervision of environmental protection measures throughout our network. To reduce the negative impact of packaging consumables on the environment, we continue to promote the use of green and recyclable packaging and biodegradable packaging. We also take the initiatives to recycle packaging materials, and guide end consumers to reuse packaging cartons. Moreover, we have been committed to reducing the harmful impact of transportation on environment. Each of our line-haul vehicles is equipped with positioning equipment to monitor if there’s any abnormality in the transportation process together with GIS (Geographic

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Information System) to help plan proper transportation routes. We have also used high capacity trailers in order to improve energy efficiency and reduce pollutant emissions. Meanwhile, we encourage our network partners to use eco-friendly transportation vehicles such as new-energy vehicles and battery-powered cars for pickup and delivery. Furthermore, we vigorously promote the use of energy-saving and environmental friendly equipment in our operation, including sorting, transportation and delivery.

*Employee care.* We strive to provide employees with welfare benefits and a broad range of career development opportunities. We have established a sound talent cultivation mechanism and created an online-offline combined training platform. We have also organized and carried out vocational skills competitions and other activities for employees to improve professional skills. We have set up a management trainee program which aims to cultivate future leaders of the company through a three-year training plan. We also strive to help our employees balance their work and life. We have organized various recreational and sports activities to enrich the cultural life of employees.

*Poverty alleviation.* We have actively explored the rural market, and implemented an initiative of “bringing express delivery services into villages” by improving the last-mile logistics infrastructure and promoting the coverage of logistics services in rural areas. We have promoted a two-way circulation channel for agricultural products to the city and industrial products to the countryside, which aims to help stimulate consumption in rural areas and increase the income of rural residents.

*COVID-19 outbreak relief.* Since the COVID-19 outbreak, we have done our utmost to help people in heavily affected regions in China. At the beginning of the outbreak, we immediately set up an emergency response leading group and a front line command and control group to fully coordinate land and air transportation resources and provide support for epidemic prevention and control across the country. By the end of March 2020, we had delivered more than 700 tons of medical and rescue supplies to Hubei Province, including masks, protective clothing, disinfectants, medical gloves, livelihood support materials, etc. Meanwhile, we take the health and safety of our employees as our top priority. We provided all of our frontline employees with masks and other protective equipment immediately after the outbreak. We also set up a dedicated fund of RMB100 million for COVID-19 epidemic prevention and control to help frontline workers after resumption of business.

*Environmental protection.* We have published our annual ESG report since 2019, detailing our key initiatives and development in areas pertaining to environmental, social and corporate governance issues. The ESG reports are available at <http://zto.investorroom.com/>.

We are subject to a number of regulations on environmental protection in China. For example, pursuant to the PRC Law on Environment Impact Assessment, our construction project is required to undergo an environmental impact assessment, and an environmental impact assessment report must be submitted to the relevant governmental authorities in charge of ecological environment for approval before the commencement of construction, as applicable. In accordance with the Administrative Regulations on the Environmental Protection Completion Acceptance of Construction Projects, the Administrative Regulations on the Environmental Protection of Construction Projects and the Interim Measures on the Administration of Acceptance Inspection of Construction Project Environmental Protection, after the completion of a construction project, we are required to obtain a completion acceptance on environmental protection for the project from the competent department of environmental protection or carry out the acceptance inspection by ourselves, as the case may be. See “Regulations — Regulations Relating to Environmental Protection.”



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### SEASONALITY

We experience seasonality in our business, mainly correlating to the seasonality patterns associated with e-commerce in China. For example, our customers generally experience fewer purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, when e-commerce platforms hold special promotional campaigns, for example, on November 11 and December 12 each year, we typically observe peaks of parcel volume immediately following these campaigns.

### INSURANCE

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased compulsory motor vehicle liability insurance and commercial insurance such as automobile third-party liability insurance, vehicle loss insurance and driver/passenger liability insurance. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance to our employees.

We do not purchase insurance for items delivered by us. Instead, our end customers may choose to pay an additional fee to purchase our priority handling services for valuable items, under which we will compensate those customers based on the value declared in the case of item loss or damage attributable to us. We do not maintain business interruption insurance; nor do we maintain product liability insurance or key-man insurance. We consider that the coverage from the insurance policies maintained by us is adequate for our present operations and is in line with the industry norm. Our management evaluates the adequacy of our insurance coverage from time to time and purchase additional insurance policies as needed. See “Risk Factors — Risks Related to Our Business and Industry — We have limited insurance coverage which could expose us to significant costs and business disruption.”

### EMPLOYEES

As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had a total of 16,023, 15,700, 19,009 and 21,465 employees, respectively. A substantial majority of our employees are based in China.

The following table sets forth the breakdown of our own employees as of June 30, 2020 by function:

<b>Functional Area</b>	<b>Number of Employees</b>	<b>% of Total</b>
Sorting . . . . .	6,874	32.02
Transportation . . . . .	4,484	20.89
Management and Administration . . . . .	4,669	21.75
Customer Service . . . . .	1,991	9.28
Operation Support . . . . .	1,406	6.55
Technology and Engineering . . . . .	1,661	7.74
Sales and Marketing . . . . .	380	1.77
Total . . . . .	<u>21,465</u>	<u>100.0</u>

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In addition to our own employees, our workforce also included over 55,600 outsourced workers as of June 30, 2020. Our network partners hire their own employees according to their operational needs.

We believe we offer our employees competitive compensation packages and a merit-based work environment that encourages initiative, and as a result, we have generally been able to attract and retain qualified personnel and maintain a stable core management team.

As required by PRC regulations, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund. We are required under PRC laws to make contributions with respect to employee benefit plans and housing provident fund at specified percentages of the salaries, bonuses and certain allowances (as applicable) of our employees, as specified by the local government from time to time. We have not made adequate employee benefit payments or housing provident fund. We may be required to make up the contributions for these employee benefit plans and housing provident fund as well as pay late fees and fines and we have made adequate provisions to account for these payments. See “Risk Factors — Risks Related to Doing Business in China — Our failure to fully comply with PRC labor-related laws may expose us to potential penalties.”

We enter into standard labor agreements with our employees and, in addition, enter into confidentiality and non-compete agreements with our key employees. The non-compete restricted period typically expires six months after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

### **PROPERTY, PLANT AND EQUIPMENT**

As of the Latest Practicable Date, for our self-operated sorting hubs, (i) we have obtained the title certificates of land use rights from the relevant authorities with respect to an aggregate gross land area of approximately 2,640,000 square meters, and two of our self-operated sorting hubs have not obtained the title certificates of land use rights with respect to an aggregate gross land area of approximately 207,000 square meters, and (ii) we leased from third parties approximately 2,000,000 square meters and the terms of such leases range from one to 16 years.

In addition, as of the Latest Practicable Date, approximately 2,190,000 square meters of our self-operated sorting hubs on premises we own were used for sorting purposes and the remaining were used for office and other administrative purposes. Approximately 163,000 square meters were used for our headquarters in Shanghai.

The areas of self-owned properties and leased premises are based on figures specified in the relevant land use right certificates or lease agreements, where available, or our operational records. We lease properties from third parties on an as is basis.

We are also planning to acquire land use rights in appropriate locations to establish new sorting hubs and expand existing ones in the coming years. We believe that we will be able to obtain adequate facilities through acquisition or lease to accommodate our future expansion plans.

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As of the Latest Practicable Date, we have not obtained title certificates of land use rights with respect to four parcels of land currently used by us and we have not obtained certificates with respect to 89 buildings currently used by us, including 59 buildings used as sorting facilities and 30 buildings used for general and administrative purposes. We are in the process of applying for the registration of the land use right and property ownership. For more details of the risks and uncertainties associated with such defect, see “Risk Factors — Risks Related to Our Business and Industry — The title defects with respect to or encumbrances on certain land and buildings or failure to obtain requisite approvals, licenses or permits in carrying out our property construction may cause interruptions to our business operations.”

As of the Latest Practicable Date, for approximately 37.4% of the areas of our leased sorting hubs and offices, we have not been provided by the lessors with the applicable certificates, approvals or any other documentation proving their right to lease those properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant governmental authorities, our leases could be invalidated. For more details of the risks and uncertainties associated with such defect, see “Risk Factors — Risks Related to Our Business and Industry — Our use of certain leased properties could be challenged by third parties or governmental authorities, which may cause interruptions to our business operations.”

As of June 30, 2020, no single property interest of ours has a carrying amount of 15% or more of our total assets.

### LEGAL PROCEEDINGS

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of our business. Litigation or any other legal or administrative proceeding, regardless of outcome, may result in substantial cost and diversion of our resources, including our management’s time and attention.

Starting in May 2017, our company and certain of our directors and officers, and the underwriters of our company’s initial public offering in October 2016 (the “Underwriter Defendants”) have been named as defendants in the following putative securities class actions:

- *City of Birmingham Retirement and Relief System v. ZTO Express (Cayman) Inc., et al.*, 01-CV-2017-902004.00 (Cir. Ct. Jefferson County Ala., filed on May 16, 2017) (the “Alabama Action”);
- *Guo v. ZTO Express (Cayman) Inc., et al.*, 17 Civ. 03676 (Sup. Ct. Mateo County Ca., filed on August 11, 2017) (the “Guo Case”);
- *Nurlybayev v. ZTO Express (Cayman) Inc., et al.*, 1: 17-cv-06130 (S.D.N.Y., filed on August 14, 2017) (the “New York Action”);
- *McGrath v. ZTO Express (Cayman) Inc., et al.*, 17 Civ. 03805 (Sup. Ct. Mateo County Ca., filed on August 21, 2017) (the “McGrath Case”); and
- *The Ronald & Maxine Linde Foundation v. ZTO Express (Cayman) Inc., et al.*, 18 Civ. 00264 (Sup. Ct. Mateo County Ca., filed on January 17, 2018) (the “Linde Foundation Case”).

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These actions allege that the defendants made misstatements and omissions in our Registration Statement and Prospectus in connection with our initial public offering in October 2016 in violation of the Securities Act of 1933.

*The Alabama Action:* On June 28, 2017, our company removed the Alabama Action to the federal District Court for the Northern District of Alabama and the Underwriter Defendants joined in the removal. On July 14, 2017, City of Birmingham Retirement and Relief System filed a Motion to Remand the Alabama Action back to state court. On August 4, 2017, our company and the Underwriter Defendants submitted a joint Motion to Change Venue, requesting the court to transfer the Alabama Action to the federal District Court for the Southern District of New York. On August 29, 2017, the court issued an order staying the proceedings of the Alabama Action pending the United States Supreme Court's decision in *Cyan, Inc. v. Beaver Cty. Employees Ret. Fund*, and denying without prejudice City of Birmingham Retirement and Relief System's Motion to Remand and our company and the Underwriter Defendants' Motion to Change Venue. On April 17, 2018, City of Birmingham Retirement and Relief System filed a motion to lift the stay and remand the Alabama Action back to state court, which motion was granted by the court on April 18, 2018. On May 9, 2018, the plaintiff and defendants filed a joint motion to stay the Alabama Action in favor of the New York Action. The court granted that motion on August 9, 2018, and the case remains stayed.

*The California Actions:* On September 15, 2017, our company removed the Guo Case and McGrath Case to the federal District Court for the Northern District of California and the Underwriter Defendants consented to the removal. Also, on September 15, 2017, our company and the Underwriter Defendants filed a joint motion to transfer in the Guo Case and McGrath Case, requesting the court to transfer the two cases to the federal District Court for the Southern District of New York. On September 26, 2017, the plaintiffs filed motions to remand these two cases back to state court. On December 22, 2017, the court granted the plaintiffs' motions to remand and denied our and Underwriter Defendants' joint motion to transfer. On February 15, 2018, our company and the Underwriter Defendants filed a joint motion to stay the Guo Case and the McGrath Case in state court. On April 24, 2018, the court granted the Company and the Underwriter Defendants' motion, and the case remains stayed. On March 19, 2018, the Linde Foundation Case was voluntarily dismissed.

*The New York Action:* On October 16, 2017, three sets of purported shareholders filed motions to appoint themselves as lead plaintiffs of the purported plaintiff class and appoint their designated counsel as lead counsel. On November 13, 2017, the court appointed a lead plaintiff and approved the lead plaintiff's selection of lead counsel. On January 8, 2018, the lead plaintiff filed an amended complaint. On February 20, 2018, our company and the Underwriter Defendants filed a joint motion to dismiss the amended complaint. On July 17, 2019, the Court granted the defendants' joint motion to dismiss. On September 10, 2019, Plaintiffs moved for leave to file a second amended complaint, which the Company and the Underwriter Defendants opposed. That motion remains pending.

These cases are in their preliminary stages. Taking into account the advice provided by our legal advisors, we believe these cases are without merit because, among other reasons, in granting the defendants' joint motion to dismiss, the Court held that as a matter of law, the plaintiffs failed to allege any violation of the U.S. securities laws. We therefore intend to defend the action vigorously. For risks and uncertainties relating to the pending cases against us, please see "Risk Factors — Risks Related to Our Shares, ADSs and the Listing — We have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation."

**REGULATORY MATTERS**

In the opinion of Global Law Office Shanghai, our PRC Legal Advisor, except as disclosed in the section titled “Risk Factors” in this document, our Major Subsidiaries established in PRC were in compliance with relevant PRC laws and regulations in all material aspects during the Track Record Period. For the risks we face if our network partners do not obtain necessary licenses and permits to operate express delivery transportation business, please see “Risk Factors — Risks Related to Our Business and Industry — Any lack of requisite approvals, licenses or permits applicable to the business operation of us or our network partners may have a material and adverse impact on our business, financial condition and results of operations.” See also “Risk Factors — Risks Related to Our Business and Industry — Any lack of requisite approvals, licenses or permits applicable to the business operation of us or our network partners may have a material and adverse impact on our business, financial condition and results of operations”, “Risk Factors — Risks Related to Our Business and Industry — Our failure to comply with regulations on commercial franchising may result in penalties to us”, “Risk Factors — Risks Related to Our Business and Industry — Our use of certain leased properties could be challenged by third parties or governmental authorities, which may cause interruptions to our business operations.” The Company is of the view that the non-compliant trucks, failure to file franchising contracts and non-compliant leases referenced in the foregoing risk factors will not materially affect our operations and financial performance in consideration of the following: (i) we have not been required to modify or replace any of our trucks by governmental or regulatory authorities and we expect to gradually reduce the number of non-complying trucks; (ii) if we are deemed as a franchisor who fails to comply with the stipulations of filing with the competent commerce authority, we may be imposed a fine ranging from RMB10,000 to RMB100,000; as of the Latest Practicable Date, we have not received any order from any governmental authorities to make filing of franchising contracts; and (iii) as of the Latest Practicable Date, we have not been subject to any fines for non-compliant leases. Additionally, our Company confirms that our Group (1) was compliant with relevant laws and regulations in all material respects during the Track Record Period, and (2) had obtained all material licenses and permits for its operations in the PRC, and such material licenses and permits were valid and remained in effect as at the Latest Practicable Date, with no material legal impediment to their renewal. Our Company further confirms that the Company has not been subject to any material administrative or criminal penalties or civil liability for personal injury or property damage during the Track Record Period.

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## FINANCIAL INFORMATION

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The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountants' Report in Appendix I to this document and in particular, "Business." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this document. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on December 31 and references to fiscal years 2017, 2018 and 2019 are to the fiscal years ended December 31, 2017, 2018 and 2019, respectively.

### OVERVIEW

We are a leading express delivery company in China. We provide express delivery services and other value-added logistics services through our nationwide network. As of June 30, 2020, our delivery network infrastructure consists of 90 sorting hubs with 282 automation lines, over 3,400 line-haul routes serviced by approximately 9,050 self-owned line-haul vehicles, and over 5,000 direct network partners operating approximately 30,000 pickup/delivery outlets and over 50,000 last-mile posts. Our network covers over 99.2% of cities and counties in China.

We have achieved rapid growth during the Track Record Period. Our total parcel volume increased from 6.2 billion in 2017 to 12.1 billion in 2019, and from 5.4 billion in the six months ended June 30, 2019 to 7.0 billion for the six months ended June 30, 2020. Our net income increased from RMB3.2 billion in 2017 to RMB5.7 billion in 2019. Our non-GAAP adjusted net income increased from RMB3.2 billion in 2017 to RMB5.3 billion in 2019. Our net income and non-GAAP adjusted net income for the six months ended June 30, 2020 was RMB1.8 billion and RMB2.1 billion, respectively.

### GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

#### **Demand from China's e-commerce industry for express delivery services**

We have benefited from the rapid growth of China's e-commerce industry and its demand for more express delivery services, and our business and growth depend on and contribute to the viability and prospects of the e-commerce industry in China. We anticipate that the demand for express delivery services will continue to grow.

#### **Market conditions and our market position**

The market conditions, competitive landscape and our market position in the express delivery industry will affect the pricing of our services and in turn, our revenue and operating income.

#### **Operating leverage of our network partner model**

Our business model is highly scalable and flexible. It enables us to expand our business operation efficiently by leveraging the resources and operating capabilities of our network partners with minimum capital requirements and operating expenditures. In addition, we can proactively adjust our network capacity to address peak demands and respond to seasonality. For instance, we have the ability to allocate sorting capacity among adjacent sorting hubs, and our network partners have flexibility to add temporary workers. The scalability of our business model has helped us expand geographic coverage and capture incremental growth in parcel volume, as well as improve operating efficiencies.



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## FINANCIAL INFORMATION

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### **Our continued investment in infrastructure, technology and people**

We continue to invest in our sorting hubs and line-haul fleets, as well as technology infrastructure and people, particularly talent in overall management, business operation and information technology. We expect our continued investments to further improve our parcel handling capacity, increase market penetration, and enhance customer services and operational efficiency.

### **Our ability to broaden service offerings and diversify customer base**

Our results of operations are also affected by our ability to introduce new service offerings and expand and further penetrate our customer base. We are exploring new service offerings to capture existing and new market growth opportunities, including cross-border e-commerce, less-than-truckload logistics and backhaul trucking logistics of agricultural products. We also plan to expand our customer base across different segments and industries.

### **IMPACT OF COVID-19 ON OUR OPERATIONS AND FINANCIAL PERFORMANCE**

Substantially all of our revenues and workforce are concentrated in China. In connection with the intensifying efforts to contain the spread of COVID-19, the Chinese government has taken certain emergency measures, including extension of the Lunar New Year holidays, implementation of travel bans, blockade of certain roads and closure of factories and businesses, and may continue to take further measures to keep this epidemic outbreak in check. We temporarily closed our branch offices, sorting hubs and service outlets from late January to mid- to late February 2020 due to the COVID-19 outbreak, which resulted in a decline of parcel volume in January and February 2020, as compared with the same period in 2019. The measures and timelines for business resumption varied across different localities in the PRC, and our branch offices, sorting hubs and service outlets closed and opened in accordance with measures adopted by their respective local government authorities. We also experienced a temporary labor shortage in January and February 2020 which has caused delays in our delivery services. We have taken measures to reduce the impact of the COVID-19 outbreak, including strictly implementing self-quarantine and disinfection measures at our headquarters, sorting hubs and service outlets in accordance with government issued protocols. Consequently, the COVID-19 outbreak and any measures to combat the spread of the virus may adversely affect our business operations, financial condition and operating results for 2020, including but not limited to negative impact to our total revenues, costs and net profit. Our parcel volume was 714 million in January 2020 and 438 million in February 2020, representing a decrease of 9.1% and 14.2% year on year. Our parcel volume was 2,264 million and 2,374 million in the first quarter of 2019 and 2020 and was 3,107 million and approximately 4,595 million in the second quarter of 2019 and 2020, representing an increase of 4.9% and 47.9% year on year, respectively. Our parcel volume was 5,371 million and 6,970 million in the first half of 2019 and 2020, representing an increase 29.8% year on year. Our parcel volume accounts for 19.1% and 20.6% of the total express delivery parcel volume in China in 2019 and the first half of 2020, respectively. Our revenues, cost of revenues and net income were RMB3,915.9 million, RMB3,097.2 million and RMB371.0 million in the first quarter of 2020, respectively, representing a decrease of 14.4%, 6.6% and 45.6% as compared to the same period of 2019, respectively. We gradually resumed our operations since March 2020. Our revenues, cost of revenues and net income were RMB6,402.4 million, RMB4,633.3 million and RMB1,453.6 million in the second quarter of 2020, respectively, representing an increase of 18.0%, 26.8% and 6.5% as compared to the same period of 2019, respectively.

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While we have resumed business operations and events related to the outbreak of and response to COVID-19 are expected to be temporary, there remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. Hence, the extent of the business disruption and the related impact on our financial results and outlook for 2020 cannot be accurately estimated at this time.

As of June 30, 2020, we had cash and cash equivalents of RMB5,261.9 million (US\$744.8 million) and short-term investments of RMB8,437.9 million (US\$1,194.3 million). Our short-term investments consist primarily of investments in fixed deposits with maturities between three months and one year and wealth management products which we have the intent and the ability to hold to maturity within one year. We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty. See also “Risk Factors — Risks Related to Our Business and Industry — We face risks related to severe weather conditions and other natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations and adversely affect our business, financial condition or results of operations.”

### KEY LINE ITEMS AND SPECIFIC FACTORS AFFECTING OUR RESULTS OF OPERATIONS

#### Revenues

	Year Ended December 31,						Six Months Ended June 30,				
	2017		2018		2019		2019		2020		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US\$	%
	(in thousands)										
	(unaudited)										
Express delivery services .	12,173,690	93.2	15,400,080	87.5	19,606,214	88.7	8,823,274	88.3	8,947,074	1,266,376	86.7
Freight forwarding services .....	269,557	2.1	1,278,741	7.3	1,235,961	5.6	639,402	6.4	762,571	107,935	7.4
Sale of accessories .....	591,716	4.5	812,866	4.6	1,089,977	4.9	501,407	5.0	498,214	70,518	4.8
Others .....	25,110	0.2	112,764	0.6	177,794	0.8	33,588	0.3	110,451	15,633	1.1
<b>Total revenues .....</b>	<b>13,060,073</b>	<b>100.0</b>	<b>17,604,451</b>	<b>100.0</b>	<b>22,109,946</b>	<b>100.0</b>	<b>9,997,671</b>	<b>100.0</b>	<b>10,318,310</b>	<b>1,460,462</b>	<b>100.0</b>

We derive a substantial part of our revenues from express delivery services that we provide to our network partners, which mainly include parcel sorting and line-haul transportation. We charge our network partners a network transit fee for each parcel that is processed through our network. Such fees represented 90.4%, 87.5% and 86.4% of our total express delivery services revenues in 2017, 2018 and 2019, respectively, and 86.5% and 83.5% in the six months ended June 30, 2019 and 2020, respectively. In addition, we also directly provide express delivery services to certain enterprise customers, including vertical e-commerce and traditional merchants, in connection with the delivery of their products to end consumers. Revenues from our express delivery services to such enterprise customers accounted for 9.6%, 12.5% and 13.6% of our total express delivery services revenues in 2017, 2018 and 2019, respectively, and 13.5% and 16.5% in the six months ended June 30, 2019 and 2020, respectively. We also generate revenues from the sale of ancillary materials, such as portable barcode readers, thermal paper and ZTO-branded packing materials and uniforms, to our network partners.

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Our revenues are primarily driven by our parcel volume and the network transit fee we charge our network partners for each parcel going through our network.

In general, our parcel volume is affected by the various factors driving the growth of China's e-commerce industry, as we generate the majority of our parcel volume by having our network partners serving end customers that carry out business on various e-commerce platforms in China. Our parcel volume is also affected by our ability to scale our network to meet increases in demand and the ability of our network partners and us to provide high-quality services to our end customers at a competitive price. Our annual parcel volume increased from 6,219 million in 2017 to 12,121 million in 2019 and from 5,371 million in the six months ended June 30, 2019 to 6,970 million in the six months ended June 30, 2020.

We determine the level of pricing of our network transit fee based on the operating costs of our business while also considering other factors, including market conditions and competition as well as our service quality. The network transit fees we charge our network partners are primarily measured by (i) a fixed amount for a waybill attached to each parcel and (ii) a variable amount per parcel for sorting and line-haul transportation based on the parcel weight and route distance. The delivery service fees we charge the enterprise customers are also based on parcel weight and route distance.

Our network partners generally charge each parcel sender a delivery services fee directly. They have full discretion over the pricing of their services after taking into consideration certain of their costs, including the network transit fees we charge them and other factors, including market conditions and competition as well as their service quality. There has historically been decline in the delivery services fees charged by our network partners to parcel senders partially due to decreasing unit operational costs and market competition. We have been able to adjust the level of network transit fees based on market conditions and our operating costs.

We recognize revenues from express delivery services over time as we perform the services. We act as the principal rather than the agent for express delivery service provided to enterprise customers based on analysis of our revenue arrangements using a control model. In the majority of our arrangements, we consider the pickup outlets operated by our network partners to be our customers. Our revenues recorded for those arrangements do not include the last-mile delivery fee because we act as an agent for last-mile delivery services and we are only arranging for services to be provided by the last-mile network partner.

We also provide freight forwarding services through the acquired business of China Oriental Express Co., Ltd. and its subsidiaries, which we refer to as the COE Business, a freight forwarding and international logistics services provider in Hong Kong and Shenzhen. Revenue from freight forwarding services is recognized over time when services are rendered. Our freight forwarding revenue is primarily driven by our freight volume. We determine and periodically review and adjust our fee levels based on the prevailing market conditions, operating costs and service level.

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### Cost of Revenues

In addition to the level of network transit fees we charge our network partners, our profitability also depends on our ability to control our costs as we expand. Our cost of revenues mainly consists of (i) line-haul transportation cost, (ii) sorting hub cost, (iii) freight forwarding cost, (iv) cost of accessories sold, and (v) other costs. The following table sets forth the components of our cost of revenues, in absolute amounts and as percentages of our revenues for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,				
	2017		2018		2019		2019		2020		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US\$	%
	(in thousands)										
	(unaudited)										
Line-haul transportation cost .....	4,797,799	36.7	5,757,701	32.7	7,466,043	33.8	3,289,873	32.9	3,293,979	466,232	31.9
Sorting hub cost .....	2,438,754	18.7	3,197,667	18.2	4,109,338	18.6	1,844,970	18.5	2,220,035	314,225	21.5
Freight forwarding cost ...	260,429	2.0	1,239,439	7.0	1,209,523	5.5	628,397	6.3	704,273	99,683	6.8
Cost of accessories sold ..	366,859	2.8	491,722	2.8	544,166	2.5	276,057	2.8	186,958	26,462	1.8
Other costs .....	850,648	6.5	1,553,039	8.8	2,159,708	9.7	930,214	9.2	1,325,242	187,577	12.9
<b>Total cost of revenues ...</b>	<b>8,714,489</b>	<b>66.7</b>	<b>12,239,568</b>	<b>69.5</b>	<b>15,488,778</b>	<b>70.1</b>	<b>6,969,511</b>	<b>69.7</b>	<b>7,730,487</b>	<b>1,094,179</b>	<b>74.9</b>

Line-haul transportation cost primarily includes (i) payment for services by outsourced fleets, (ii) truck fuel costs and tolls incurred by self-owned fleet, (iii) employee compensation and other benefits for drivers of self-owned fleet, (iv) air transportation cost and (v) depreciation and maintenance costs of self-owned fleet. Total line-haul transportation cost accounted for 36.7%, 32.7% and 33.8% of our revenues in 2017, 2018 and 2019, respectively, and 32.9% and 31.9% in the six months ended June 30, 2019 and 2020, respectively. In 2019 and the six months ended June 30, 2020, we increased usage of self-owned fleet with an increasing number of higher-capacity trailer trucks, especially during the peak season, resulting in improved line-haul route planning and load rate, hence enhanced transportation cost efficiencies.

Sorting hub cost includes (i) labor costs, (ii) land lease costs, (iii) depreciation of property and equipment and amortization of land use rights and (iv) other operating costs. Total sorting hub cost accounted for 18.7%, 18.2% and 18.6% of our revenues in 2017, 2018, and 2019, respectively, and 18.5% and 21.5% in the six months ended June 30, 2019 and 2020, respectively.

Freight forwarding costs relate to the freight forwarding services provided by the COE Business we acquired on October 1, 2017.

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Cost of accessories sold, which mainly includes cost of accessories that we sell to our network partners, such as (i) portable bar code readers, (ii) thermal paper used for digital waybill printing, and (iii) ZTO-branded packing materials and uniforms, accounted for 2.8%, 2.8% and 2.5% of our revenues in 2017, 2018 and 2019, respectively, and 2.8% and 1.8% in the six months ended June 30, 2019 and 2020, respectively. Cost of accessories sold as a percentage of our revenues from sale of accessories was 62.0%, 60.5% and 49.9% in 2017, 2018 and 2019, respectively, and 55.1% and 37.5% in the six months ended June 30, 2019 and 2020, respectively. The decrease from 55.1% to 37.5% was mainly due to the increased use of lower-cost single-sheet thermal waybill paper starting in the second half of 2019. The cost of accessories sold grew slower than the sale of accessories.

Other costs, which mainly include (i) information technology related cost, (ii) dispatching costs paid to network partners associated with serving enterprise customers, and (iii) business tax surcharges, accounted for 6.5%, 8.8% and 9.7% of our revenues in 2017, 2018 and 2019, respectively, and 9.2% and 12.9% in the six months ended June 30, 2019 and 2020, respectively.

To maintain competitive pricing and enhance profit per parcel, we must continue to control our costs and improve our operating efficiency. We have adopted various cost-control measures. For example, fuel cost can be reduced through the use of more fuel-efficient vehicles, and unit transportation cost can be reduced by adding cost efficient, high capacity line-haul trucks to our self-owned fleet and a gradual shift to a direct shipping model by selected network partners, and labor costs can be contained through wider implementation of automated sorting equipment.

### **Selling, General and Administrative Expenses**

Our selling, general and administrative expenses, which consist primarily of (i) salaries and other benefits for management and employees, (ii) depreciation and rental costs for office facilities, and (iii) legal, finance, and other corporate overhead costs, accounted for 6.0%, 6.9% and 7.0% of our revenues in 2017, 2018 and 2019, respectively, and 8.6% and 8.5% in the six months ended June 30, 2019 and 2020, respectively. Our selling, general and administrative expenses also included share-based compensation expenses of RMB40.7 million, RMB249.5 million and RMB316.7 million in 2017, 2018 and 2019, respectively, and RMB295.1 million and RMB264.2 million in the six months ended June 30, 2019 and 2020, respectively, which accounted for 0.3%, 1.4%, 1.4%, 3.0% and 2.6% of our revenues in the corresponding periods. We expect that our selling, general and administrative expenses will continue to increase as we hire additional personnel and incur additional costs in connection with the expansion of our business operations, enhancement of management capabilities and grant of share incentives.

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### RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the periods indicated, both in absolute amounts. This information should be read together with our consolidated financial statements and related notes included in the Accountants' Report in Appendix I to 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,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Revenues . . . . .	13,060,073	17,604,451	22,109,946	9,997,671	10,318,310	1,460,462
Cost of revenues . . . . .	(8,714,489)	(12,239,568)	(15,488,778)	(6,969,511)	(7,730,487)	(1,094,179)
Gross profit . . . . .	4,345,584	5,364,883	6,621,168	3,028,160	2,587,823	366,283
Operating income (expenses) <sup>(1)</sup>						
Selling, general and administrative . . . . .	(780,517)	(1,210,717)	(1,546,227)	(863,128)	(872,472)	(123,490)
Other operating income, net . . . . .	183,368	178,057	387,890	87,633	303,270	42,924
Total operating expenses . . . . .	(597,149)	(1,032,660)	(1,158,337)	(775,495)	(569,202)	(80,566)
Income from operations . . . . .	3,748,435	4,332,223	5,462,831	2,252,665	2,018,621	285,717
Other income (expenses) . . . . .						
Interest income . . . . .	166,325	401,162	585,404	290,941	240,485	34,038
Interest expense . . . . .	(15,668)	(780)	—	—	(9,426)	(1,334)
Gain/(loss) on disposal of equity investees and subsidiary . . . . .	—	562,637	(2,860)	(529)	—	—
Impairment of investment in equity investee . . . . .	(30,000)	—	(56,026)	—	—	—
Unrealized gain from investment in equity investee . . . . .	—	—	754,468	—	—	—
Foreign currency exchange gain/(loss), before tax . . . . .	(48,149)	41,189	13,301	(3,662)	19,047	2,696
Income before income tax, and share of loss in equity method investments . . . . .	3,820,943	5,336,431	6,757,118	2,539,415	2,268,727	321,117
Income tax expense . . . . .	(646,361)	(929,133)	(1,078,295)	(480,661)	(428,074)	(60,590)
Share of loss in equity method investments . . . . .	(15,682)	(19,386)	(7,556)	(12,013)	(16,109)	(2,280)
Net Income . . . . .	3,158,900	4,387,912	5,671,267	2,046,741	1,824,544	258,247
Net loss/(income) attributable to noncontrolling interests . . . . .	763	(4,887)	2,878	(6,547)	(1,490)	(211)
Net income attributable to ZTO Express (Cayman) Inc. . . . .	3,159,663	4,383,025	5,674,145	2,040,194	1,823,054	258,036

Note:

- (1) Our operating income (expenses) in 2017, 2018 and 2019 includes RMB40.7 million, RMB249.5 million and RMB316.7 million, respectively, of share-based compensation expenses, accounting for 0.3%, 1.4% and 1.4% of our total revenues in the same periods, respectively. Our operating income (expenses) in the six months ended June 30, 2019 and 2020 includes RMB295.1 million and RMB264.2 million, respectively, of share-based compensation expenses, accounting for 3.0% and 2.6% of our total revenues in the same periods, respectively.



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### Comparison of Six Months Ended June 30, 2020 and 2019

#### *Revenues*

Our revenues increased by 3.2% to RMB10.3 billion (US\$1.5 billion) in the six months ended June 30, 2020 from RMB10.0 billion in the six months ended June 30, 2019. The increase was mainly driven by growth in parcel volume to 6,970 million in the six months ended June 30, 2020 from 5,371 million in the six months ended June 30, 2019 as a result of growth in China's e-commerce market and an increase in our market share. It is also largely offset by a 20.5% decrease in unit price per parcel mainly from incremental volume incentives to provide extra support to the network partners in order to maintain competitiveness and to cope with the negative impact of the COVID-19 outbreak. Revenue from freight forwarding services increased 19.3% compared to the same period of 2019, mainly due to increased cross border e-commerce demand during the COVID-19 outbreak. Revenue from sales of accessories, largely consisting of the sales of thermal paper used for digital waybills printing, declined 0.6% due to use of lower-priced single-sheet digital waybill since the second half of 2019.

#### *Cost of Revenues*

Our total cost of revenues increased by 10.9% to RMB7.7 billion (US\$1.1 billion) in the six months ended June 30, 2020 from RMB7.0 billion in the six months ended June 30, 2019. This increase primarily resulted from increases in sorting hub operating cost by RMB375.1 million (US\$53.1 million) and other costs by RMB395.0 million (US\$55.9 million).

*Line-haul transportation cost.* Our line-haul transportation cost remained stable at RMB3.3 billion (US\$466.2 million) in the six months ended June 30, 2020 as compared to RMB3.3 billion in the six months ended June 30, 2019. Our line-haul transportation cost remained stable because of, on the one hand, the increase in parcel volume and, on the other hand, (i) reduced toll road fee charges based on a national level waiver policy which took effect in mid-February and lasted through early May, (ii) higher usage of self-owned line-haul vehicles with an increasing number of higher-capacity trailer trucks, and (iii) decrease in domestic diesel price due to the decline in global oil demand triggered by the COVID-19 outbreak. As a combined result of the foregoing factors, the line-haul transportation cost per parcel declined 22.8% to RMB0.47. As a percentage of revenues, line-haul transportation cost accounted for 31.9% of total revenues, a slight decrease from 32.9% in the same period of last year.

*Sorting hub cost.* Our sorting hub cost increased by 20.3% to RMB2.2 billion (US\$314.2 million) in the six months ended June 30, 2020 from RMB1.8 billion in the six months ended June 30, 2019. The increase was mainly due to (i) increased labor costs of RMB216.3 million (US\$30.6 million) as a result of wage increases and the hiring of additional employees to support parcel volume growth, and (ii) an increase of RMB123.5 million (US\$17.5 million) in depreciation expenses driven by the expansion of sorting hubs and installation of more automated sorting equipment. As of June 30, 2020, 282 sets of automated sorting equipment have been installed and put into operation. The sorting hub cost per parcel decreased 7.3% to RMB0.32 mainly as a result of higher utilization of automation and the decrease in the percentage of outsourced temporary sorting workers, partially offset by the declined parcel volume in the first two months of 2020 where sorting hubs were forced to temporarily close down due to the COVID-19 outbreak until they gradually returned to operations in mid-to-late February.

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*Cost of accessories sold.* Our cost of accessories sold decreased by 32.3% to RMB187.0 million (US\$26.5 million) in the six months ended June 30, 2020 from RMB276.1 million in the six months ended June 30, 2019. The decrease was mainly driven by the increased use of lower-cost single-sheet digital waybills since the second half of 2019.

*Other costs.* Other costs increased to RMB1.3 billion (US\$187.6 million) in the six months ended June 30, 2020 from RMB930.2 million in the six months ended June 30, 2019, primarily due to (i) an increase in costs associated with serving enterprise customers of RMB268.2 million (US\$38.0 million) and (ii) an increase of RMB102.3 million (US\$14.5 million) in information technology related cost.

### ***Gross Profit***

Our gross profit decreased by 14.5% to RMB2.6 billion (US\$366.3 million) in the six months ended June 30, 2020 from RMB3.0 billion in the six months ended June 30, 2019. Our gross profit margin decreased to 25.1% in the six months ended June 30, 2020 from 30.3% in the six months ended June 30, 2019 and was primarily attributable to combined effects of 29.8% parcel volume growth and unit cost productivity gain of 14.5% partially offsetting overall unit price per parcel decline of 20.5% due to competition and the COVID-19 outbreak. The parcel volume growth resulted from growth in China's e-commerce market and an increase in our market share, although this overall growth was partially offset by a temporary decline in the first two months of 2020 due to the COVID-19 outbreak. Our cost productivity improved during the period primarily because of the continued adoption of cost efficient and innovative measures in transportation and sorting, such as the use of high-capacity trucks and automated sorting equipment. On the other hand, unit price per parcel declined as a result of both competition and the COVID-19 outbreak, which had a stronger impact than the foregoing two factors, resulting in a decline in gross profit margin.

### ***Operating Expenses***

Our total operating expenses decreased by 26.6% to RMB569.2 million (US\$80.6 million) in the six months ended June 30, 2020 from RMB775.5 million in the six months ended June 30, 2019.

*Selling, general and administrative expenses.* Our selling, general and administrative expenses increased slightly by 1.1% to RMB872.5 million (US\$123.5 million) in the six months ended June 30, 2020 from RMB863.1 million in the six months ended June 30, 2019. The slight increase was primarily due to (i) an increase of RMB9.7 million (US\$1.4 million) in depreciation and amortization expenses in connection with the newly built office buildings, and (ii) an increase of RMB9.5 million (US\$1.3 million) in office expenses, partially offset by a decrease in share-based compensation expenses as the restricted share units we granted in 2017 under the 2016 Share Incentive Plan was fully amortized in the first quarter of 2020.

*Other operating income, net.* We had a net other operating income of RMB303.3 million (US\$42.9 million) in the six months ended June 30, 2020, compared to RMB87.6 million of net other operating income in the six months ended June 30, 2019. The increase is mainly comprised of (i) a VAT super deduction of RMB98.7 million, (ii) an increase in government subsidies of RMB67.8 million, and (iii) a tax rebate of RMB32.5 million.

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### *Other Income and Expenses*

*Interest income.* Interest income decreased to RMB240.5 million (US\$34.0 million) in the six months ended June 30, 2020 from RMB290.9 million in the six months ended June 30, 2019, primarily due to the decreased amount of cash and interest-earning bank deposits.

*Interest expense.* Our interest expense increased to RMB9.4 million (US\$1.3 million) in the six months ended June 30, 2020 from nil in the six months ended June 30, 2019, primarily due to the short-term bank borrowings in the first half of 2020.

*Foreign currency exchange gain/(loss).* Our foreign currency exchange changed from a loss of RMB3.7 million in the six months ended June 30, 2019 to a gain of RMB19.0 million (US\$2.7 million) in the six months ended June 30, 2020 mainly due to the appreciation of the onshore U.S. dollar-denominated bank deposits against the Chinese Renminbi in the period.

### *Income Tax Expense*

Our income tax expense was RMB428.1 million (US\$60.6 million) in the six months ended June 30, 2020, representing a decrease of 10.9% from RMB480.7 million in the six months ended June 30, 2019, mainly due to the decrease of profit before tax. Our effective tax rate in the six months ended June 30, 2020 was 18.9%, compared to 18.9% in the six months ended June 30, 2019.

### *Net Income*

As a result of the foregoing, our net income decreased to RMB1.8 billion (US\$258.2 million) in the six months ended June 30, 2020 from RMB2.0 billion in the six months ended June 30, 2019.

## **Comparison of Fiscal Year 2019 and 2018**

### *Revenues*

Our revenues increased by 25.6% to RMB22.1 billion in 2019 from RMB17.6 billion in 2018. The increase was mainly driven by growth in parcel volume to 12,121 million in 2019 from 8,524 million in 2018 as a result of growth in China's e-commerce market and an increase in our market share. It is also partially offset by a 10.1% decrease in unit price per parcel mainly from incremental volume incentives in response to competition.

### *Cost of Revenues*

Our total cost of revenues increased by 26.5% to RMB15.5 billion in 2019 from RMB12.2 billion in 2018. This increase primarily resulted from increases in our line-haul transportation cost by RMB1.7 billion, sorting hub operating cost by RMB0.9 billion and other costs by RMB606.7 million. Combined line-haul transportation cost and sorting hub operating cost per parcel decreased 9.1% or RMB0.10 for the year of 2019.

*Line-haul transportation cost.* Our line-haul transportation cost increased by 29.7% to RMB7.5 billion in 2019 from RMB5.8 billion in 2018. The increase was in line with the increase in parcel volume and was mainly due to an increase of RMB1,430.7 million associated with our self-owned fleet which includes fuel, tolls, drivers' compensation, depreciation and

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maintenance expenses, and an increase of RMB101.9 million in outsourced transportation costs. As a percentage of revenues, line-haul transportation cost accounted for 33.8% of total revenues, an increase from 32.7% last year.

*Sorting hub cost.* Our sorting hub cost increased by 28.5% to RMB4.1 billion in 2019 from RMB3.2 billion in 2018. The increase was mainly due to (i) increased labor costs of RMB595.1 million as a result of wage increases and the hiring of additional employees to support parcel volume growth, and (ii) an increase of RMB176.7 million in depreciation expenses driven by the expansion of sorting hubs and installation of more automated sorting equipment. As of December 31, 2019, 265 sets of automated sorting equipment have been installed and put into operation. Sorting hub cost per parcel declined by RMB0.04 compared with last year mainly driven by higher utilization of automation and the advanced planning on use of peak season temporary workers.

*Cost of accessories sold.* Our cost of accessories sold increased by 10.7% to RMB544.2 million in 2019 from RMB491.7 million in 2018. The increase was in line with growth in our revenue from the sale of accessories to our network partners, which includes the sale of thermal paper for digital waybill printing, portable bar code readers, and ZTO-branded packaging material and uniforms.

*Other costs.* Other costs increased to RMB2,159.7 million in 2019 from RMB1,553.0 million in 2018, primarily due to (i) an increase in costs associated with serving enterprise customers of RMB357.5 million and (ii) an increase of RMB223.4 million in information technology related cost.

### ***Gross Profit***

Our gross profit increased by 23.4% to RMB6.6 billion in 2019 from RMB5.4 billion in 2018. Our gross profit margin decreased to 29.9% in 2019 from 30.5% in 2018 and was primarily attributable to the decline in unit price per parcel, partially offset by volume increase and cost productivity gain. The 10.1% decline in unit price per parcel was mainly due to incremental volume incentives in response to competition, whereas the volume increase of 42.2% resulted from growth in China's e-commerce market and an increase in our market share. The cost productivity gain of 11.0% was mainly a result of increased use of self-owned fleet and automated sorting equipment.

### ***Operating Expenses***

Our total operating expenses increased by 12.2% to RMB1,158.3 million in 2019 from RMB1,032.7 million in 2018.

*Selling, general and administrative expenses.* Our selling, general and administrative expenses increased by 27.7% to RMB1,546.2 million in 2019 from RMB1,210.7 million in 2018. The increase was primarily due to (i) an increase of RMB67.2 million in share-based compensation expenses, (ii) an increase of RMB182.8 million in wages and social welfare expenses, and (iii) an increase of RMB45.7 million in depreciation and amortization expenses.

*Other operating income, net.* We had a net other operating income of RMB387.9 million in 2019, compared to RMB178.1 million in 2018. The increase is mainly composed of (i) the RMB131.4 million of VAT super deduction, and (ii) an increase in government subsidies and tax rebate of RMB71.4 million.

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### ***Other Income and Expenses***

*Interest income.* Interest income increased to RMB585.4 million in 2019 from RMB401.2 million in 2018, primarily due to the increased amount of cash and interest-earning bank deposits.

*Loss on disposal of equity investees and subsidiary.* Loss on disposal of equity investees and subsidiary was RMB2.9 million in 2019.

*Impairment of investment in equity investee.* Impairment of investment in equity investee was RMB56.0 million in 2019, which primarily consisted of an impairment charge of RMB48.5 million related to our investment in Wheat Commune Group Inc., a campus-focused delivery and retail services provider in China.

*Unrealized gain from investment in equity investee.* Unrealized gain from investment in equity investee was the unrealized gain of RMB754.5 million which resulted from an observable price change in a follow-on offering by Cainiao Network in the fourth quarter of 2019.

*Foreign currency exchange net gain.* Foreign currency exchange net gain was RMB13.3 million in 2019 mainly due to the appreciation of the onshore U.S. dollar-denominated bank deposits against the Chinese Renminbi in 2019.

### ***Income Tax Expense***

Our income tax expense was RMB1,078.3 million in 2019, representing an increase of 16.1% as compared to RMB929.1 million in 2018, mainly due to the increase of profit before tax. Our effective tax rate in 2019 was 16.0%, compared to 17.4% in 2018.

### ***Net Income***

As a result of the foregoing, our net income increased to RMB5.7 billion in 2019 from RMB4.4 billion in 2018 mainly driven by parcel volume increase.

## **Comparison of Fiscal Year 2018 and 2017**

### ***Revenues***

Our revenues increased by 34.8% to RMB17.6 billion in 2018 from RMB13.1 billion in 2017. The increase was mainly driven by growth in parcel volume to 8,524 million in 2018 from 6,219 million in 2017 as a result of growth in China's e-commerce market and an increase in our market share.

### ***Cost of Revenues***

Our total cost of revenues increased by 40.5% to RMB12.2 billion in 2018 from RMB8.7 billion in 2017. This increase primarily resulted from increases in our line-haul transportation cost by RMB1.0 billion, freight forwarding cost by RMB1.0 billion, sorting hub operating cost by RMB0.8 billion and cost of accessories by RMB124.9 million.

*Line-haul transportation cost.* Our line-haul transportation cost increased by 20.0% to RMB5.8 billion in 2018 from RMB4.8 billion in 2017. The increase was in line with the increase in parcel volume and was mainly due to an increase of RMB1,068.7 million associated with our self-owned fleet which includes fuel, tolls, drivers' compensation, depreciation and

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maintenance expenses, and a decrease of RMB46.2 million in outsourced transportation costs. In 2018, we increased use of self-owned and self-operated trucks to reduce dependency on third-party outsourced trucks to enhance transportation efficiency. As a percentage of revenues, line-haul transportation cost accounted for 32.7% of total revenues, a decrease from 36.7% last year.

*Sorting hub cost.* Our sorting hub cost increased by 31.1% to RMB3.2 billion in 2018 from RMB2.4 billion in 2017. The increase was mainly due to (i) increased labor costs of RMB544.7 million as a result of wage increases and the hiring of additional employees to support parcel volume growth, (ii) an increase of RMB119.4 million in depreciation expenses driven by the expansion of sorting hubs and installation of more automated sorting equipment, and (iii) an increase of RMB78.8 million in rental costs and related utilities cost. As of December 31, 2018, 120 sets of automated sorting equipment have been installed and put into operation. As a percentage of revenues, sorting hub operating cost accounted for 18.2%, a decrease from 18.7% last year, primarily due to economies of scale and an improvement in operating efficiency.

*Cost of accessories sold.* Our cost of accessories sold increased by 34.0% to RMB491.7 million in 2018 from RMB366.9 million in 2017. The increase was in line with growth in our revenue from the sale of accessories to our network partners, which includes the sale of thermal paper for digital waybill printing, portable bar code readers, and ZTO-branded packaging material and uniforms.

*Other costs.* Other costs increased to RMB1,553 million in 2018 from RMB850.6 million in 2017, primarily due to (i) an increase in costs associated with serving enterprise customers of RMB428.8 million, (ii) an increase of RMB155.1 million in information technology related cost, and (iii) an increase of RMB137.4 million in tax surcharges.

### ***Gross Profit***

Our gross profit increased by 23.5% to RMB5.4 billion in 2018 from RMB4.3 billion in 2017. Our gross profit margin decreased to 30.5% in 2018 from 33.3% in 2017 and was primarily attributable to parcel volume growth and productivity gain not fully absorbing the impact of decrease in unit price. Lower margin full-year consolidated freight forwarding business and lower margin enterprise customers business also caused minor dilution on gross profit margin.

### ***Operating Expenses***

Our total operating expenses increased by 73.0% to RMB1,032.7 million in 2018 from RMB597.1 million in 2017.

*Selling, general and administrative expenses.* Our selling, general and administrative expenses increased by 55.1% to RMB1,210.7 million in 2018 from RMB780.5 million in 2017. The increase was primarily due to (i) an increase of RMB208.8 million in share-based compensation expenses of which RMB188.6 million was a lump sum charge for 2017 grant as compared to the 2016 grant that is vested over three years, (ii) an increase of RMB104.3 million in wages and social welfare expenses, (iii) an increase of RMB24.5 million in professional service charges, (iv) an increase of RMB23.2 million in depreciation and amortization expenses, and (v) an increase of RMB30.2 million in sundry office, utilities and communication charges.

*Other operating income, net.* We had a net other operating income of RMB178.1 million in 2018, compared to RMB183.4 million in 2017, which is mainly composed of rebate of fees from the depositary bank, government subsidies and sublease income.



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### *Other Income and Expenses*

*Interest income.* Interest income increased to RMB401.2 million in 2018 from RMB166.3 million in 2017, primarily due to the increased amount of cash and interest-earning bank deposits.

*Interest expense.* Our interest expense decreased to RMB0.8 million in 2018 from RMB15.7 million in 2017.

There was no borrowing since the second quarter of 2018.

*Gain on disposal of equity investees and subsidiary.* Gain on disposal of equity investees and subsidiary was RMB562.6 million in 2018. In May 2018, we disposed our shares in Shenzhen Feng Chao Technology Ltd. for cash consideration of RMB697.9 million and recognized gain on disposal of equity investee of RMB548.6 million.

*Foreign currency exchange loss.* Foreign currency exchange loss was RMB41.2 million driven by the depreciation of the onshore U.S. dollar-denominated bank deposits against the Chinese Renminbi.

### *Income Tax Expense*

Our income tax expense was RMB929.1 million in 2018, representing an increase of 43.7% as compared to RMB646.4 million in 2017, mainly due to the increase of profit before tax. Our effective tax rate in 2018 was 17.4%, compared to 16.9% in 2017.

### *Net Income*

As a result of the foregoing, our net income increased significantly to RMB4.4 billion in 2018 from RMB3.2 billion in 2017 mainly driven by parcel volume increase and operational efficiency and scale leverage.

## NON-GAAP MEASURES

We use adjusted EBITDA and adjusted net income, each a non-GAAP financial measure, in evaluating our operating results and for financial and operational decision-making purposes.

Adjusted EBITDA and adjusted net income should not be considered in isolation or construed as an alternative to net income or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review the historical non-GAAP financial measures to the most directly comparable GAAP measures. Adjusted EBITDA and adjusted net income presented here do not have a standardized meaning prescribed by GAAP and may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

Adjusted EBITDA represents net income (which excludes depreciation, amortization, interest expense and income tax expense) before (i) share-based compensation expense; (ii) impairment of investment in equity investee; (iii) unrealized gain from investment in equity investee; and (iv) gain/(loss) on disposal of equity investees and subsidiary, before income taxes.

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Adjusted net income represents net income before (i) share-based compensation expense; (ii) impairment of investment in equity investee; (iii) unrealized gain from investment in equity investee; and (iv) gain/(loss) on disposal of equity investees and subsidiary, net of income taxes.

Share-based compensation expenses represent non-cash expenses associated with share options and restricted share units we granted under the Share Incentive Plans. Impairment of investment in equity investee and unrealized gain from investment in equity investee represent non-recurring and non-cash items, and gain/(loss) on disposal of equity investees and subsidiary, before income taxes represents non-recurring items, which have little analytical or predictive value and are generally not meaningful in evaluating the performance of our businesses.

We believe that, by excluding such non-cash items or/and non-recurring items, the non-GAAP financial measures help identify the trends underlying core operating results that could otherwise be distorted. As such, we believe that the non-GAAP financial measures facilitate investors' assessment of operating results, enhance the overall understanding of past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in their financial and operational decision-making.

The table below sets forth a reconciliation of our net income to adjusted EBITDA for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Net Income .....	3,158,900	4,387,912	5,671,267	2,046,741	1,824,544	258,247
Add:						
Depreciation .....	522,853	809,005	1,210,040	554,832	801,006	113,375
Amortization .....	37,512	44,713	54,526	25,969	33,250	4,706
Interest expense .....	15,668	780	–	–	9,426	1,334
Income tax expense .....	646,361	929,133	1,078,295	480,661	428,074	60,590
EBITDA	4,381,294	6,171,543	8,014,128	3,108,203	3,096,300	438,252
Add:						
Share-based compensation expense .....	40,725	249,478	316,666	295,065	264,154	37,388
Impairment of investment in equity investee .....	30,000	–	56,026	–	–	–
Less:						
Unrealized gain from investment in equity investee	–	–	754,468	–	–	–
Gain/(loss) on disposal of equity investees and subsidiary, before income taxes .....	–	562,637	(2,860)	(529)	–	–
Adjusted EBITDA .....	<u>4,452,019</u>	<u>5,858,384</u>	<u>7,635,212</u>	<u>3,403,797</u>	<u>3,360,454</u>	<u>475,640</u>

## FINANCIAL INFORMATION

The table below sets forth a reconciliation of our net income to adjusted net income for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Net Income .....	3,158,900	4,387,912	5,671,267	2,046,741	1,824,544	258,247
Add:						
Share-based compensation expense .....	40,725	249,478	316,666	295,065	264,154	37,388
Impairment of investment in equity investee .....	30,000	-	56,026	-	-	-
Less:						
Unrealized gain from investment in equity investee .....	-	-	754,468	-	-	-
Gain/(loss) on disposal of equity investees and subsidiary, net of income taxes .....	-	436,277	(2,860)	(529)	-	-
Adjusted net income .....	3,229,625	4,201,113	5,292,351	2,342,335	2,088,698	295,635

### BUSINESS COMBINATION

In October 2017, we acquired the COE Business for a consideration of HK\$180.0 million (approximately RMB152.9 million). The COE Business is a major freight forwarding and international logistics services provider in Hong Kong and Shenzhen. We adopted the acquisition method to account for the acquisition. Under the acquisition method, we consolidated the operating results of the COE Business for the three months ended December 31, 2017, and the relevant net assets acquired in the consolidated financial statements as of December 31, 2017. As a result of the acquisition, we recognized RMB17,123 thousand of fixed assets, RMB61,973 thousand of intangible assets, representing the fair value of the customer relationships of the COE Business, and a goodwill of RMB84,430 thousand, representing the excess of acquisition cost over the fair market value of net tangible assets and customer relationship acquired. The cash consideration in relation to the acquisition of the COE Business of RMB22.9 million was not fully paid as of June 30, 2020 and has been recorded in acquisition consideration payable.

According to the provisions of ASC 805, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree must be recognized and measured at fair value as of the acquisition date. We engaged a third-party valuation firm to assist us with the valuation of the COE Business as well as property, plant and equipment and intangible assets. The discounted cash flow method was used to determine the fair value of equity interests, and the value of ordinary shares was derived using an option-pricing model.

### TAXATION

We generate the majority of our operating income from our PRC operations. Income tax liability is calculated based on a separate return basis as if we had filed separate tax returns for all the periods presented.

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### **The Cayman Islands and the British Virgin Islands**

Under the current laws of the Cayman Islands and the British Virgin Islands, we are not subject to tax on our income or capital gains. In addition, the Cayman Islands and the British Virgin Islands do not impose withholding tax on dividend payments.

### **Hong Kong**

Under the current Hong Kong Inland Revenue Ordinance, our subsidiaries domiciled in Hong Kong have introduced a two-tiered profits tax rate regime which is applicable to any year of assessment commencing on or after April 1, 2018. The profits tax rate for the first HK\$2 million of profits of corporations will be lowered to 8.25%, while profits above that amount will continue to be subject to the tax rate of 16.5%. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our Hong Kong subsidiary to us are not subject to any Hong Kong withholding tax.

### **PRC**

Under the EIT Law, our PRC subsidiaries and consolidated affiliated entities are in principle subject to enterprise income tax at a statutory rate of 25%. Such 25% EIT rate applies to most of our subsidiaries and consolidated affiliated Chinese entities established in China. Some of our PRC subsidiaries, Shanghai Zhongtongji Network Technology Co., Ltd., and ten of our consolidated affiliated Chinese entities, located in the municipalities or provinces of Chongqing, Sichuan, Guizhou, Yunnan and Shaanxi, benefit from a preferential tax rate of 15% by either qualifying as HNTEs or qualifying under the Western Regions Catalogue under the EIT Law as follows.

- In 2017, Shanghai Zhongtongji Network Technology Co., Ltd. applied for the qualification as HNTE, which were approved by the relevant government authority. Thus, it was entitled to a preferential EIT rate of 15% from 2017 to 2019. As of June 30, 2020, it has submitted its HNTE application documents to competent authority for renewal of HNTE status, and expects to obtain the approval of renewal for the following three years in 2020.
- Pursuant to Circular 58, Circular 12 and Circular 23 promulgated for the implementation of preferential tax policy in China's western regions, companies located in applicable jurisdictions covered by the Western Regions Catalogue are eligible for a preferential income tax rate of 15% if their primary businesses fall within the "encouraged" category of the policy and the annual revenue from their primary business accounts for more than 70% of the total enterprise revenue. See "Regulations — Regulations Relating to Tax — Enterprise Income Tax." In 2019 and the six months ended June 30, 2020, ten of our consolidated affiliated Chinese entities, located in the municipalities or provinces of Chongqing, Sichuan, Guizhou, Yunnan and Shaanxi, have the 15% preferential income tax rate as qualified enterprises within the Catalog of Encouraged Industries in the Western Region. The preferential income tax rate will expire as of December 31, 2030.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises, or FIEs, earned after January 1, 2008, are subject to a 10% withholding income tax. In addition, under the tax treaty between the PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor directly holds at least 25% in the FIE, or 10%, if not.

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Under Circular 36, our PRC subsidiaries and consolidated affiliated entities are subject to value added tax, or VAT, at a rate of 6% to 17% (which has been reduced to 13% after April 1, 2019 pursuant to Circular 39) on proceeds received from customers and are entitled to a refund for VAT already paid or borne on the goods or services purchased by it and utilized in the production of goods or provisions of services that have generated the gross sales proceeds. Under Circular 32, which came into effect on May 1, 2018, for VAT taxable sales or importation of goods originally subject to value-added tax rates of 17% and 11%, such tax rates shall be adjusted to 16% and 10%, respectively. Furthermore, pursuant to Circular 39 promulgated by the MOF, the STA and the General Administration of Customs, which came into effect on April 1, 2019, for general VAT payers' sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9%, respectively. Under Circular 39, during the period from April 2019 to December 2021, certain qualified service industry taxpayers can enjoy an extra 10% for deduction of the tax payable, which is calculated based on the input VAT filed with the tax bureau. In addition, under Circular 39, qualifying tax payers who meet certain requirements are eligible for the newly increased unutilized input VAT refund. The refund of newly increased unutilized input VAT for the current period shall be calculated as per the following formula: refundable amount of newly increased unutilized input VAT for the current period = newly increased unutilized input VAT × the input component ratio × 60%.

### LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth the movements of our cash, cash equivalents and restricted cash for the periods presented:

	Year Ended December 31,			Six Months Ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
<b>Summary Consolidated Cash Flow Data:</b>						
Net cash provided by operating activities . . . . .	3,630,684	4,404,051	6,304,186	2,626,074	1,430,061	202,415
Net cash provided by/(used in) investing activities . . . . .	(8,294,547)	(12,872,633)	(3,664,213)	2,394,117	(1,812,554)	(256,552)
Net cash provided by/(used in) financing activities . . . . .	(1,061,558)	7,042,122	(1,982,306)	(2,507,052)	362,952	51,372
Effect of exchange rate changes on cash, cash equivalents and restricted cash . . . . .	(424,000)	275,680	(3,207)	(23,430)	19,460	2,754
Net increase/(decrease) in cash, cash equivalents and restricted cash . . . . .	(6,149,421)	(1,150,780)	654,460	2,489,709	(81)	(11)
Cash, cash equivalents and restricted cash at beginning of period . . . . .	11,923,155	5,773,734	4,622,954	4,622,954	5,277,414	746,969
Cash, cash equivalents and restricted cash at end of period . . . . .	5,773,734	4,622,954	5,277,414	7,112,663	5,277,333	746,958

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Our principal sources of liquidity have been proceeds from cash flows from operating activities and financing activities. As of December 31, 2017, 2018 and 2019 and June 30, 2020, our cash and cash equivalents, restricted cash and short-term investments were RMB11.0 billion, RMB18.2 billion, RMB16.4 billion and RMB13.7 billion (US\$1.9 billion), respectively. Our cash and cash equivalents primarily consist of cash on hand and highly liquid investments, which are unrestricted as to withdrawal or use or have maturities of three months or less when purchased. Restricted cash represents (a) cash received from network partners that was immediately restricted for use until the final delivery of parcel to the recipients; and (b) secured deposits held in designated bank accounts for issuance of bank acceptance notes, letters of guarantee for short-term borrowing and international forwarding services. Short-term investments consist primarily of investments in fixed deposits with maturities between three months and one year and wealth management products which we have the intent and the ability to hold to maturity within one year. As of June 30, 2020, approximately 52.7% of our cash and cash equivalents, restricted cash and short-term investments were held by subsidiaries and affiliated entities incorporated in China, and approximately 41.3% of our cash and cash equivalents, restricted cash and short-term investments were denominated in Renminbi.

We believe that our existing cash and cash equivalents and anticipated cash flow from operations are sufficient to fund our operating activities, capital expenditures and other obligations for at least the next 12 months. However, we may decide to enhance our liquidity position or increase our cash reserve for future expansions and acquisitions through additional financing activities. The issuance and sale of additional equity would result in further dilution to our existing shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that may restrict our operations and ability to make distributions. However, financing may not be available in amounts or on terms acceptable to us, if at all.

Although we consolidate the results of our consolidated affiliated entities, we only have access to the assets or earnings of our consolidated affiliated entities through our contractual arrangements with our VIE. See “History and Corporate Structure.” For restrictions and limitations on our liquidity and capital resources as a result of our corporate structure, see “— Holding Company Structure.” In addition, we would need to accrue and pay withholding taxes currently at the rate of 10% if we were to distribute funds from our subsidiaries and consolidated affiliated entities in China to our offshore subsidiaries. We do not intend to repatriate such funds in the foreseeable future, as we plan to use existing cash balances in China for general corporate purposes and reinvestment to support our business growth.

In utilizing the proceeds we receive from the Global Offering and other cash received from subsequent transactions that we hold offshore, we may make additional capital contributions to our PRC subsidiaries, establish new PRC operating entities, make loans to our PRC operating entities, or acquire offshore entities with business operations in China in offshore transactions. Most of these uses are subject to PRC regulations and approvals.

### **Operating Activities**

Net cash provided by operating activities in the six months ended June 30, 2020 was mainly attributable to the following factors: (i) our express delivery services and other revenue streams generated net cash inflow of RMB9.6 billion (US\$1.4 billion), while the aggregate cash outflow for transportation cost, sorting hubs operation cost, cost of accessories sold and other costs amounted to RMB6.5 billion (US\$924.3 million); (ii) cash flow in interest income of RMB223.1 million (US\$32.0 million); (iii) cash in subsidy of RMB272.5 million (US\$38.6



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million); (iv) RMB1.6 billion (US\$219.7 million) paid for labor related costs, including salaries, social insurances and other benefits; (v) income tax of RMB498.1 million (US\$70.5 million); and (vi) RMB83.1 million (US\$12.0 million) of other administrative costs.

Net cash provided by operating activities in 2019 was RMB6.3 billion, which was mainly attributable to the following factors: (i) our express delivery services and other revenue streams generated net cash inflow of RMB22.1 billion, while the aggregate cash outflow for transportation cost, sorting hubs operation cost, cost of accessories sold and other costs amounted to RMB10.3 billion; (ii) cash flow in interest income of RMB620.8 million; (iii) cash in subsidy of RMB316.9 million; (iv) RMB4.6 billion paid for labor related costs, including salaries, social insurances and other benefits; (v) income tax of RMB1.4 billion; and (vi) RMB381.0 million as other administrative costs.

Net cash provided by operating activities in 2018 was RMB4.4 billion, which was mainly attributable to the following factors: (i) our express delivery services and other revenue streams generated net cash inflow of RMB16.4 billion, while the aggregate cash outflow for transportation cost, sorting hubs operation cost, cost of accessories sold and other costs amounted to RMB7.6 billion; (ii) cash flow in interest income of RMB256.1 million; (iii) cash in subsidy of RMB114.2 million; (iv) RMB3.8 billion paid for labor related costs, including salaries, social insurances and other benefits; (v) income tax of RMB893.2 million; and (vi) RMB205.5 million as other administrative costs.

Net cash provided by operating activities in 2017 was RMB3.6 billion, which was mainly attributable to the following factors: (i) our express delivery services and sales of accessories generated net cash inflow RMB12.8 billion, while the aggregate cash outflow for transportation cost, sorting hubs operation cost, cost of accessories sold and other costs was RMB5.8 billion; (ii) cash flow in interest income of RMB121.5 million; (iii) cash in subsidy of RMB184.1 million; (iv) we paid RMB2.6 billion as labor related costs, including salaries, social insurances and other benefits; (v) we paid income tax of RMB0.9 billion; and (vi) we paid RMB266.7 million as other administrative costs.

### **Investing Activities**

Net cash used in investing activities in the six months ended June 30, 2020 was primarily due to (i) purchase of short-term investment products of RMB3.3 billion (US\$469.9 million), while maturity of short-term investment products amounted to RMB6.1 billion (US\$866.5 million); (ii) purchase of property and equipment of RMB2.6 billion (US\$370.2 million), including the purchase of sorting hub facilities, office furnishing and furniture, trucks and sorting equipment; (iii) purchase of land use rights in an amount of RMB1.4 billion (US\$194.2 million); (iv) purchase of long-term investment of RMB434.0 million (US\$61.4 million); and (v) payment for equity method investments of RMB206.6 million (US\$29.2 million).

Net cash used in investing activities in 2019 was RMB3.7 billion, primarily due to (i) purchase of short-term investment products of RMB14.1 billion, while maturity of short-term investment products amounted to RMB16.7 billion; (ii) purchase of property and equipment of RMB4.6 billion, including the purchase of sorting hub facilities, office furnishing and furniture, trucks and sorting equipment; (iii) purchase of land use rights in an amount of RMB590.7 million; and (iv) payment for equity method investments of RMB218.3 million, while disposal of equity investees amounted to RMB1.4 million.

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Net cash used in investing activities in 2018 was RMB12.9 billion, primarily for (i) purchase of short-term investment products of RMB13.6 billion, while maturity of short-term investment products amounted to RMB5.8 billion; (ii) purchase of property and equipment of RMB3.3 billion, including the purchase of sorting hub facilities, office furnishing and furniture, trucks and sorting equipment; (iii) purchase of land use rights in an amount of RMB657.5 million; and (iv) payment for equity method investments of RMB1.9 billion, while disposal of equity investees amounted to RMB0.8 billion.

Net cash used in investing activities in 2017 was RMB8.3 billion, primarily for (i) purchase of short-term investment products of RMB10.1 billion, while maturity of short-term investment products amounted to RMB4.7 billion; (ii) purchase of property and equipment of RMB2.6 billion, including the purchase of sorting hub facilities, office furnishing and furniture, trucks and sorting equipment; (iii) purchase of land use rights in an amount of RMB254.5 million; and (iv) payment for equity method investments of RMB89.1 million.

### Financing Activities

Net cash provided by financing activities in the six months ended June 30, 2020 was RMB363.0 million (US\$51.4 million), which was mainly attributable to the following factors: (i) proceeds of short-term borrowings in an amount of RMB1.7 billion (US\$239.2 million) which the Company undertook to take advantage of the interest rate cut by People's Bank of China; and (ii) payment of dividends of RMB1.3 billion (US\$188.4 million).

Net cash used in financing activities in 2019 was RMB2.0 billion, which was mainly attributable to the following factors: (i) payment of dividends of RMB1,270.8 million; and (ii) share repurchase of RMB762.9 million.

Net cash provided by financing activities in 2018 was RMB7.0 billion, which was mainly attributable to the following factors: (i) proceeds of RMB8,891.9 million from issuance of ordinary shares to Alibaba and other investors; (ii) payment of dividends of RMB895.1 million; (iii) share repurchase of RMB769.8 million; (iv) repayment of short-term borrowings in an amount of RMB250.0 million; and (v) proceeds from capital contribution from noncontrolling interest shareholder of RMB65.2 million.

Net cash used in financing activities in 2017 was RMB1.1 billion, primarily used in RMB857.7 million of repurchasing of ordinary shares and repayment of short-term borrowings in an amount of RMB750.0 million, partially offset by the proceeds from short-term borrowings of RMB550.0 million.

### CAPITAL EXPENDITURES

In connection with the expansion of our self-owned truck fleet and upgrade of our equipment and facilities, we paid an aggregate of approximately RMB2.8 billion, RMB4.0 billion, RMB5.2 billion and RMB4.0 billion (US\$564.4 million) in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively, for the purchases of property and equipment and purchases of land use rights. We intend to fund our future capital expenditures with our existing cash balance, proceeds from our Global Offering and other financing alternatives. We will continue to make capital expenditures to support the growth of our business.

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### HOLDING COMPANY STRUCTURE

ZTO Express (Cayman) Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our wholly owned subsidiaries and consolidated affiliated entities in China. As a result, our ability to pay dividends depends upon dividends paid by our wholly owned subsidiaries. If our wholly owned subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly owned subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our wholly owned PRC subsidiaries and consolidated affiliated entities is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by the SAFE. We currently plan to reinvest all earnings from our PRC subsidiaries to their business development and do not plan to request dividend distributions from them.

### TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of June 30, 2020:

	Total		Payment Due by Period			
			Less than 1 year	1-3 years	3-5 years	More than 5 years
	RMB	US\$	RMB			
(in thousands)						
Operating lease commitments <sup>(1)</sup>	803,497	113,728	261,118	272,817	131,959	137,603
Investment commitments <sup>(2)</sup>	98,800	13,984	–	98,800	–	–
Capital commitments <sup>(3)</sup>	3,219,310	455,664	–	–	–	–
<b>Total</b>	<b>4,121,607</b>	<b>583,376</b>	<b>261,118</b>	<b>371,617</b>	<b>131,959</b>	<b>137,603</b>

(1) We lease office space, sorting hubs and warehouse facilities under non-cancellable operating lease agreements that expire at various dates through December 2034. During 2017, 2018, 2019 and the six months ended June 30, 2020, we incurred RMB195.2 million, RMB271.6 million, RMB300.7 million and RMB169.1 million (US\$23.9 million) of such expenses, respectively.

(2) We were obligated to pay RMB98.8 million (US\$14.0 million) for certain investment in equity investees as of June 30, 2020 with payment due within three years.

(3) Our capital commitments primarily relate to commitments on construction of office building, sorting hubs and warehouse facilities. All of these capital commitments will be fulfilled based on the construction progress.

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As of June 30, 2020, we had outstanding principal amount of short-term bank borrowings of RMB1.7 billion (US\$239.2 million), which were unsecured and unguaranteed. During the first half of 2020, we entered into bank loan contracts with several banks with an aggregate amount of RMB1.7 billion (US\$239.2 million). The weighted average interest rate of borrowings drawn was 3.00% for six months ended June 30, 2020. There are some financial covenants including asset-liability ratio being less than 65% and current ratio being not less than 0.8 related to one of the loan contracts and we were in compliance of those financial covenants as of June 30, 2020. As of June 30, 2020, we also had operating lease liabilities amounting to RMB660.6 million (US\$93.5 million), certain of which were secured by the rental deposits and all of which were unguaranteed.

As of June 30, 2020 and the Latest Practicable Date, save as disclosed in the Accountants' Report in Appendix I to this document, we did not have significant contingent liabilities.

As of June 30, 2020, save as disclosed in this subsection and “— Tabular Disclosure of Contractual Obligations,” we did not have any bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges hire purchase commitments or other outstanding material contingent liabilities.

Save as disclosed above, since the Latest Practicable Date and up to the date of this document, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

### WORKING CAPITAL

We recorded net current assets of RMB8,231.8 million, RMB16,092.6 million, RMB13,417.3 million and RMB9,039.8 million (US\$1,279.5 million), respectively, as of December 31, 2017, 2018 and 2019 and June 30, 2020. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
<b>Current Assets:</b>					
Cash and cash equivalents . . . .	5,425,024	4,622,554	5,270,204	5,261,920	744,776
Restricted cash . . . . .	348,710	400	7,210	1,300	184
Accounts receivable, net . . . . .	287,835	596,995	675,567	628,466	88,954
Financing receivables, net . . . . .	64,030	517,983	511,124	471,837	66,784
Short-term investments . . . . .	5,224,559	13,599,852	11,113,217	8,437,887	1,194,305
Inventories . . . . .	34,231	43,813	43,845	64,152	9,080
Advances to suppliers . . . . .	263,574	337,874	438,272	631,220	89,343
Prepayments and other current assets . . . . .	719,983	1,507,996	1,964,506	2,239,249	316,945
Amounts due from related parties . . . . .	9,900	6,600	74,312	81,529	11,540
<b>Total current assets . . . . .</b>	<b>12,377,846</b>	<b>21,234,067</b>	<b>20,098,257</b>	<b>17,817,560</b>	<b>2,521,911</b>

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	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
<b>Current Liabilities:</b>					
Short-term bank borrowing . . .	250,000	—	—	1,690,000	239,204
Accounts payable . . . . .	889,139	1,311,807	1,475,258	1,105,673	156,498
Advances from customers . . . .	258,965	436,710	1,210,887	1,208,970	171,119
Income tax payable . . . . .	221,926	405,683	80,272	166,035	23,501
Amounts due to related parties . . . . .	114,913	132,216	38,943	23,101	3,270
Operating lease liabilities . . . .	—	—	298,728	240,240	34,004
Acquisition consideration payable . . . . .	130,004	19,581	22,942	22,942	3,247
Dividends payable . . . . .	—	1,699	1,629	334,313	47,319
Notes payable . . . . .	—	—	—	496,200	70,232
Other current liabilities . . . . .	2,281,067	2,833,769	3,552,288	3,490,285	494,015
<b>Total current liabilities . . . . .</b>	<b><u>4,146,014</u></b>	<b><u>5,141,465</u></b>	<b><u>6,680,947</u></b>	<b><u>8,777,759</u></b>	<b><u>1,242,409</u></b>
<b>Net current assets . . . . .</b>	<b><u>8,231,832</u></b>	<b><u>16,092,602</u></b>	<b><u>13,417,310</u></b>	<b><u>9,039,801</u></b>	<b><u>1,279,502</u></b>

For a detailed discussion on our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in the various working capital items, see “— Liquidity and Capital Resources.”

Taking into account cash and cash equivalents on hand, our operating cash flows, the available revolving lines of bank facilities, and the estimated net proceeds available to us from the Global Offering, our directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

### OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

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### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### **Inflation**

To date, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2017, 2018 and 2019 were increases of 1.8%, 1.9% and 4.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

#### **Market Risks**

##### *Foreign Exchange Risk*

Our revenues, expenses and assets and liabilities are mainly denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

As of June 30, 2020, we had RMB8.0 billion of cash and cash equivalent, restricted cash and short-term investment that were denominated in U.S. dollars. If Renminbi had appreciated by 10% against the U.S. dollar, it would result in a decrease of RMB0.8 billion in our cash and cash equivalents, restricted cash and short-term investment.

##### *Interest Rate Risk*

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, our future interest income may fall short of expectations due to changes in market interest rates.



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### *Commodity Price Risk*

Our exposure to commodity price risk primarily relates to fuel prices in connection with our line-haul transportation. The price and availability of fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, global politics and other factors. Historically, we have not experienced significant pricing pressure in connection with fuel price fluctuation. In the event of significant fuel price rise, our transportation expenses may rise and our gross profits may decrease if we are unable to adopt any effective cost control-measures or pass on the incremental costs to our customers in the form of service surcharges.

### **CRITICAL ACCOUNTING POLICIES**

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect our reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of each fiscal period and our reported amounts of revenue and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

### **Revenue Recognition**

We derive a substantial part of our revenues from express delivery services provided to our network partners, mainly including parcel sorting and line-haul transportation. In addition, we directly provide express delivery services to certain enterprise customers, including vertical e-commerce and traditional merchants, in connection with the delivery of their products to end consumers. We also provide freight forwarding services to our customers. Revenues generated from express delivery services and freight forwarding services, whether carried out by or arranged by us, generally occur over a very short period of time and are recognized over time as we perform the services.

Revenues also include sales of accessories, such as portable barcode readers and ZTO-branded packing supplies and apparel. Revenues are recognized when control of the product is transferred to the customer and in an amount we expect to earn in exchange for the product.

Prior to January 1, 2018, we recognized express delivery services revenue and freight forwarding services when the parcels were delivered. Effective from January 1, 2018, upon adoption of ASC 606, we generally recognize revenue over time as we perform the services in the contract because of the continuous transfer of control to the customer. We adopted the requirements of ASC 606 using the modified retrospective method. The cumulative adjustment to our retained earnings as of January 1, 2018 for the cumulative effect of initially applying the

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new standard was immaterial due to the short service period, and therefore, the retained earnings as of January 1, 2018 was not adjusted. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

### Disaggregation of Revenue

	Year Ended December 31,			Six Months Ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Express delivery services . . . . .	12,173,690	15,400,080	19,606,214	8,823,274	8,947,074	1,266,376
Freight forwarding services . . . . .	269,557	1,278,741	1,235,961	639,402	762,571	107,935
Sale of accessories . . . . .	591,716	812,866	1,089,977	501,407	498,214	70,518
Others . . . . .	25,110	112,764	177,794	33,588	110,451	15,633
<b>Total revenues . . . . .</b>	<b><u>13,060,073</u></b>	<b><u>17,604,451</u></b>	<b><u>22,109,946</u></b>	<b><u>9,997,671</u></b>	<b><u>10,318,310</u></b>	<b><u>1,460,462</u></b>

### Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the basis of revenue recognition in accordance with U.S. GAAP. To determine the proper revenue recognition method for contracts, we evaluate whether a single contract should be treated as containing more than one performance obligation. This evaluation requires judgment, and the decision to separate one single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. Our customers generally contract with us to provide distinct services. Substantially all of the contracts with customers for express delivery services or freight forwarding services include only one performance obligation. However, if a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. We frequently sell standard express delivery services and freight forwarding services with observable standalone sales prices. In these instances, the observable standalone sales are used to determine the standalone selling prices of express delivery services and freight forwarding services.

### Satisfaction of Performance Obligations

We generally recognize revenue over time as we perform the services in the contract because of the continuous transfer of control to the customer. The customers receive the benefit of the services as the goods are transported from one location to another. That is, if we were unable to complete delivery to the final location, the service that was already performed by us would not need to be reperformed. As control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. It normally only takes us one to seven days to complete the performance obligation.

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### **Variable Consideration**

We provide our customers with certain volume-based incentives in relation to express delivery service, which represent variable considerations and are recorded as reductions of the related revenue. We estimate the variable considerations in the most likely amounts we expect our customers to earn. As the incentives are generally determined on a monthly basis, the uncertainty in estimating the variable considerations to be recorded is very limited.

### **Principal vs. Agent Considerations**

In our express delivery services provided to pickup outlets, we normally utilize delivery outlets operated by our network partners to perform the dispatching services. We only fulfill parcel sorting and line-haul transportation services. U.S. GAAP requires us to use a control model approach to evaluate whether we perform services directly to the customers (as a principal) or arrange for services to be provided by another party (as an agent). Based on an evaluation of the control model, we have determined that we act as a principal in providing sorting and line-haul transportation services to the pickup outlets as we are primarily responsible for the delivery of parcels between sorting hubs and have the ability to control the related services. We act as an agent for dispatching services as we arrange for such services to be provided by the delivery outlets. Therefore, revenue is recorded net of the dispatching fees paid to the delivery outlets.

We also directly provide express delivery services to certain enterprise customers. According to the contracts with the enterprise customers, we are primarily responsible for and have control over the entire delivery process including the dispatching services. Therefore, we have determined that we act as a principal for all the express delivery services provided to enterprise customers and accordingly revenue is recorded on a gross basis including the dispatching fees paid to the delivery outlets.

### **Contract Assets and Liabilities**

Contract assets consist of billed and unbilled receivables resulting from in-transit parcels, which are recorded in accounts receivable and have been immaterial.

Contract liabilities consist of advance payments as well as deferred revenue, which are recorded in advances from customers and have been immaterial.

### **Practical Expedients and Exemptions**

We elect not to disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less (ii) contracts for which the Company recognizes revenues at the amount it has the right to invoice for services performed and (iii) contracts with variable consideration related to wholly unsatisfied performance obligations.

### **Consolidation of Variable Interest Entities**

Our consolidated financial statements include the financial statements of our holding company, our subsidiaries, and our variable interest entity. All intercompany transactions and balances have been eliminated on consolidation.

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We evaluate the need to consolidate certain variable interest entities by determining if we are their primary beneficiary. In determining whether we are the primary beneficiary, we consider (1) if we have authority to direct the activities that most significantly affect the economic performance of the variable interest entity, and (2) the obligation to absorb losses of the variable interest entity that could potentially be significant to the variable interest entity or the right to receive benefits from the variable interest entity that could potentially be significant to the variable interest entity. We consolidate the variable interest entity if we are deemed its primary beneficiary.

Applicable PRC laws and regulations currently limit foreign ownership of companies that provide domestic mail delivery services in PRC. We are deemed a foreign legal person under PRC laws and accordingly subsidiaries owned by us are ineligible to engage in provision of domestic mail delivery services. Therefore, we conduct our operations through our VIE, ZTO Express. To provide the effective control over ZTO Express and receive substantially all of the economic benefits of ZTO Express, Shanghai Zhongtongji Network, our wholly owned subsidiary, entered into a series of contractual arrangements with ZTO Express and its shareholders. These contractual agreements include shareholders' voting rights proxy agreements, exclusive call option agreements, equity pledge agreements, irrevocable powers of attorney, exclusive consulting and services agreements and spousal consent letters. As a result of these contractual arrangements, the shareholders of ZTO Express irrevocably granted Shanghai Zhongtongji Network the power to exercise all voting rights to which they were entitled. In addition, Shanghai Zhongtongji Network has the option to acquire all of the equity interests in ZTO Express, to the extent permitted by the then-effective PRC laws and regulations, for nominal consideration. Finally, Shanghai Zhongtongji Network is entitled to receive service fees for certain services to be provided to ZTO Express. We conclude that ZTO Express is our variable interest entity, of which we are the primary beneficiary. As such, we consolidated the financial results of ZTO Express in our consolidated financial statements.

Tonglu Tongze was formed in 2013 and majority owned by our employees. We have determined that Tonglu Tongze is a variable interest entity as its equity investors do not have the power, through voting rights or similar rights, to direct the activities of Tonglu Tongze that most significantly impact the entity's economic performance. After considering the terms, characteristics, size of the economic interests and our involvement in Tonglu Tongze, we have concluded that we are not the primary beneficiary of Tonglu Tongze as we do not have an exposure to the economics of Tonglu Tongze that is more than insignificant.

### **Income Taxes**

We are subject to income taxes in PRC and other jurisdictions. We exercise significant judgment and record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We recognize the deferred income tax effects of a change in tax rates in the period of the enactment.

We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income, and ongoing tax planning strategies in assessing the need for a valuation allowance.

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We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. We have not had any significant unrecognized uncertain tax positions.

### Financing Receivables, Net of Allowance

Financing receivables are primarily generated from the financial services we provided to qualified network partners. Financing receivables are recorded at the principal net of allowance for credit losses and include accrued interest receivable as of the balance sheet date. The financing periods granted by us to the borrowers generally range from 1 to 36 months.

Allowance relating to financing receivables represents our best estimate of the losses inherent in the outstanding portfolio of financing receivables. After the adoption of ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, on January 1, 2020 using the modified retrospective transition method, we have developed a forward looking CECL model based on the conditions of collaterals and guarantees for financing receivables, historical experiences, credit quality of the borrowers, current economic conditions and the borrowers' operating results, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from the borrowers. The cumulative effect from the adoption as of January 1, 2020 was immaterial to the condensed consolidated financial statements.

We had a financing receivables balance of RMB64.0 million, RMB518.0 million, RMB1,060.9 million and RMB1,712.5 million as of December 31, 2017, 2018 and 2019 and June 30, 2020. No default occurred during the Track Record Period.

The table below sets forth the maturity profiles of our financing receivables before provision of credit losses as of June 30, 2020.

	<u>June 30, 2020</u>	<u>Within one year</u>	<u>One to two years</u>	<u>Two to three years</u>
Total Balance (RMB in thousands) . . . . .	1,736,119	478,400	950,570	307,150
Percentage of Total Balance . . . . .	100%	28%	55%	17%

### Impairment Assessment on Long-Lived Assets and Goodwill

We evaluate the recoverability of long-lived assets with determinable useful lives whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. We measure the carrying amount of a long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, and significant assumptions such as future cash flows over the life of the asset being evaluated and discount rate. These assumptions require significant judgment and may be different from actual results. No impairment charge was recognized for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

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Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of business acquired. Several factors give rise to goodwill in our acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired businesses. Unless circumstances otherwise indicate, goodwill is reviewed annually at December 31 for impairment. In our evaluation of goodwill impairment, we perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Prior to January 1, 2020, based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount, we performed a two-step test to determine the amount of goodwill impairment. In Step 1, we compare the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, we perform Step 2 and compare the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. Starting from January 1, 2020, we adopted ASU 2017-04, which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss.

We had two reporting units for purposes of allocating, testing goodwill for the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2020. We conducted qualitative assessment to determine whether it is necessary to perform a quantitative goodwill impairment test. In assessing the qualitative factors, we considered the impact of key factors such as changes in the general economic conditions including the impact of COVID-19, changes in industry and competitive environment, stock price and actual revenue performance compared to previous years. Based on the results of the qualitative assessment completed as of December 31, 2017, 2018 and 2019, and June 30, 2020, there were no indicators of impairment. Therefore, no impairment charge was recognized for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

### **Impairment Assessment on Investments in Equity Investees**

We continually review our equity method investments in equity investees to determine whether a decline in fair value below the carrying value is “other-than-temporary.” The primary factors that we consider include:

- the duration and severity of the decline in fair value;
- the financial condition, operating performance and the prospects of the equity investee; and
- other company specific information such as recent rounds of financing.



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Prior to January 1, 2018, for equity investment over which we do not have significant influence or control, the cost method of accounting was used. Effective January 1, 2018, upon adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities, we elected to measure these equity investments without readily determinable fair value at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. We recognized an unrealized gain of RMB754.5 million resulting from an investee's observable price change event for the year ended December 31, 2019. We recognized impairment losses of RMB30.0 million, nil, RMB56.0 million, nil and nil related to equity investments for the years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2019 and 2020, respectively.

### **Depreciation and Amortization**

The costs of property and equipment and intangible assets are charged ratably as depreciation and amortization expenses, respectively, over the estimated useful lives of the respective assets using the straight-line method. We periodically review changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation and amortization rates. Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in estimated useful lives and therefore depreciation and amortization expenses in future periods.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

A list of recent accounting pronouncements that are relevant to us is included in notes 2(z) "Adoption of New Accounting Standards" and 2(aa) "Accounting Standards Issued But Not Yet Effective" to our consolidated financial statements included in the Accountants' Report in Appendix I to this document.

On January 1, 2020, we adopted Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326") using the modified retrospective transition method. According to ASC 326-20-15-2, as of June 30, 2020, we had the accounts receivable of RMB628 million, held to maturity investment included in short term investments of RMB1,320 million and financing receivable of RMB1,713 million, which are measured at amortized cost and are subject to current expected credit loss ("CECL") assessment. The average expected credit loss rates for accounts receivable, held to maturity investment and financing receivable as of June 30, 2020 are 3.77%, nil and 1.36%, respectively.

### **DIVIDEND POLICY**

Our board of directors has complete discretion on whether to distribute dividends, subject to certain restrictions under Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either a profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

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## FINANCIAL INFORMATION

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On March 13, 2020, the board of directors approved a special dividend of US\$0.3 per ADS for 2019, to be paid to shareholders of record as of the close of business on April 8, 2020. We have paid US\$188.1 million during the six months ended June 30, 2020.

Unless otherwise disclosed in “Risk Factors” and “Financial Information”, we do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We intend to retain most of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Regulations — Regulations on Dividend Distribution.”

If we pay any dividends, on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

### **NO MATERIAL ADVERSE CHANGE**

After due and careful consideration, our directors confirm that, up to the date of this document, there has not been any material adverse change in our financial or trading position or prospects since June 30, 2020, and there is no event since June 30, 2020 which would materially affect the information shown in the Accountants’ Report in Appendix I to this document.

### **LISTING EXPENSES**

We expect to incur listing expenses of approximately HK\$177.78 million after June 30, 2020 (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK\$268.00 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect most of the listing expenses will be recorded as a deduction in equity directly.

### **UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out to illustrate the effect of the Global Offering on our audited consolidated net tangible assets attributable to our ordinary shareholders as of June 30, 2020 as if the Global Offering had taken place on that date.

## FINANCIAL INFORMATION

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets of the Group had the Global Offering been completed as of June 30, 2020 or at any future dates. It is prepared based on our audited consolidated net tangible assets attributable to our ordinary shareholder as of June 30, 2020 as derived from the Accountants' Report, the text of which is set out in Appendix I to this document, and adjusted as described below.

Audited consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company as of June 30, 2020 (in thousands of RMB) <i>(Note 1)</i>	Estimated net proceeds from the Global Offering (in thousands of RMB) <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company as of June 30, 2019 (in thousands of RMB)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per Share RMB <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per ADS RMB <i>(Note 4)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per Share HK\$ <i>(Note 5)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our ordinary shareholders per ADS HK\$ <i>(Note 5)</i>

Based on the indicative offer price of HK\$268.00 per Offer Share

Offer Share .....	34,594,711	10,831,562	45,426,273	54.80	54.80	60.12	60.12
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*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company as of June 30, 2020 is derived from the Accountants' Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to ordinary shareholders of our Company as of June 30, 2020 of RMB38,881,182,000 with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of our Company of RMB4,241,541,000 and RMB44,930,000, respectively.
- (2) The estimated net proceeds from the Global Offering are based on 45,000,000 Offer Shares at the indicative offer price of HK\$268.00 per Offer Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by our Company subsequent to June 30, 2020 and without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by our Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to RMB0.9116, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

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## FINANCIAL INFORMATION

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- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 828,894,733 Shares were in issue assuming that the Global Offering have been completed on June 30, 2020 without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares by our Company.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents one Share.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of our Company, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.00 to HK\$1.0970, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.
- (6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2020.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Immediately following the Global Offering, Mr. Meisong Lai, our chairman and chief executive officer, will be interested in and will control through: (a) Zto Lms Holding Limited, a company beneficially owned by The LMS Family Trust, 206,100,000 Class B ordinary shares and 3,116,420 ADSs (representing the same number of Class A ordinary shares); and (b) ZTO ES, 4,491,893 Class A ordinary shares for the purpose of our employee shareholding platform. See “Directors and Senior Management — Compensation — Share Incentive Plans” for details of our employee shareholding platform.

The LMS Family Trust is a trust established under the laws of Singapore and managed by Standard Chartered Trust (Singapore) Limited as trustee. Mr. Lai is the settlor of The LMS Family Trust and the beneficiaries of the trust are Mr. Lai and his family members.

Mr. Lai is the sole director of ZTO ES, which is held by himself and four limited partnerships formed in China. An entity controlled by Mr. Lai is the general partner of each of those limited partnerships and Ms. Yufeng Lai, wife of Mr. Lai, was the sole limited partner of each of those limited partnerships upon their formation.

Without taking into account (i) Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, (ii) the Company’s repurchase of Class A ordinary shares in the form of ADSs); and (iii) any allotment and issuance of Class A ordinary shares upon exercise of the Over-allotment Option, Mr. Lai’s aggregated shareholding will be approximately 25.8% of our issued share capital and he will hold approximately 77.1% of the voting rights in the Company through shares capable of being exercised on resolutions in general meetings. Therefore, Mr. Lai will be a Controlling Shareholder after the Listing. For more information on Mr. Lai’s shareholding, please see “Major Shareholders.”

### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholders and their close associates after the Listing.

#### Management independence

Our business is managed and conducted by our board and senior management. Our board consists of nine directors, of whom four are independent directors (under the Hong Kong Listing Rules) unrelated to our Controlling Shareholders. For more information, please see “Directors and Senior Management.”

Our directors consider that our board and senior management will function independently of our Controlling Shareholders because:

- (a) each director is aware of his/her fiduciary duties as a director, which require, among other things, that he/she acts for the benefit, and in the interests, of our Company and does not allow any conflict between his/her duties as a director and his/her personal interests;

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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- (b) our daily management and operations are carried out by our senior management, all of whom have substantial experience in our Group's business and/or the industry in which we operate, and will be able to make decisions that are in the best interest of our Group;
- (c) we have four independent directors (under the Hong Kong Listing Rules) and certain matters of our Company will always be referred to them for review and/or approval;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our directors or their respective associates, the interested director(s) is required to declare the nature of his/her interest before voting at the relevant meeting(s) in respect of that transaction; and
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders that would support our independent management; see “— Corporate Governance Measures” in this section.

### **Operational Independence**

Our Group is not operationally dependent on our Controlling Shareholders. Our Group holds all material licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently of our Controlling Shareholders. Our access to, and relationship with, our customers and suppliers are independent of our Controlling Shareholders, and we have an independent management team that operates our business. Based on the above, our directors believe that we are able to operate independently of our Controlling Shareholders.

### **Financial Independence**

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function, and an audit committee comprising solely of independent directors to oversee our accounting and financial reporting processes. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

No loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates will be outstanding as of the Latest Practicable Date.

Based on the above, our directors believe that our board as a whole and together with our senior management team are able to manage, operate and carry on our business independently of, and do not place undue reliance on, our Controlling Shareholders and their respective close associates.

### **DISCLOSURE UNDER RULE 8.10 OF THE HONG KONG LISTING RULES**

Our Controlling Shareholders and/or our directors may, from time to time, make minority investments or hold non-executive board positions in entities that operate in, or have subsidiaries that operate in, the broader industries in which all of our business segments also operate. As our Controlling Shareholders and/or directors have no executive or shareholding control over any of these entities, and these entities have separate businesses with separate management and shareholder bases that control their entities, our Controlling Shareholders will



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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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not inject any of their interested entities into our Group; and to the extent our directors hold non-executive board positions or make minority investments in these entities, we believe that this strengthens the experience and diversity of our directors, as a group, and signifies their passion for the industries in which we operate.

Our Controlling Shareholders and directors confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Hong Kong Listing Rules.

### CORPORATE GOVERNANCE MEASURES

Our directors recognize the importance of good corporate governance in protecting our shareholders' interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

- (a) where our directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expense;
- (b) we have appointed Somerley Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws, as well as the Hong Kong Listing Rules, including various requirements relating to corporate governance; and
- (c) we have established our audit committee, compensation committee, nominating and corporate governance committee with written terms of reference in compliance with the rules of the NYSE. All of the members of our audit committee, including the chairman, are independent directors.

Based on the above, our directors are satisfied that we have sufficient corporate governance measures in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority shareholders' interests after the Listing.

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## DIRECTORS AND SENIOR MANAGEMENT

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### OVERVIEW

The following table sets forth information regarding our directors and senior management.

Name	Age	Position/Title	Date of appointment	Year of joining our Group
<b><i>Directors<sup>(1)</sup></i></b>				
Meisong Lai	49	Founder, Chairman of the board of directors and Chief Executive Officer	May 2013	2002
Jianfa Lai	51	Director and Vice President of Operations	May 2013	2002
Jilei Wang	54	Director and Vice President of Infrastructure Management	May 2013	2012
Lin Wan	45	Non-executive director	June 2018	2018
Xing Liu	49	Non-executive director <sup>(2)</sup>	May 2013	2013
Frank Zhen Wei	48	Independent director <sup>(3)</sup>	August 2015	2015
Qin Charles Huang	50	Independent director <sup>(3)</sup>	October 2016	2016
Herman Yu	50	Independent director <sup>(3)</sup>	October 2016	2016
Tsun-Ming (Daniel) Kao	54	Independent director <sup>(3)</sup>	October 2017	2017
<b><i>Senior Management</i></b>				
Hongqun Hu	51	Chief Operating Officer	June 2017	2017
Huiping Yan	54	Chief Financial Officer	May 2018	2018
Jianchang Lai	49	Vice President of Overseas Operations	September 2016	2002
Jingxi Zhu	39	Vice President of Information Technology	September 2016	2003
Jianfeng Zhang	37	Vice President of Public Relations	February 2016	2016

*Notes:*

- (1) Our board consists of nine directors, including five independent directors. See “— Board Practices” for the functions and duties of our board. Our board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association, and all applicable laws, including the Hong Kong Listing Rules.
- (2) Xing Liu is our independent director under applicable U.S. regulations, but does not meet all of the independence criteria set out in Rule 3.13 of the Hong Kong Listing Rules and, accordingly, is considered a non-executive director under the Hong Kong Listing Rules.
- (3) Save for Xing Liu as noted in note 2 above, our independent directors under applicable U.S. regulations are also independent non-executive directors for the purpose of the Hong Kong Listing Rules. We have determined that Herman Yu qualifies as an “audit committee financial expert” under the applicable rules of the SEC and has the appropriate professional accounting or financial management experience.

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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed below, none of our directors held any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this document and there are no family relationships among any of the directors or executive officers of our Company. See “Major Shareholders” for disclosure of interests of the directors and executive officers. There is no material matter relating to our directors that needs to be brought to the attention of our shareholders and the information of our directors disclosed in this document comply with the requirements under Rule 13.51(2) of the Hong Kong Listing Rules in all material respects.

### BIOGRAPHIES

#### Our Directors

*Mr. Meisong Lai (賴梅松)* is our founder and has served as chairman of our board of directors since May 2013 and chief executive officer since our inception. Mr. Lai is the deputy chairman of the China Express Delivery Association. Mr. Lai is a prominent figure in China’s express delivery industry and has been deeply involved in the industry for over 15 years. Mr. Lai has attended the “Lakeside University” in China, a senior executive training program founded by Jack Ma, founder and chairman of Alibaba. Mr. Meisong Lai is a brother-in-law to Mr. Jianchang Lai, who is a cousin to Mr. Jianfa Lai.

*Mr. Jianfa Lai (賴建法)* has served as our director since May 2013, executive vice president in charge of our overall daily management from our inception to August 2016 and vice-president of operations since May 2018. From October 2016 to April 2018, Mr. Jianfa Lai served as the executive director and manager of ZTO Supply Chain Management Co. Ltd., an equity investee of us which is engaged in the provision of less-than-truckload transportation services in China. From April 2018 to June 2018, Mr. Jianfa Lai served as chairman and manager of ZTO Supply Chain Management Co. Ltd. and has since June 2018 served as chairman of ZTO Supply Chain Management Co. Ltd.. Mr. Jianfa Lai is attending the executive MBA program at Fudan University in China. Mr. Jianfa Lai is a cousin to Mr. Jianchang Lai, who is a brother-in-law to Mr. Meisong Lai.

*Mr. Jilei Wang (王吉雷)* has been our director since May 2013 and has served as our vice president of infrastructure management since October 2012. From October 2009 to March 2012, Mr. Wang served as a deputy general manager of Beijing ZTO Daying Logistics Co., Ltd., our then network partner in Beijing.

*Mr. Lin Wan (萬霖)* has been our director since June 2018. Mr. Wan has served as the president of Cainiao Network since January 2017 and was vice president of Cainiao Network from June 2014 to January 2017. Prior to joining Cainiao Network, Mr. Wan worked at Amazon.com Inc (NASDAQ: AMZN) from June 2005 to May 2014, including as director of research scientist. Mr. Wan has served as a director of YTO Express Group Co., Ltd. (SSE: 600233) since April 2018 and as a director of BEST Inc. (NYSE: BEST) since March 2018. Mr. Wan received a Ph.D. in operations research & industrial engineering from The University of Texas at Austin in May 2005.

*Mr. Xing Liu (劉星)* has served as our director since May 2013. Mr. Liu is currently a partner of Sequoia Capital China, which he joined in May 2007. Mr. Liu has served as an independent director of Vipshop Holdings Limited (NYSE: VIPS) (“**Vipshop**”) since January 2011 and as a non-executive director of China Renaissance Holdings Limited (HKEX: 1911) since June 2020. Mr. Liu served as an independent non-executive director of China Online Education Group (NYSE: COE) from July 2014 to April 2019. Mr. Liu received a MBA degree from The Wharton School of the University of Pennsylvania in May 2004, a master’s degree in computer engineering from Syracuse University in December 1995, and graduated from Fudan University in July 1992 with a major in management information systems.

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## DIRECTORS AND SENIOR MANAGEMENT

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*Mr. Zhen Wei, also known as Mr. Frank Zhen Wei (魏臻)* has been our director since August 2015. Mr. Wei joined Warburg Pincus Asia LLC in November 2002, and has been serving as a managing director since January 2010 and co-head of China since January 2016, and now leads investments in the consumer, healthcare and financial services sectors in China. Mr. Wei worked as an investment banking analyst of Morgan Stanley in Hong Kong from 1997 to 1999 and as a business analyst at McKinsey & Company in Shanghai from 1995 to 1997. Mr. Wei was a non-executive director of AAG Energy Holdings Limited (HKEX: 2686) from January 2015 to August 2018 and has been a non-executive director of CAR Inc. (HKEX: 699) since January 2016. Mr. Wei received a master's degree in business administration from Harvard Business School in June 2002 and a bachelor's degree in science from the University of Texas at Austin in May 1995.

*Mr. Qin Charles Huang (黃沁)* became our director in October 2016. Mr. Huang is the chairman and chief executive officer of CEG (Asia) Limited (also known as China Education Group), an education services provider for students, executives and professionals in Greater China and has been a director since its inception in 1999. Mr. Huang has served on the board of directors of Sohu.com Inc. (NASDAQ: SOHU) since 2001. Mr. Huang previously held positions at Deutsche Bank, New York and Hong Kong, including as head of Asian securitisation, and has also served as senior vice president of Prudential Securities Inc., New York. He received a master of science degree in electrical engineering and computer science from the Massachusetts Institute of Technology in September 1990. Mr. Huang is also a Chartered Financial Analyst.

*Mr. Herman Cheng-Chun Yu (餘正鈞)* became our director in October 2016. Mr. Yu has served as chief financial officer of Baidu, Inc., a NASDAQ-listed company (NASDAQ: BIDU) since September 2017. Prior to that, Mr. Yu served as the chief financial officer of Weibo Corporation, a social media company (NASDAQ: WB) from 2015 to 2017. Prior to Weibo, Mr. Yu worked at SINA Corporation, a portal (NASDAQ: SINA) from September 2004 to March 2015, with the last eight years as chief financial officer. Mr. Yu was a non-executive director of Tian Ge Interactive Holdings Limited (HKEX: 1980) from March 2014 to January 2018 and a director of Trip.com Group Ltd (formerly Ctrip.com International, Ltd.) (NASDAQ: CTRP) from October 2017 to October 2019. Mr. Yu currently serves on the board of directors of 58.com Inc. (NYSE: WUBA), an online classified listing company. Mr. Yu, a California Certified Public Accountant, received his bachelor's degree in economics from the University of California, Santa Cruz in June 1992, and master's degree in accounting from the University of Southern California in May 1993.

*Mr. Tsun-Ming Kao, also known as Mr. Tsun-Ming (Daniel) Kao (高遵明)* has been our director since October 2017. Mr. Kao has long-standing industry experience in leading e-Commerce and Internet companies in the U.S. and China. Mr. Kao has served as the chief technology officer at Vipshop (NYSE: VIPS) since April 2019. Prior to that, Mr. Kao served as the chief technology officer at Shanghai Noah Information Technology Co., Ltd. (an affiliate of Noah Holdings Limited (NYSE: NOAH)) from January 2018 to April 2019. Mr. Kao served as the chief technology officer at Vipshop (NYSE: VIPS) from June 2012 to October 2016. Before joining Vipshop, Mr. Kao was an employee of eBay Inc. (NASDAQ: EBAY) (“eBay”) and was assigned to work at eBay e-Commerce Technology Operations (Shanghai) Co., Ltd. as general manager and board director of China Operations Center from January 2010 to April 2012. Earlier in his career, he worked at eBay as a principal software engineer and software development manager for seven years. Mr. Kao received a bachelor's degree in computer science from Iowa State University in August 1995.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Our Senior Management

*Mr. Hongqun Hu (胡紅群)* has served as our chief operating officer since June 2017. Mr. Hu has thirty years of experience in the financial services industry. Prior to joining us, Mr. Hu served as the chairman of Zhejiang Tonglu Rural Commercial Bank from March 2016 to May 2017, and the governor and chairman of Zhejiang Tonglu Rural Cooperation Bank from March 2008 to March 2016, respectively. Mr. Hu graduated from the advanced class in modern executive business administration from Zhejiang University in China in January 2006 and graduated from Ningbo University in China with a major in finance in July 2003.

*Ms. Huiping Yan (顏惠萍)* has served as our chief financial officer since May 2018 and was our vice president of finance from January 2018 to May 2018. Before joining ZTO, Ms. Yan spent approximately seven years serving as the Chief Financial Officer of a number of Chinese TMT and hospitality companies including two years at Cainiao Network, the logistics arm of Alibaba (NYSE: BABA), and over four years at Home Inns, a leading economy hotel chain in China. Prior to that, Ms. Yan spent 11 years at General Electric Company (GE) in both the U.S. and Asia, serving in a number of key roles in corporate and operational financial management. Prior to that, Ms. Yan spent over six years at Deloitte & Touche in the U.S. in tax services. Ms. Yan studied at Shanghai International Studies University, where she majored in English literature and linguistics and received a bachelor's degree in business administration with an accounting major from Hawaii Pacific University in August 1991. Ms. Yan graduated from the GE experienced financial leadership program in September 2003 and is a U.S.-certified public accountant with a CGMA designation (AICPA).

*Mr. Jianchang Lai (賴建昌)* has been our vice president of overseas operations since September 2016. Mr. Lai was our director from January 2014 to September 2016 and our head of network partner management since our inception to September 2016. Mr. Jianchang Lai is a brother-in-law to Mr. Meisong Lai, and a cousin to Mr. Jianfa Lai.

*Mr. Jingxi Zhu (朱晶熙)* has been our head of information technology since July 2003 and has served as a vice president of information technology since September 2016. From January 2014 to September 2016, Mr. Zhu was also our director. Mr. Zhu graduated from Nanjing Army Command College in China with a major in economics and management in June 2014 (partially through long distance learning) and from Yancheng Teachers University in China with a major in electrified education in June 2003.

*Mr. Jianfeng Zhang (張建鋒)* has served as our vice president of public relations since February 2016. Mr. Zhang served as Assistant Director of the News & Information Center of Xinhua News Agency Shanghai Bureau from June 2012 to February 2016 and Deputy Director of the Image Center of Xinhua News Agency Shanghai Bureau from August 2010 to February 2016. Mr. Zhang received a master's degree in business administration from Arizona State University in December 2017, a master's degree in arts from Renmin University in China in June 2012 and a bachelor's degree in law from Shanghai International Studies University in China in July 2006.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPENSATION

#### Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause upon 60-day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as agreed by us and the executive officer. The executive officer may resign at any time with a 60-day advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to: (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of, or hire or engage, any person who is known to be employed or engaged by us; or (iv) otherwise interfere with our business or accounts.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our Company.

#### Compensation of Directors and Executive Officers

For each of the three years ended December 31, 2019, we paid and accrued an aggregate of fees, salaries and benefits (excluding equity-based grants) of approximately RMB13.4 million, RMB13.9 million and RMB13.0 million, respectively, in cash to our directors and senior managers as a group, and we did not pay any cash compensation to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and variable interest entity are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund. For equity-based grants to our directors and executive officers, see "— Share incentive plans."



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## DIRECTORS AND SENIOR MANAGEMENT

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### Share Incentive Plans

#### *2016 Share Incentive Plan*

Under our 2016 Share Incentive Plan (as amended and restated), or the 2016 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards under the 2016 Plan is initially 3,000,000, plus an annual increase on the first day of each of our fiscal year during the term of the 2016 Plan commencing with the fiscal year beginning January 1, 2017, by an amount equal to the least of: (i) 0.5% of the total number of shares issued and outstanding on the last day of the immediately preceding fiscal year; (ii) 3,000,000 shares; or (iii) such number of shares as may be determined by our board of directors. Following the annual increases in 2017, 2018, 2019 and 2020, the award pool under the 2016 Plan is 15,000,000 shares as of December 31, 2019.

The following paragraphs describe the principal terms of the 2016 Plan.

Types of Awards. The 2016 Plan permits the awards of options, restricted shares or any other type of awards that the committee decides.

Plan Administration. Our board of directors or a committee of one or more members of the board of directors will administer the 2016 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award Agreement. Awards granted under the 2016 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to our employees, directors and consultants of our Company. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of our subsidiaries.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of Options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of an option will expire if not exercised prior to the time the plan administrator determines at the time of its grant. However, the maximum exercisable term is ten years from the date of a grant.

Transfer Restrictions. Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution.

Termination and amendment of the 2016 Plan. Our board of directors has the authority to amend or terminate the plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the recipient.

#### *Grants under the 2016 Share Incentive Plan*

As of June 30, 2020, restricted share units representing a total of 3,289,628 Class A ordinary shares have been granted and are outstanding, excluding awards that were forfeited or cancelled after the relevant grant dates.

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## DIRECTORS AND SENIOR MANAGEMENT

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The following table summarizes, as of June 30, 2020, the outstanding restricted share units we granted under our 2016 Plan to our directors and executive officers, excluding awards that were forfeited or cancelled after the relevant grant dates. Other individuals as a group were granted outstanding restricted share units representing a total of 870,264 Class A ordinary shares as of June 30, 2020.

Name	Ordinary Shares Underlying Restricted Share Units Awarded	Date of Grant
Meisong Lai	*	March 28, 2017
		March 7, 2018
		March 11, 2019
		March 13, 2020
Jianfa Lai	*	March 28, 2017
		March 7, 2018
		March 11, 2019
		March 13, 2020
Jilei Wang	*	March 28, 2017
		March 7, 2018
		March 11, 2019
		March 13, 2020
Jianchang Lai	*	March 28, 2017
		March 7, 2018
		March 11, 2019
		March 13, 2020
Hui ping Yan	*	March 11, 2019
		March 13, 2020
Herman Yu	*	March 7, 2018
		March 11, 2019
		March 13, 2020
Xing Liu	*	March 7, 2018
		March 11, 2019
		March 13, 2020
Frank Zhen Wei	*	March 7, 2018
		March 11, 2019
		March 13, 2020
Qin Charles Huang	*	March 7, 2018
		March 11, 2019
		March 13, 2020
Tsun-Ming (Daniel) Kao	*	March 7, 2018
		March 11, 2019
		March 13, 2020
<b>Total</b>	<b>2,419,364</b>	

*Note:*

\* Less than 1% of our total outstanding shares.

### ***Employee Shareholding Platform***

In June 2016, we issued 16,000,000 ordinary shares to ZTO ES to establish an onshore employee shareholding platform to allow our employees in China to receive share incentives. The consideration for those shares was US\$12.0 million. All ordinary shares issued for purpose of this employee shareholding platform were re-designated as Class A ordinary shares of our Company upon the completion of our initial public offering.

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## DIRECTORS AND SENIOR MANAGEMENT

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ZTO ES is held by Mr. Lai and four limited partnerships formed in China. An entity controlled by Mr. Meisong Lai, our chairman and chief executive officer, is the general partner of each of those limited partnerships and Ms. Yufeng Lai, wife of Mr. Lai, was the sole limited partner of each of those limited partnerships upon their formation. Concurrently with the issuance of those shares, ZTO ES executed a deed of waiver to waive all shareholder rights attached to those shares.

Our board of directors has delegated the authority to Mr. Lai to periodically review the performance of our employees, and reward selected employees by directing Ms. Lai to transfer limited partnership interests in those partnerships to them. Once an employee receives the partnership interest, ZTO ES may amend its deed of waiver to reduce the amount of shares subject to the waiver by such number that is proportional to the employee's indirect ownership of ZTO ES. Each recipient of such partnership interest is entitled to rights associated with the number of our ordinary shares held by ZTO ES that corresponds to the recipient's proportional indirect ownership of ZTO ES to: (i) receive dividends, if and when declared, on those shares and (ii) request the sale of those shares by ZTO ES and receive the sale proceeds. ZTO ES remains the record holder of, and retains the voting rights with respect to, the granted shares and it does not have shareholders' rights with respect to the remainder of the shares it holds. As of June 30, 2020, ZTO ES controls the voting rights with respect to 4,491,893 Class A ordinary shares it holds.

As of June 30, 2020, we have awarded certain rights associated with 7,952,687 Class A ordinary shares through the platform as share incentives. The following table summarizes, as of June 30, 2020, the number of our ordinary shares held by ZTO ES over which our directors and officers have such rights.

<b>Name</b>	<b>Class A Ordinary Shares</b>	<b>Date of Grant</b>
Meisong Lai	*	June 28, 2016 March 11, 2019 March 13, 2020
Jianfa Lai	*	June 28, 2016 March 13, 2020
Jilei Wang	*	June 28, 2016
Jianchang Lai	*	June 28, 2016
Jingxi Zhu	*	June 28, 2016, March 28, 2017, March 7, 2018, March 11, 2019 March 13, 2020
Hongqun Hu	*	March 7, 2018, March 11, 2019 March 13, 2020
Jianfeng Zhang	*	March 28, 2017, March 7, 2018, March 11, 2019 March 13, 2020
<b>Total</b>	<b>1,945,373</b>	

*Note:*

\* Less than 1% of our total outstanding shares.

As of June 30, 2020, other employees as a group were granted the same rights associated with 6,007,314 Class A ordinary shares held by ZTO ES through our employee shareholding platform. We also granted such rights associated with 600,000 of the Class A ordinary shares held by ZTO ES to a network partner in Suzhou as part of the acquisition consideration of the remaining minority equity interest in that network partner. We do not plan to make grants to persons other than our directors, officers or employees in the future.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD PRACTICES

#### Nomination and Terms of Directors

Our board of directors consists of nine directors. A director is not required to hold any shares in our Company by way of qualification. Subject to the New York Stock Exchange rules and disqualification by the chairman of the relevant board meeting, a director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the directors at which any such contract or transaction or proposed contract or transaction is considered. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our Company is required to declare the nature of his interest at a meeting of our directors. Our directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof, to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

#### Committees of the Board of Directors

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

##### *Audit Committee*

Our audit committee consists of Herman Yu, Qin Charles Huang and Xing Liu. Mr. Yu is the chairman of our audit committee. We have determined that Herman Yu, Qin Charles Huang and Xing Liu each satisfies the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and meet the independence standards under Rule 10A-3 under the Exchange Act. We have determined that Herman Yu qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our Company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;

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## DIRECTORS AND SENIOR MANAGEMENT

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- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

### *Compensation Committee*

Our compensation committee consists of Xing Liu, Frank Zhen Wei and Qin Charles Huang. Mr. Liu is the chairman of our compensation committee. We have determined that Xing Liu, Frank Zhen Wei and Qin Charles Huang each satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

### *Nominating and Corporate Governance Committee*

Our nominating and corporate governance committee consists of Frank Zhen Wei, Qin Charles Huang and Tsun-Ming (Daniel) Kao. Mr. Wei is the chairman of our nominating and corporate governance committee. We have determined that Frank Zhen Wei, Qin Charles Huang and Tsun-Ming (Daniel) Kao each satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is required by its charter to take into account the following factors (among others) when consider candidates for the board: experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the nominating and corporate governance committee considers appropriate in the context of the needs of the board. This is also the guiding principle for the Company to develop a pipeline of diverse potential successors to the board. Furthermore, the nominating and corporate governance committee is required by its charter to review the composition of the board annually and to recommend, if necessary, measures to be taken so that the board reflects the appropriate balance of independence, knowledge, experience, skills, expertise and diversity required for the board as a whole. The board is set to commence the process of identifying a suitable female director candidate and will provide an update in our next annual report following the Listing on the progress of recruiting a female director. The nominating and corporate governance committee is responsible for, among other things:

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## DIRECTORS AND SENIOR MANAGEMENT

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- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

### Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our Company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors also have a duty to exercise the care and diligence that a reasonably prudent person would exercise in comparable circumstances and a duty to exercise the skill they actually possess. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association and the class rights vested thereunder in the holders of the shares. Our Company has the right to seek damages if a duty owed by our directors is breached. In limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our Company and mortgaging the property of our Company; and
- approving the transfer of shares in our Company, including the registration of such shares in our share register.

### Terms of Directors and Officers

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders. The office of a director shall be vacated if the director: (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by notice in writing to us; (iv) without special leave of absence from the board of directors, is absent from meetings of the board of directors for three consecutive meetings and the board of directors resolves that his office be vacated; or (v) is removed from office pursuant to our memorandum and articles of association.



## MAJOR SHAREHOLDERS

Except as otherwise noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of June 30, 2020 by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our total outstanding shares.

The calculations in the table below are based on 577,794,733 Class A ordinary shares and 206,100,000 Class B ordinary shares outstanding as of June 30, 2020, excluding (i) 7,447,313 Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, and (ii) the Company's repurchase of 12,209,069 Class A ordinary shares in the form of ADSs. No shareholder rights (such as voting rights and rights to dividends) can be exercised in connection with these excluded shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned			Percentage of total ordinary shares	Percentage of aggregate voting power
	Class A ordinary shares	Class B ordinary shares	Total ordinary shares		
<b>Directors and Executive Officers: †**</b>					
Meisong Lai <sup>(1)</sup> .....	7,608,313	206,100,000	213,708,313	27.3	78.4
Jianfa Lai <sup>(2)</sup> .....	66,587,959	—	66,587,959	8.5	2.5
Jilei Wang <sup>(3)</sup> .....	50,305,429	—	50,305,429	6.4	1.9
Lin Wan .....	—	—	—	—	—
Xing Liu .....	*	—	*	*	*
Frank Zhen Wei .....	*	—	*	*	*
Qin Charles Huang .....	*	—	*	*	*
Herman Yu .....	*	—	*	*	*
Tsun-Ming (Daniel) Kao .....	*	—	*	*	*
Hongqun Hu .....	*	—	*	*	*
Jianchang Lai .....	*	—	*	*	*
Jingxi Zhu .....	*	—	*	*	*
Jianfeng Zhang .....	*	—	*	*	*
Huiping Yan .....	*	—	*	*	*
All Directors and Executive Officers as a Group .....	128,875,046	206,100,000	334,975,046	42.7	83.0
<b>Principal Shareholders:</b>					
Zto Lms Holding Limited <sup>(4)</sup> .....	3,116,420	206,100,000	209,216,420	26.7	78.2
Alibaba Group Holding Limited <sup>(5)</sup> .....	68,287,037	—	68,287,037	8.7	2.6
Zto Ljf Holding Limited <sup>(6)</sup> .....	66,554,361	—	66,554,361	8.5	2.5
Zto Wjl Holding Limited <sup>(7)</sup> .....	50,185,429	—	50,185,429	6.4	1.9

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## MAJOR SHAREHOLDERS

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*Notes:*

- † For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per share and each holder of our Class B ordinary shares is entitled to ten votes per share on all matters submitted to them for a vote. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Our Class B ordinary shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis.
- \* Less than 1% of our total outstanding ordinary shares.
- \*\* Except for Messrs. Xing Liu, Frank Zhen Wei, Qin Charles Huang, Tsun-Ming (Daniel) Kao, Herman Yu and Lin Wan, the business address of our directors and executive officers is c/o No.1685 Huazhi Road, Qingpu District, Shanghai, 201708, People's Republic of China. The business address of Mr. Xing Liu is Suite 3613, 36/F, Two Pacific Place, 88 Queensway, Hong Kong. The business address of Mr. Frank Zhen Wei is Suite 6703, Two IFC, 8 Finance Street, Hong Kong. The business address of Mr. Qin Charles Huang is Suite 1804, Tower 1, Admiralty Centre, Hong Kong. The business address of Mr. Tsun-Ming (Daniel) Kao is 20 Huahai Street, Liwan District, Guangzhou 510370, China. The business address of Mr. Herman Yu is Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, China. The business address of Mr. Lin Wan is c/o 588 West Wenyi Road, Xihu District, Hangzhou 310000, China.
- (1) Represents (i) 206,100,000 Class B ordinary shares directly held by Zto Lms Holding Limited, (ii) 3,116,420 ADSs of the Company (representing the same number of Class A ordinary shares) held by Zto Lms Holding Limited, 1,439,666 of which were vested from restricted share units held by Mr. Meisong Lai, and (iii) 4,491,893 Class A ordinary shares held by ZTO ES for purpose of our employee shareholding platform. Zto Lms Holding Limited is a British Virgin Islands company ultimately owned by The LMS Family Trust, with Mr. Meisong Lai as the settlor and Mr. Meisong Lai and his family members as beneficiaries, as described in footnote (4) below. We granted rights to receive dividends on, and to receive sale proceeds of, those 4,491,893 Class A shares held by ZTO ES to certain of our employees. ZTO ES remains the record holder of those shares and retains the voting rights with respect to those shares. Mr. Meisong Lai is the sole director of Zto Lms Holding Limited. Mr. Meisong Lai is the sole director of ZTO ES.
- (2) Represents (i) 60,000,000 Class A ordinary shares held by Zto Ljf Holding Limited, (ii) 6,000,000 restricted ADSs held by JPMorgan Chase Bank, N.A., as depositary bank, underlying 6,000,000 Class A ordinary shares held by Zto Ljf Holding Limited pledged to Citibank, N.A., Singapore, as lender under a loan agreement dated December 6, 2019, to secure Zto Ljf Holding Limited's obligations under the loan agreement and (iii) 554,361 Class A ordinary shares, in the form of ADSs, held by Zto Ljf Holding Limited and vested from restricted share units held by Mr. Jianfa Lai and (iv) 33,598 Class A ordinary shares held by ZTO ES. Zto Ljf Holding Limited is a British Virgin Islands company ultimately owned by The Ljf Family Trust, with Mr. Jianfa Lai as the settlor and Mr. Jianfa Lai and his family members as beneficiaries, as described in footnote (6) below. Mr. Jianfa Lai is the sole director of Zto Ljf Holding Limited. Mr. Jianfa Lai has the power to direct the sale of those 33,598 Class A ordinary shares held by ZTO ES.
- (3) Represents (i) 44,800,000 Class A ordinary shares held by Zto Wjl Holding Limited, (ii) 5,200,000 restricted ADSs held by JPMorgan Chase Bank, N.A., as depositary bank, underlying 5,200,000 Class A ordinary shares held by Zto Wjl Holding Limited pledged to Morgan Stanley Bank Asia Limited, as lender under a loan agreement dated December 19, 2019, to secure Zto Wjl Holding Limited's obligations under the loan agreement, (iii) 185,429 Class A ordinary shares, in the form of ADSs, held by Zto Wjl Holding Limited and vested from restricted share units held by Mr. Jilei Wang and (iii) 120,000 Class A ordinary shares held by ZTO ES. Zto Wjl Holding Limited is a British Virgin Islands company ultimately owned by The Wjl Family Trust, with Mr. Jilei Wang as the settlor and Mr. Jilei Wang and his family members as beneficiaries, as described in footnote (7) below. Mr. Jilei Wang is the sole director of Zto Wjl Holding Limited. Mr. Wang has the power to direct the sale of those 120,000 Class A ordinary shares held by ZTO ES.
- (4) Represents (i) 206,100,000 Class B ordinary shares directly held by Zto Lms Holding Limited, and (ii) 3,116,420 ADSs of the Company (representing the same number of Class A ordinary shares) held by Zto Lms Holding Limited, 1,439,666 of which were vested from restricted share units held by Mr. Meisong Lai. Zto Lms Holding Limited is a British Virgin islands company wholly owned by LMS Holding Limited, which in

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## MAJOR SHAREHOLDERS

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turn is beneficially owned by The LMS Family Trust, a trust established under the laws of Singapore and managed by Standard Chartered Trust (Singapore) Limited as trustee. Mr. Meisong Lai is the settlor of The LMS Family Trust and the beneficiaries of the trust are Mr. Meisong Lai and his family members. Mr. Meisong Lai is the sole director of Zto Lms Holding Limited. The registered address of Zto Lms Holding Limited is Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands.

- (5) Represents 68,287,037 Class A ordinary shares beneficially owned by Alibaba Group Holding Limited, an exempted company incorporated under the laws of the Cayman Islands (“**Alibaba**”), which consist of (i) 57,870,370 Class A ordinary shares directly held by Alibaba ZT Investment Limited (“**Ali ZT**”), an exempted company incorporated under the laws of Hong Kong, (ii) 5,787,037 Class A ordinary shares directly held by Cainiao Smart Logistics Investment Limited (“**Cainiao Smart**”), a company organized under the laws of the British Virgin Islands, and (iii) 4,629,630 Class A ordinary shares directly held by New Retail Strategic Opportunities Investments 2 Limited (“**NRF**”), a company organized under the laws of the Cayman Islands, as reported in a Schedule 13D jointly filed by Alibaba, Ali ZT, Cainiao Smart and NRF on June 21, 2018. Alibaba is a holding company which, through its subsidiaries and variable interest entities, operates leading online and mobile marketplaces in retail and wholesale trade, as well as provides cloud computing and other services. Ali ZT is an indirect wholly-owned special purpose subsidiary of Alibaba. Cainiao Smart is a majority owned indirect subsidiary of Alibaba. New Retail Strategic Opportunities Fund, L.P., a Cayman Islands exempted limited partnership (“**NRSF**”), owns 100% of NRF. New Retail Strategic Opportunities Fund GP, L.P., a Cayman Islands exempted limited partnership (“**NRSF GP**”), is the general partner of NRSF. New Retail Strategic Opportunities GP Limited, a company organized under the laws of the Cayman Islands and an indirect wholly owned subsidiary of Alibaba, is the general partner of NRSF GP. Alibaba is deemed to be the beneficial owner of the 68,287,037 Class A ordinary shares held by Ali ZT, Cainiao Smart and NRF. The business address of Alibaba, Ali ZT and NRF is c/o Alibaba Group Services Limited, 26/F, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. The business address of Cainiao Smart is c/o Zhejiang Cainiao Supply Chain Management Limited, 588 West Wenyi Road, Xihu District, Hangzhou 310000, China.
- (6) Represents (i) 60,000,000 Class A ordinary shares held by Zto Ljf Holding Limited, (ii) 6,000,000 restricted ADSs held by JPMorgan Chase Bank, N.A., as depositary bank, underlying 6,000,000 Class A ordinary shares held by Zto Ljf Holding Limited pledged to Citibank, N.A., Singapore, as lender under a loan agreement dated December 6, 2019, to secure Zto Ljf Holding Limited’s obligations under the loan agreement and (iii) 554,361 Class A ordinary shares, in the form of ADSs, held by Zto Ljf Holding Limited and vested from restricted share units held by Mr. Jianfa Lai. Zto Ljf Holding Limited is a British Virgin Islands company wholly owned by LJFA Holding Limited, which in turn is beneficially owned by The LJF Family Trust, a trust established under the laws of Singapore and managed by Standard Chartered Trust (Singapore) Limited as trustee. Mr. Jianfa Lai is the settlor of the LJF Family Trust and the beneficiaries of the trust are Mr. Jianfa Lai and his family members. Mr. Jianfa Lai is the sole director of Zto Ljf Holding Limited. The registered address of Zto Ljf Holding Limited is Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands.
- (7) Represents (i) 44,800,000 Class A ordinary shares held by Zto Wjl Holding Limited, (ii) 5,200,000 restricted ADSs held by JPMorgan Chase Bank, N.A., as depositary bank, underlying 5,200,000 Class A ordinary shares held by Zto Wjl Holding Limited pledged to Morgan Stanley Bank Asia Limited, as lender under a loan agreement dated December 19, 2019, to secure Zto Wjl Holding Limited’s obligations under the loan agreement, and (iii) 185,429 Class A ordinary shares, in the form of ADSs, held by Zto Wjl Holding Limited and vested from restricted share units held by Mr. Jilei Wang. Zto Wjl Holding Limited is a British Virgin Islands company wholly owned by WJL Holding Limited, which in turn is beneficially owned by The WJL Family Trust, a trust established under the laws of Singapore and managed by Standard Chartered Trust (Singapore) Limited as trustee. Mr. Jilei Wang is the settlor of The WJL Family Trust and the beneficiaries of the trust are Mr. Jilei Wang and his family members. Mr. Jilei Wang is the sole director of Zto Wjl Holding Limited. The registered address of Zto Wjl Holding Limited is Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands.

To our knowledge, as of June 30, 2020, 391,171,050 (approximately 49.9%) of our ordinary shares in the form of ADSs (including the 12,209,069 Class A ordinary shares in the form of ADSs repurchased by us) were held by one record holder in the United States, which was JPMorgan Chase Bank, N.A., the depositary of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

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## RELATED PARTY TRANSACTIONS

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We are seeking a listing on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules. Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules, governing connected transactions, does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this document for disclosure purposes only.

### CONTRACTUAL ARRANGEMENTS

PRC laws limit foreign ownership of companies engaged in certain businesses in China, including posting and mail delivery businesses. Due to these restrictions, we operate our relevant business through contractual arrangements with the variable interest entities. See “History and Corporate Structure — Corporate Structure — Contractual Arrangements.”

### SHAREHOLDERS AGREEMENT

We entered into our shareholders agreement on August 18, 2015 with our then shareholders. Pursuant to this shareholders agreement, we have granted certain registration rights to our shareholders. Below is a description of the registration rights granted under the agreement:

- (a) *Demand Registration Rights.* At any time after the earlier of: (i) 180 days after the effective date of the registration statement for a public offering, or (ii) the expiration of the period during which the managing underwriters for such public offering shall prohibit us from effecting any other public sale or distribution of registrable securities, holders of series A preferred shares, Max Alpha Limited and Max Beyond Limited, and Zto Wlm Holding Limited have the right to demand that we file a registration statement covering the registration of any registrable securities of such holders. We have the right to defer filing of a registration statement for a period of not more than 90 days after the receipt of the request of the initiating holders under certain conditions, but we cannot exercise the deferral right more than once in any six-month period. We are not obligated to effect more than two demand registrations, other than demand registration to be effected pursuant to registration statement on Form F-3, for which an unlimited number of demand registrations shall be permitted.
- (b) *Piggyback Registration Rights.* If we propose to file a registration statement for a public offering of our securities, we must offer holders of our registrable securities an opportunity to include in the registration the number of registrable securities of the same class or series as those proposed to be registered. If the managing underwriters of any underwritten offering determine in its view the number of registrable securities exceeds the maximum offering size, the registrable securities shall allocate first to us, second to each of holders requesting for the inclusion of their registrable securities pursuant to the piggyback registration, and third to any other party with such priorities among them as we shall determine.
- (c) *Form F-3 Registration Rights.* Holders of series A preferred shares, Max Alpha Limited and Max Beyond Limited, and Zto Wlm Holding Limited, may request us in writing to file an unlimited number of registration statements on Form F-3. Within 90 days of receiving such request, we shall effect the registration of the securities on Form F-3.

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## RELATED PARTY TRANSACTIONS

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- (d) *Expenses of Registration.* We will bear all registration expenses, other than underwriting discounts and selling commissions, incurred in connection with any demand, piggyback or F-3 registration.

### INVESTOR RIGHTS AGREEMENT

In connection with the investment by Alibaba and Cainiao Network, we entered into an investor rights agreement (the “**Investor Rights Agreement**”), dated June 12, 2018, with Alibaba ZT Investment Limited (“**Ali ZT**”), an indirect wholly-owned special purpose subsidiary of Alibaba, Cainiao Smart Logistics Investment Limited (“**Cainiao Smart**”), a majority owned indirect subsidiary of Alibaba, and certain existing shareholders, namely, Mr. Meisong Lai, Mr. Jianfa Lai and Mr. Jilei Wang (including any transferee of a permitted transfer by any of them) (the “**Existing Shareholders**”). Among other things, the Investor Rights Agreement contains the following rights of Alibaba ZT and Cainiao Network (which remain in effect as of the Latest Practicable Date), as applicable:

- (a) *Right of First Offer.* At any time during which Mr. Meisong Lai (the “**Founder**”) proposes to transfer securities of our Company which constitutes a Change of Control (as defined in the Investor Rights Agreement), the Founder shall first make an offer of such securities to Ali ZT and Cainiao Smart (the “**Right of First Offer**”). Ali ZT and Cainiao Smart may elect to exercise their Right of First Offer rights to purchase the securities, or exercise their tag-along rights to sell their securities, at the price and on the terms offered by the Founder.
- (b) *Preemptive Rights.* If our Company proposes to issue any of its securities, Ali ZT, Cainiao Smart and the Existing Shareholders shall have the right to acquire (y) a portion of such securities equal to the quotient obtained by dividing (i) the number of shares of all securities owned by such shareholder by (ii) the total number of shares of all securities issued and outstanding, or such other percentage as may be mutually agreed among such shareholders following discussions with our Company, plus (z) any securities not purchased by its/his affiliates.
- (c) *Restriction on Transfers of Company Securities.* Each of Ali ZT and Cainiao Smart is prohibited from transferring its Class A ordinary shares prior to the second anniversary of the date of the Investor Rights Agreement (or an earlier date mutually agreed in writing by our Company and Ali ZT or Cainiao (as the case may be)), other than transfers to its affiliates, transfers to our Company, transfers required by law or transfers approved by our board of directors. In addition, (i) the Existing Shareholders are not permitted to transfer any securities of our Company to a competitor of Alibaba without the prior written consent of Ali ZT except for transfers over a stock exchange or in one or more privately negotiated block sale transactions provided that such existing shareholders are not aware after due inquiry that the transferee is a competitor of Alibaba and (ii) the Founder is not permitted to transfer any Class B ordinary shares legally or beneficially owned by him without the prior written consent of Ali ZT prior to the second anniversary of the date of the Investor Rights Agreement.
- (d) *Right of Appointments.* Our Company agrees to take all Necessary Action (as defined in the Investor Rights Agreement), and the Founding Shareholders (as defined in the Investor Rights Agreement) agree to take all Necessary Action to cause our Company, to ensure that (i) one (1) incumbent member of the Board shall resign his or her directorship, and the vacancy so caused by such resignation shall be filled by the appointment of one (1) director who shall be designated by Ali ZT (the “**Investor Director**”). Ali ZT may, at its election, appoint a designated representative to serve as a non-voting observer to the



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## RELATED PARTY TRANSACTIONS

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Board (the “**Investor Observer**”) and appoint the Investor Director and/or Investor Observer to any board committee and/or subsidiary board committee, subject to compliance with independence requirements under applicable laws and listing rules.

- (e) *Right to Board Participation.* The Investor Director and the Investor Observer shall be provided by our Company with all notices of meetings, consents, minutes and other written materials that are provided to our directors and/or the members of any board committee or subsidiary board committee.
- (f) *Consent Right.* Our Group shall not, and the founding shareholders shall cause such company not to, without the prior written consent of Ali ZT:
  - (i) amend or terminate the documents underlying our Company’s contractual arrangements or waive or enforce any rights thereunder, or
  - (ii) enter into any joint venture, partnership, strategic alliance, strategic cooperation or similar arrangement with a competitor of Alibaba or any other transaction with Alibaba’s competitor that is not in the ordinary course of business of our Group.
- (g) *Restriction on Issuance of Equity Securities.* Our Group shall not issue any equity securities to a competitor of Alibaba without the prior written consent of Ali ZT; provided, however, that the foregoing restriction shall not apply to offerings or sale of equity securities to public investors where our Company is not aware that the counterparty is a competitor of Alibaba.
- (h) *Information Rights.* Ali ZT and Cainiao Smart are entitled to receive various kinds of information from our Company within due periods, including but not limited to (i) consolidated balance sheets and statements of income and cash flows of our Group, (ii) any annual reports, interim reports, quarterly reports and other periodic reports of our Company, and (iii) any business plans and budget of our Group.
- (i) *Consultation Rights.* Ali ZT and Cainiao Smart are entitled to meet and consult with the appropriate officers and directors of the Group with respect to matters relating to the business and affairs of our Group.

The above rights were granted in connection with the US\$1.38 billion strategic investment led by Ali ZT and Cainiao Smart in our Company in exchange for an approximately 10% equity stake in our Company at the time. This investment has allowed our Company and Cainiao Smart to deepen our collaboration in the transformation of China’s logistics industry amid the growth of New Retail and supported our first and last-mile pickup and delivery capabilities, warehouse management, cross-border logistics and technology-driven smart solutions. Each party to the Investor Rights Agreement may assign all or a portion of their rights to any of their affiliates under the investors rights agreement in accordance with its terms.

In approving the investors rights agreement, our directors were required to exercise under the laws of the Cayman Islands, and did exercise, fiduciary duties in granting the above rights taking into account the benefits of receiving the capital investment from Alibaba, and acted in the best interests of our Company and our shareholders as a whole. None of the requirements under Rule 19C.07 of the Hong Kong Listing Rules prohibits any of the rights granted to Ali ZT and Cainiao Smart under the investors rights agreement. The Sponsor concurs with the Company’s view set forth above based on the following: (a) the representation and reasons presented by the Company above; (b) such special rights are not uncommon for companies



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## RELATED PARTY TRANSACTIONS

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listed on stock exchanges in the U.S.; and (c) the Sponsor's review of such rights granted under the Investor Rights Agreement, the board minutes approving the entry into of the Investor Rights Agreement and the relevant U.S. public filing.

The Company confirms that the special rights granted to Alibaba do not conflict with any applicable US laws or regulations, including any rules of the NYSE.

### REGISTRATION RIGHTS AGREEMENTS

**Agreement with Ali ZT and Cainiao Smart.** In connection with the investment by Alibaba and Cainiao Network, we entered into a registration rights agreement, dated June 12, 2018, with Ali ZT and Cainiao Smart. The registration rights agreement provides that our Company shall file a registration statement prior to the second anniversary of the date of the registration rights agreement covering the resale of the Class A ordinary shares owned by Ali ZT and Cainiao Smart. Our Company will bear the registration expenses related to the preparation and filing of the registration statement. The registration rights agreement contains customary indemnification provisions.

**Agreement with New Retail Investments.** In connection with the investment by Alibaba and Cainiao Network, we entered into a registration rights agreement, dated June 28, 2018 with New Retail Strategic Opportunities Investments 2 Limited ("**New Retail Investments**"). New Retail Strategic Opportunities Fund, L.P., a Cayman Islands exempted limited partnership ("**NRSF**"), owns 100% of New Retail Investments. New Retail Strategic Opportunities Fund GP, L.P., a Cayman Islands exempted limited partnership ("**NRSF GP**"), is the general partner of NRSF. New Retail Strategic Opportunities GP Limited, a company organized under the laws of the Cayman Islands and an indirect wholly owned subsidiary of Alibaba, is the general partner of NRSF GP. The registration rights agreement provides that our Company shall file a registration statement prior to the first anniversary of the date of the registration rights agreement covering the resale of the Class A ordinary shares owned by New Retail Investments. New Retail Investments will bear the registration expenses related to the preparation and filing of the registration statement. The registration rights agreement contains customary indemnification provisions.

The registration rights above lapsed during the Track Record Period.

### OTHER TRANSACTIONS WITH RELATED PARTIES

**Tonglu Tongze.** As at December 31, 2019, certain of our employees beneficially owned a majority of equity interest in Tonglu Tongze. We treat transaction with Tonglu Tongze as our related party transaction. We incurred approximately RMB479.1 million (US\$67.8 million) and approximately RMB140.1 million (US\$19.8 million) of transportation service fees to Tonglu Tongze and its subsidiaries in 2019 and the first six months of 2020 respectively. As of June 30, 2020, we had approximately RMB1.3 million (US\$0.2 million) prepayment to Tonglu Tongze and its subsidiaries for transportation service.

**Shanghai Mingyu.** Shanghai Mingyu Barcode Technology Ltd. is controlled by our chairman's brother. We incurred approximately RMB212.5 million (US\$30.1 million) and approximately RMB80.2 million (US\$11.4 million) for purchases of supplies from this company in 2019 and in the first six months of 2020 respectively. As of June 30, 2020, we had approximately RMB21.1 million (US\$3.0 million) due to this company.

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## RELATED PARTY TRANSACTIONS

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**Shanghai Kuaibao.** Shanghai Kuaibao Network Technology Ltd. is our equity investee. In 2019, we derived approximately RMB2.9 million (US\$0.4 million) of advertising revenue from this company.

**ZTO LTL.** In November 2016, we invested RMB54.0 million in ZTO Supply Chain Management Co., Ltd. (“**ZTO LTL**”) for 18% equity interest. ZTO LTL is engaged in provision of less-than-truckload transportation services in China. The principal shareholders of ZTO LTL are also the principal shareholders of our Company. In September 2017, we increased investment in ZTO LTL by RMB36.0 million to maintain our equity interest in ZTO LTL at 18%. In July 2018, we made an additional investment in ZTO LTL of RMB130.2 million (US\$19.0 million) in cash, jointly with other investors, and our equity interest in ZTO LTL decreased to 17.7%. In May 2020, we contributed additional investment in ZTO LTL of RMB90.2 million (US\$12.7 million) in cash, jointly with other investors, and our equity interest in ZTO LTL further decreased to 17.3%. We incurred approximately RMB63.8 million (US\$9.2 million) and approximately RMB42.2 million (US\$6.0 million) of transportation service fees to ZTO LTL and derived approximately RMB18.0 million (US\$2.5 million) and approximately RMB11.2 million (US\$1.6 million) of rental income from ZTO LTL in 2019 and the first half of 2020 respectively. As of June 30, 2020, we had approximately RMB1.9 million (US\$0.3 million) of accounts due to ZTO LTL for transportation service.

**Employment agreements.** We entered into various employment and indemnification agreements and have adopted a share incentive plan and employee shareholding platform (see “Directors and Senior Management”) with our directors and senior managers, which we consider to be related party transactions.

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This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or our shareholders' rights to receive dividends and other distributions from us.

### REGULATIONS RELATING TO FOREIGN INVESTMENT

***Industry Catalogue Relating to Foreign Investment.*** The MOFCOM and the NDRC jointly promulgated the Negative List for Foreign Investment Access, or the Negative List, on June 23, 2020, which became effective on July 23, 2020, and the Catalogue of Industries for Encouraging Foreign Investment (2019 Edition), or the Catalogue, on June 30, 2019, which became effective on July 30, 2019. The Catalogue and the Negative List set forth the industries in which foreign investments are encouraged, restricted, or prohibited. Industries that are not listed in any of the above three categories are generally open to foreign investment unless specifically restricted by other PRC regulations. Establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries. Foreign investors are not allowed to invest in industries in the prohibited category.

We are mainly engaged in express delivery services, which may involve domestic express delivery services of mail. According to the Negative List, foreign investments in domestic express delivery services of mail are prohibited. Therefore, we provide domestic express delivery services of mail through our consolidated affiliated entities in China.

Our PRC subsidiaries also operate in certain industries which fall into the encouraged category, such as road transportation and technical support and consulting services. Our subsidiary Shanghai Zhongtongji Network is registered in accordance with PRC law and mainly engages in technical support and consulting services, which are encouraged under the Catalogue.

***Foreign Investment Law and Regulations.*** On March 15, 2019, the PRC National People's Congress adopted the Foreign Investment Law of the PRC, or the FIL, which came into effect on January 1, 2020. Pursuant to the Foreign Investment Law of the PRC, China will grant national treatment to foreign-invested entities, except for those foreign-invested entities that operate in "restricted" or "prohibited" industries prescribed in the Negative List.

According to the FIL, "foreign investment" refers to investment activities directly or indirectly conducted by one or more natural persons, business entities, or other organizations of a foreign country (collectively referred to as "**foreign investors**") within China, and such investment activities including: (i) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other similar rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (iv) a foreign investor invests through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Although the FIL does not comment on the concept of "de facto control" or contractual arrangements with variable interest entities, it has a catch-all provision to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions of the State Council to classify contractual arrangements as a form of foreign investment. See "Risk Factors — Risks Related to Our Corporate Structure — Our current corporate structure and business operations may be affected by the Foreign Investment Law."

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The FIL also provides that the State establishes a foreign investment information report system. Foreign investors or the foreign investment enterprise shall submit investment information to the competent commerce department through the enterprise registration system and the enterprise credit information publicity system and the foreign investors or the foreign investment enterprise could be imposed a fine ranging from RMB100,000 to RMB500,000 by the competent commerce department for failing to report investment information as required to the foreign investment information report system. On December 30, 2019, MOFCOM and the SAMR jointly promulgated the Measures on Reporting of Foreign Investment Information, which became effective on January 1, 2020. Pursuant to the Measures for Information Reporting on Foreign Investment, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign investment enterprise shall submit the investment information to the competent commerce department.

On December 26, 2019, the PRC State Council promulgated the Implementation Regulations for the Foreign Investment Law of the PRC, or the Implementation Regulation for FIL, which became effective on January 1, 2020. The Implementation Regulation for FIL provides that foreign investment enterprises established in accordance with the Law of the PRC on Sino-foreign Equity Joint Venture Enterprises, the Law of the PRC on Foreign Investment Enterprises and the Law of the PRC on Sino-foreign Cooperative Joint Venture Enterprises prior to implementation of the FIL may, within the five-year period following the implementation of the FIL, adjust their organization form, organization structure pursuant to the provisions of the PRC Company Law, the PRC Partnership Enterprise Law and related laws, and complete change registration in accordance with the law, or may continue to retain their original enterprise organization form or organization structure. With effect from January 1, 2025, where an existing foreign investment enterprise has not adjusted its organization form or organization structure and complete the change registration in accordance with the law, the market regulatory authorities shall not process the application(s) for any other registration matter(s) of the said foreign investment enterprise, and shall publicly announce the relevant information.

### **REGULATIONS RELATING TO EXPRESS DELIVERY SERVICES**

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

Filing with the postal administrative department is required where an express delivery company sets up branches. The requirements for the establishment of a branch of express delivery company are specified in the Administrative Measures for Courier Service Market, or the Courier Market Measures, which was announced by the Ministry of Transport in 2013. The Courier Market Measures stipulate that where any express delivery company establishes its branches or business departments, it must register with the local SAMR where such branches or business departments are located by submitting its express delivery services operation permit and a list of its branches and, such branches or business departments must, within 20 days after they obtain their relevant business licenses, file with the local postal administrative department. The Postal Law stipulates that if an express delivery company fails to complete

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such required registration and/or filing with the relevant governmental authority, it may be ordered to rectify and to pay general fines of no more than RMB10,000. If the non-compliance situations are severe, a fine ranging from RMB10,000 to RMB50,000 can be imposed, and the offender may face suspension of its business operation before completing the rectification.

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

Enterprises engaged in express delivery services other than Postal Bureau Agencies may not engage in post and mail delivery business which are exclusively operated by Postal Bureau Agencies, and may not deliver any official documents of state-owned organizations. The express delivery business must operate within the permitted scope and under the valid terms of the Courier Service Operation Permit. The Courier Service Operation Permit is valid for 5 years upon its issuance and comes with an annual reporting obligation. The Circular on Implementing the Administrative Measures for the Courier Market and Strengthening the Administration of Courier Service Operations, which was issued by the State Post Bureau in 2013, further clarifies that the postal administrative department must examine whether an entity operates express delivery service within the permitted business scope and geographic scope of its Courier Service Operation Permit, and the geographic examination must be carried out down to the district-level within cities. Pursuant to the Courier Market Measures, failure to conduct express delivery services within the permitted operation scopes would subject the express delivery company to a correction order by the postal administrative department and a fine from RMB5,000 to RMB30,000. Moreover, in accordance with the Administrative Measures on Courier Service Operation Permits, an enterprise engaged in express delivery services must submit an annual reporting on its business licensing of courier services with the postal administrative authority which issued its Courier Service Operation Permit prior to 30 April each year. Where an express delivery service company fails to submit its annual report to the relevant postal administrative authority in a timely manner, it may be ordered by the postal administrative authorities to make correction, and may be subject to a fine of up to RMB10,000. Where an express delivery service company conceals any facts or commits fraud in its annual report, such express delivery service company may be ordered by the postal administrative authorities to make correction and imposed a fine ranging from RMB10,000 to RMB30,000.



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In accordance with the Decision of the State Council on Issues concerning Cancelling and Adjusting a Batch of Administrative Examination and Approval Items in February 2015, a company operating express delivery services must apply for and obtain the Courier Service Operation Permit prior to the application of its business license, and the obtaining of Courier Service Operation Permit is subject to industrial and commercial registration with prior examination.

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

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

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



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express delivery operator may be subject to a fine ranging from RMB 100,000 to RMB 500,000 or ordered to suspend business operation until cancellation of its express delivery services certificate, and the personnel directly in charge and other persons directly liable may be subject to a fine ranging up to RMB100,000. The Interim Regulations on Express Delivery also indicates that two or more express delivery operator may use a unified trademark, corporate name or express waybill to conduct the express delivery business. The express delivery operators shall enter into a written agreement to define their respective rights and obligations, carry out unified management of service quality, safety guarantee and business process, and provide unified express mail tracking, inquiry and complaint handling services for clients. Where the legitimate rights and interests of any client have been jeopardized due to the delay, missing, damage or shortage of express parcels, the client may request the express delivery operator to which the trademark, corporate name or express waybill belongs to offer compensation, or request the actual express delivery provider to pay compensation. ZTO Express and 51 of its subsidiaries have obtained the Courier Service Operation Permits to operate express delivery services. See “Risk Factors — Risks Related to Our Business and Industry — Any lack of requisite approvals, licenses or permits applicable to the business operation of us or our network partners may have a material and adverse impact on our business, financial condition and results of operations.”

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

### **ROAD TRANSPORTATION OPERATION PERMIT**

Pursuant to the Regulations on Road Transportation promulgated by the State Council in April 2004 and most recently amended in March 2019, and the Provisions on Administration of Road Freight Transportation and Stations (Sites) issued by the Ministry of Transport in June 2005 and most recently amended in June 2019, or the Road Freight Provisions, the business operations of road freight transportation refer to commercial road freight transportation activities that provide public services. The road freight transportation includes general road freight transportation, special road freight transportation, road transportation of large articles, and road transportation of hazardous cargos. Special road freight transportation refers to freight transportation using special vehicles with containers, refrigeration equipment, or tank containers, etc. The Road Freight Provisions set forth detailed requirements with respect to vehicles and drivers.

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

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

ZTO Express and ten of its subsidiaries have obtained Road Transportation Operation Permits to operate general road freight transportation or station (sites). Shanghai Zhongtongji Logistics Co., Ltd. and 20 of its subsidiaries have obtained Road Transportation Operation Permits to operate general road freight transportation or station (sites). See “Risk Factors — Risks Related to Our Business and Industry — Any lack of requisite approvals, licenses or permits applicable to the business operation of us or our network partners may have a material and adverse impact on our business, financial condition and results of operations.”

### REGULATIONS ON CARGO VEHICLES

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

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

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### **REGULATIONS RELATING TO INTERNATIONAL FREIGHT FORWARDING BUSINESS**

Administrative Provisions on International Freight Forwarders promulgated in 1995 and its detailed rules regulate the business of international freight forwarding. According to the provisions and its detailed rules, the minimum amount of registered capital must be RMB5 million for an international freight forwarder by sea, RMB3 million for an international freight forwarder by air and RMB2 million for an international freight forwarder by land or for an entity operating international express delivery services. An international freight forwarder must, when each time applying for setting up a branch, increase its registered capital (or the excess amount over its minimum registered capital) by RMB500,000. Under the Measures on Filing of International Freight Forwarders (Interim) announced in March 2005 and amended in August 2016, all international freight forwarders and their branches registered with the state industrial and commercial administration must be filed with the MOFCOM or its authorized organs.

### **REGULATIONS RELATING TO USE OF UNMANNED AERIAL VEHICLES FOR COMMERCIAL FLIGHT ACTIVITIES**

In March 2018, Civil Aviation Administration promulgated the Administrative Measures for Commercial Flight Activities of Civil Unmanned Aerial Vehicles (Interim), pursuant to which an Unmanned Aerial Vehicle Business License shall be obtained for the use of unmanned aerial vehicles for commercial flight activities, and no commercial flight activities shall be conducted without an Unmanned Aerial Vehicle Operation Permit. Two subsidiary of ZTO Express, has obtained the Unmanned Aerial Vehicle Operation Permit.

### **REGULATIONS ON COMMERCIAL FRANCHISING**

Pursuant to the Administrative Regulations on Commercial Franchising Operations promulgated by the State Council on February 6, 2007, which became effective on May 1, 2017, and Administrative Measures on the Record Filing of Commercial Franchises issued by MOFCOM on December 12, 2011, which became effective on February 1, 2012, collectively the Regulations and Provisions on Commercial Franchising, commercial franchising refers to the business activities where an enterprise that possesses the registered trademarks, enterprise logos, patents, proprietary technology or any other business resources allows such business resources to be used by another business operator through contract and the franchisee follows the uniform business model to conduct business operations and pay franchising fees to the franchisor according to the contract. We and our network partners are therefore subject to regulations on commercial franchising. Under the Regulations and Provisions on Commercial Franchising, within 15 days of the first conclusion of franchising contract, the franchisor must carry out record-filing with MOFCOM or its local counterparts and must report the status of its franchising contracts in the previous year in the first quarter of each year after record-filing. Ministry of Commerce announces the names of franchisors who have completed filing on the government website and makes prompt updates. If the franchisor fails to comply with these Regulations and Provisions on Commercial Franchising, the MOFCOM or its local counterparts have the discretion to take administrative measures against the franchisor, including fines and public announcements. The Regulations and Provisions on Commercial Franchising also set forth requirements on the contents of franchising contracts. ZTO Express has signed franchising contracts under the Regulations and Provisions on Commercial Franchising with its direct network partners. If we are deemed as a franchisor who fails to comply with the stipulations of filing with the competent commerce authority, we may be imposed a fine ranging from RMB10,000 to RMB100,000. As of June 30, 2020, we have not

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made any filings with local counterparts of MOFCOM or received any governmental order to make such filings. See “Risk Factors — Risks Related to Our Business and Industry — Our failure to comply with regulations on commercial franchising may result in penalties to us.”

### **REGULATIONS RELATING TO PERSONAL INFORMATION SECURITY AND CONSUMER PROTECTION**

The Administrative Provisions on the Security of Personal Information of Express Service Users, promulgated by State Post Bureau on March 26, 2014, provide for the protection of the personal information of users of express or express delivery services, and the supervision on the express operations of postal enterprises and express delivery companies. In accordance with these provisions, the state postal administrative department and its local counterparts are the supervising and administering authority responsible for the security of the personal information of users of express or express delivery services, and postal enterprises and express delivery companies must establish and refine systems and measures for the security of such information. Specifically, express delivery companies must enter into confidentiality agreements with its employees regarding the information of its clients or users to specify confidentiality obligations and liabilities for violation thereof. Where express delivery companies are entrusted by operators engaging in online shopping, TV shopping, mail-order and other businesses to provide express delivery services, such express delivery companies must enter into agreements with the said principals agreeing upon provisions safeguarding the security of information of users of express delivery services. Courier companies operating through franchise are further required to formulate provisions on the security of information of users of express delivery services in franchising contracts and clarify the security responsibilities between franchisor and franchisee. A courier company and its employees causing damages to the users of express delivery services by divulging the users’ information is expected to bear compensation liabilities. If a courier company is found to unlawfully furnish the information of users of express delivery services, the company and its employees are subject to administrative liabilities or even criminal penalties. A user of express delivery services may further seek remedies by following the Measures on Settling the Complaints of the Postal Users issued by State Post Bureau, which took effect on September 1, 2014. The Postal Users Complaints Settling Center implements the regime of mediation to handle the complaints from users on the quality of the express delivery services. According to the Interim Regulations on Express Delivery, an express delivery service company shall not sell, reveal or illegally provide any information of client that has been exposed during the provision of express services. In case the information of client is revealed or may be revealed, the express delivery service company shall take remedial measures immediately and report to the local post administrations. Failure to comply with such requirement may be subject to penalties including a fine ranging from RMB10,000 to RMB100,000, suspension of business for rectification or revoke of its Courier Service Operation Permit. We are subject to the above provisions or measures with regard to the security of personal information and believe that we are currently in compliance with the law in all material aspects.

### **REGULATIONS ON FINANCIAL SERVICES**

Pursuant to the Guiding Opinions of the China Banking Regulatory Commission and the People’s Bank of China on the Pilot Operation of Microcredit Loan Enterprises promulgated by the China Banking Regulatory Commission and the People’s Bank of China on May 4, 2008, to apply for the establishment of a microcredit loan enterprise, the applicant shall submit a formal application to the competent administrative departments at the provincial level, and upon the approval, the applicant shall register with the local branch of SAMR to obtain the business license.

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Pursuant to the Notice of the China Banking and Insurance Regulatory Commission on Issuing the Interim Measures for the Supervision and Administration of Financial Leasing Enterprises promulgated by the China Banking and Insurance Regulatory Commission on May 26, 2020, provincial-level local financial regulatory authority shall establish a mechanism for consultation with administrations for market regulation to strictly control the registration of financial leasing enterprises and their branches.

Pursuant to the Notice of the General Office of the China Banking and Insurance Regulatory Commission on Strengthening the Supervision and Administration of Commercial Factoring Enterprises promulgated by the China Banking and Insurance Regulatory Commission on October 18, 2019, each financial regulatory authority shall coordinate with administrations for market regulation in strictly controlling the registration of commercial factoring enterprises before promulgation of the administrative measures for market access of commercial factoring enterprises. If the newly establishment of a commercial factoring enterprise is necessary, the financial regulatory authority shall set up a consultation mechanism with administrations for market regulation.

### **REGULATIONS RELATING TO PRICING**

In China, the prices of a few numbers of products and services are set by the government. According to the Pricing Law promulgated on December 29, 1997, which became effective on May 1, 1998, operators must, as required by the government departments in charge of pricing, mark the prices explicitly and indicate the service items, pricing structures and other related standards clearly. Operators may not charge any fees that are not explicitly indicated. Operators must not commit unlawful pricing activities, such as colluding with others to manipulate the market price, using false or misleading prices to deceive consumers, or conducting price discrimination against other business operators. Failure to comply with the Pricing Law may subject business operators to administrative sanctions such as warning, ceasing unlawful activities, requiring compensation, confiscating illegal gains, fines. The business operators may be ordered to suspend business for rectification or having their business licenses revoked if the violations are severe. We are subject to the Pricing Law as a service provider and believe that our pricing activities are currently in compliance with the laws in all material aspects.

### **REGULATIONS RELATING TO LEASING**

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

According to the PRC Contract Law which took effect on October 1, 1999, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid.



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Pursuant to the PRC Property Law which took effect on October 1, 2007, if the mortgaged property is leased before the mortgage contract is executed, the previously established tenancy will not be affected by the subsequent mortgage, but where the mortgaged property is leased after the creation and registration of the mortgage interest, the tenancy can not challenge the registered mortgage.

### **REGULATIONS RELATING TO LAND USE RIGHT AND CONSTRUCTION**

Certain of our offices, sorting hubs and other facilities, together with the land use rights attached, are obtained or built by us or bought from third parties. Pursuant to the PRC Land Administration Law promulgated on June 25, 1986 with the latest amendment on August 26, 2019, which became effective on January 1, 2020, and the PRC Property Law, any entity that needs land for the purposes of construction must obtain land use right and must register with local counterparts of Land and Resources Ministry. Land use right is established at the time of registration. We have not obtained title certificates of land use rights to certain pieces of land currently used by us. See “Risk Factors — Risks Related to Our Business and Industry — The title defects with respect to or encumbrances on certain land and buildings or failure to obtain requisite approvals, licenses or permits in carrying out our property construction may cause interruptions to our business operations.”

According to the Measures for Control and Administration of Grant and Assignment of Right to Use Urban State-owned Land promulgated by the Ministry of Housing and Urban-Rural Development on December 4, 1992 with the amendment on January 26, 2011, and the PRC Law on Urban and Rural Planning promulgated by the National People’s Congress on October 28, 2007 and became effective on January 1, 2008 with the latest amendment on April 23, 2019, the Measures for Administration of Permission for Commencement of Construction Works promulgated by the Ministry of Housing Construction and Urban-Rural Development (Interim) with the latest amendment on September 28, 2018, the Administrative Measures for Archival Filing on Inspection Upon Completion of Buildings and Municipal Infrastructure promulgated by the Ministry of Housing and Urban-Rural Development with the latest amendment on October 19, 2009, and the Regulations on the Quality Management of Construction Engineering promulgated by the State Council on January 30, 2000 and most recently amended on April 23, 2019, after obtaining land use right, the owner of land use right must obtain construction land planning permit, construction works planning permit from the relevant municipal planning authority, and a construction permit from relevant construction authority in order to commence construction. After a building is completed, an examination of completion by the relevant governmental authorities and experts must be organized. We have not been fully in compliance with certain construction requirements under PRC laws and regulations, such as commencing construction projects before obtaining the requisite permits and putting the constructions into use before passing the requisite inspection and acceptance. See “Risk Factors — Risks Related to Our Business and Industry — The title defects with respect to or encumbrances on certain land and buildings or failure to obtain requisite approvals, licenses or permits in carrying out our property construction may cause interruptions to our business operations.”

### **REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION**

Pursuant to the PRC Law on Environment Impact Assessment promulgated in 2002 and most recently amended in 2018, and the Administrative Regulations on the Environmental Protection of Construction Projects promulgated in 1998 with the latest amendment in 2017, each construction project is required to undergo an environmental impact assessment, and an environmental impact assessment report must be submitted to the relevant governmental authorities in charge of ecological environment for approval before the commencement of



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construction. In the event that there is a material change in respect of the location, scale, nature of the construction project, the production techniques employed or the measures adopted for preventing pollution and preventing ecological damage of a given project, a new environmental impact assessment report must be submitted for approval. Moreover, in accordance with the Administrative Regulations on the Environmental Protection Completion Acceptance of Construction Projects promulgated in 2001, after the completion of a construction project, the constructing entity is required to obtain a completion acceptance on environmental protection for the project from the competent department of environmental protection. Subject to the Administrative Regulations on the Environmental Protection of Construction Projects, and the Interim Measures on the Administration of Acceptance Inspection of Construction Project Environmental Protection, except those construction projects requiring water, noise and solid waste pollution prevention facilities, which are still subject to acceptance by the environmental authorities, the constructing entities may organize the acceptance inspection upon the completion by themselves for other construction projects. Failure to comply with the above-mentioned regulations may subject an enterprise to fines, suspension of the construction and other administrative liabilities and even criminal liabilities under severe circumstances.

### REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

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

**Copyright.** Copyright in China, including copyrighted software, is principally protected under the Copyright Law and its implementation rules and Regulations on the Protection of Computer Software. Under the Regulations on the Protection of Computer Software, the term of protection for copyrighted software is 50 years. As of June 30, 2020, we had 162 software copyrights.

**Patent.** The Patent Law provides for patentable inventions, utility models and designs, which must meet three conditions: novelty, inventiveness and practical applicability. The National Intellectual Property Administration is responsible for examining and approving patent applications. The duration of a patent right is either 10 years or 20 years from the date of application, depending on the type of patent right. As of June 30, 2020, we had obtained 48 patents in China.

**Trademark.** The Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of the National Intellectual Property Administration is responsible for the registration and administration of trademarks throughout China. The Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. Where registration application for a trademark that is identical or similar to another trademark which has already registered or given preliminary examination, the application for such trademark may be rejected. Trademark registration is effective for a renewable ten-year period, unless otherwise revoked. As of June 30, 2020, we had 166 registered trademarks in different applicable trademark categories and had 118 trademark applications in China.

**Domain Name.** Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the CNNIC is responsible for the daily administration of .cn domain names and Chinese domain names. Our domain name registration is handled through domain name service agencies established under the relevant regulations, and we become domain name holders upon successful registration. We have registered zto.cn, zto.com, zto.net and other domain names.

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### REGULATIONS RELATING TO EMPLOYMENT

Pursuant to the PRC Labor Law, promulgated by National People's Congress and most recently amended in December 2018, and the PRC Labor Contract Law, promulgated by Standing Committee of the National People's Congress in June 2007 and amended in December 2012, employers must execute written labor contracts with full-time employees. If an employer fails to enter into a written employment contract with an employee more than one month but less than one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. If an Employer fails to enter into a written employment contract with an employee within one year from the date the employee commences work, they shall be deemed to have entered into a non-fixed-term labor contract. All employers must comply with local minimum wage standards. Violation of the PRC Labor Law and the PRC Labor Contract Law may result in the imposition of fines and other administrative and criminal liability in the case of serious violation.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to such plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to Opinions of the General Office of the State Council on Comprehensively Promoting the Combined Implementation of Maternity Insurance and Employees' Basic Medical Insurance, maternity insurance fund shall be incorporated in employees' basic medical insurance fund for unification of collection and payment and consistency of coordination levels. The aggregate ratio of payments by employers for participation in maternity insurance and employees' basic medical insurance shall be taken as basis to determine the rate of employees' basic insurance premium payable by employers and no individuals shall pay maternity insurance premium. All provinces (autonomous regions and municipalities directly under the Central Government) shall strengthen work deployment, and urge and guide each coordination region to accelerate implementation and to realize the combined implementation of two insurances by the end of 2019. According to the PRC Social Insurance Law, promulgated by National People's Congress in October 2010 and most recently amended in December 2018, and Interim Regulations on Levying Social Insurance Premiums, promulgated by National People's Congress in January 1999 and most recently amended in March 2019, an employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% per day. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times of the amount overdue and/or subject to a late fee of 0.2% per day. According to the Regulations on Management of Housing Fund, promulgated by National People's Congress in April 1999 and most recently amended in March 2019, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement. We did not pay, or were not able to pay, certain past social security and housing fund contributions in strict compliance with the relevant PRC regulations for and on behalf of our employees due to differences in local regulations and inconsistent implementation or interpretation by local authorities in the PRC and varying levels of acceptance of the housing fund system by our employees. Although we have recorded accruals for estimated underpaid amounts in our financial statements, we may be subject to

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finances and penalties for our failure to make payments in accordance with the applicable PRC laws and regulations. We may be required to make up the contributions for these plans as well as to pay late fees and fines. We have not made any accruals for the interest on underpayments and penalties that may be imposed by the relevant PRC government authorities in the financial statements. See “Risk Factors — Risks Related to Doing Business in China — Our failure to fully comply with PRC labor-related laws may expose us to potential penalties.”

### REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, most recently amended in August 2008. Payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can usually be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. By contrast, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans.

On March 30, 2015, SAFE issued the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises, or SAFE Circular 19. Pursuant to SAFE Circular 19, the foreign exchange capital of foreign-invested enterprises is subject to the discretionary foreign exchange settlement, which means the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) may be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is temporarily 100%. SAFE can adjust such proportion in due time based on the circumstances of international balance of payments.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises.

On January 26, 2017, SAFE issued the Notice of State Administration of Foreign Exchange on Improving the Review of Authenticity and Compliance to Further Promoting the Reform of Foreign Exchange Administration, or SAFE Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years' losses before remitting the profits. Moreover, pursuant to SAFE Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Facilitating Cross-border Trade and Investment, which, among other things, expanded the use of foreign exchange capital to domestic equity investment area.

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### **REGULATIONS ON PRC MERGERS & ACQUISITIONS AND PUBLIC LISTING ON AN OVERSEAS STOCK EXCHANGE**

Pursuant to Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors, or the M&A Rules, which was promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the STA, the SAIC, the CSRC and the SAFE on August 8, 2006, and subsequently amended by the MOFCOM on June 22, 2009, which provided that the scenarios qualify as an acquisition of a domestic enterprise by a foreign investor. On December 30, 2019, MOFCOM and the SAMR issued the Measures for Reporting of Information on Foreign Investment, which took effect on January 1, 2020. According to the Measures for Reporting of Information on Foreign Investment, to acquire the equity of a non-foreign-invested enterprise within the territory of China, a foreign investor shall submit the initial report through the enterprise registration system when it applies for the registration of changes to the acquired enterprise. See “Risk Factors — Risks Related to Our Business and Industry — Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions.” Further, the M&A Rules requires an offshore special purpose vehicle that is directly or indirectly controlled by PRC companies or individuals for the purpose of the domestic companies actually owned by such PRC companies or individuals (through acquisitions of the equity held by such domestic Companies’ shareholders or the equity newly issued by such domestic companies by those means provided in the M&A Rules) seeking a public listing on an overseas stock exchange to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. Currently, there remains uncertainty as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering. See “Risk Factors — Risks Related to Our Business and Industry — The approval of the China Securities Regulatory Commission may be required in connection with this offering, and, if required, we cannot predict whether we will be able to obtain such approval.”

### **REGULATIONS ON DIVIDEND DISTRIBUTION**

The Foreign Investment Law was promulgated by the National People’s Congress on March 15, 2019 and became effective on January 1, 2020. According to the Foreign Investment Law, foreign investment enterprises in China may pay dividends freely in RMB or any other foreign currency according to law. In addition, according to the PRC Company Law, foreign investment enterprises, same as domestic enterprises, are required to set aside at least 10% of their after-tax profits (if any) each year to the company’s statutory reserves, until the accumulative amount of such fund reaches 50% of its registered capital. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. Further, the foreign investment enterprises may allocate a portion of their after-tax profits based on PRC accounting standards as discretionary reserve funds. These reserve funds are not distributable as cash dividends.

### **REGULATIONS ON OFFSHORE FINANCING**

SAFE promulgated the SAFE Circular 37 on July 4, 2014, which replaced the former circular commonly known as “SAFE Circular 75.” SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with

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respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. All of our shareholders that we are aware of being subject to the SAFE regulations have completed all necessary initial registrations with the local SAFE branch or qualified banks as required by SAFE Circular 37.

On February 13, 2015, SAFE released Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies, or SAFE Circular 13 which was partially abolished on December 30, 2019, under which local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, starting from June 1, 2015.

On March 11, 2020, the People's Bank of China and SAFE jointly released the Notice on Adjusting Macro-Prudential Adjustment Parameters of Full-Caliber Cross-Border Financing, which raised the macro prudential adjustment parameter from 1 to 1.25.

### **REGULATIONS RELATING TO EMPLOYEE STOCK INCENTIVE PLAN OF OVERSEAS PUBLICLY-LISTED COMPANY**

Pursuant to Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, issued by SAFE in February 2012, individuals participating in any stock incentive plan of any overseas publicly listed company who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our executive officers and other employees who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year with the exception of diplomatic agents of foreign countries in China and the representatives of any international organization in China and have been granted options are subject to these regulations as our company became an overseas listed company upon the completion of our initial public offering. Failure by such individuals to complete their SAFE registrations may subject them to fines and other legal sanctions. See “Risk Factors — Risks Related to Doing Business in China — Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans of overseas publicly listed company may subject the PRC plan participants or us to fines and other legal or administrative sanctions.”

The STA has issued certain circulars concerning employee share options or restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities.



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### REGULATIONS RELATING TO TAX

#### Dividend Withholding Tax

Pursuant to the EIT Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in China, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the STA on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or STA Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Furthermore, the Administrative Measures for Convention Treatment for Non-resident Taxpayers, which became effective on January 1, 2020, require that non-resident taxpayers claiming treaty benefits shall be handled in accordance with the principles of “self-assessment, claiming benefits, retention of the relevant materials for future inspection.” Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through a withholding agent, simultaneously gather and retain the relevant materials pursuant to the provisions of these Measures for future inspection, and subject to subsequent administration by tax authorities. Accordingly, ZTO Express (Hong Kong) Limited may be able to enjoy the 5% withholding tax rate for the dividends they receive from ZTO Express, if they satisfy the conditions prescribed under STA Circular 81 and other relevant tax rules and regulations. However, according to STA Circular 81, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

#### Enterprise Income Tax

The principal regulations governing enterprise income tax in China are the EIT Law, which was recently amended on December 29, 2018, and its implementing rules, which became effective on January 1, 2008 and was amended on April 23, 2019. Under the EIT Law, enterprises are classified as resident enterprises and nonresident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25%. Uncertainties exist with respect to how the EIT Law applies to the tax residence status of ZTO Express (Cayman) Inc. and our offshore subsidiaries.

Under the EIT Law, an enterprise established outside China with its “de facto management bodies” located within China is considered a “resident enterprise,” meaning that it is treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.



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The STA issued the Circular of the STA on Issues Concerning the Identification of Chinese-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance with the Actual Standards of Organizational Management, or STA Circular 82 in 2009. According to STA Circular 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (a) the primary location of the day-to-day operational senior management and senior management department’s performance of their duties is in China; (b) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (c) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in China; and (d) 50% or more of voting board members or senior executives habitually reside in China. In addition, the STA issued the Bulletin of the STA on Printing and Distributing the Administrative Measures for Income Tax on Chinese-controlled Resident Enterprises Incorporated Overseas (Trial Implementation) in 2011 and amended on June 15, 2018 by the Announcement of the STA on Revising Certain Taxation Normative Documents, providing more guidance on the implementation of STA Circular 82. This bulletin clarifies matters including resident status determination, post determination administration and competent tax authorities. In January 2014, the STA issued the Bulletin of the STA on Issues concerning the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions, or STA Bulletin 9. According to STA Bulletin 9, a Chinese-controlled offshore incorporated enterprise that satisfies the conditions prescribed under the STA Circular 82 for being recognized as a PRC tax resident must apply for being recognized as a PRC tax resident to the competent tax authority at the place of registration of its main investor within the territory of China.

We do not believe that we meet all of the conditions outlined in the immediately preceding paragraph. We believe that ZTO Express (Cayman) Inc. and our offshore subsidiaries should not be treated as a “resident enterprise” for PRC tax purposes if the criteria for “de facto management body” as set forth in STA Circular 82 were deemed applicable to us. However, as the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, we may be treated as a resident enterprise for PRC tax purposes under the EIT Law, and we may therefore be subject to PRC income tax on our global income. We are actively monitoring the possibility of “resident enterprise” treatment for the applicable tax years and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

In the event that ZTO Express (Cayman) Inc. or any of our offshore subsidiaries is considered to be a PRC resident enterprise: ZTO Express (Cayman) Inc. or our offshore subsidiaries, as the case may be, may be subject to the PRC enterprise income tax at the rate of 25% on our worldwide taxable income; dividend income that ZTO Express (Cayman) Inc. or our offshore subsidiaries, as the case may be, received from our PRC subsidiaries may be exempt from the PRC withholding tax; and interest paid to our overseas shareholders or ADS holders who are non-PRC resident enterprises as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of up to 10%, subject to any reduction or exemption set forth in relevant tax treaties, and similarly, dividends paid to our overseas shareholders or ADS holders who are non-PRC resident individuals, as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs, may be regarded as PRC-sourced income and as a result be subject to PRC withholding tax at a rate of 20%, subject to any reduction or exemption set forth in relevant tax treaties. See “Risk Factors — Risks Related to Doing Business in China — If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

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## REGULATIONS

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The STA issued the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or STA Public Notice 7, on February 3, 2015, and was recently amended on December, 2017. Under STA Public Notice 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to STA Public Notice 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. According to the Announcement of the STA on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source, or STA Announcement 37, effective December 1, 2017 and amended in June 15, 2018 by the Announcement of the STA on Revising Certain Taxation Normative Documents, the withholding party shall, within seven days of the day on which the withholding obligation occurs, declare and remit the withholding tax to the competent tax authority at its locality. Where the withholding party fails to withhold and remit the income tax payable or is unable to perform its obligation in this regard, the non-resident enterprise that earns the income shall, declare and pay the tax that has not been withheld to the competent tax authority at the place where the income occurs, and complete the Withholding Statement of the People’s Republic of China for Enterprise Income Tax. There is uncertainty as to the implementation details of STA Public Notice 7 and STA Announcement 37. If STA Public Notice 7 or STA Announcement 37 was determined by the tax authorities to be applicable to some of our transactions involving PRC taxable assets, our offshore subsidiaries conducting the relevant transactions might be required to spend valuable resources to comply with STA Public Notice 7 and STA Announcement 37 or to establish that the relevant transactions should not be taxed under STA Public Notice 7 or STA Announcement 37. See “Risk Factors — Risks Related to Doing Business in China — We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

Where the payers fail to withhold any or sufficient tax, the non-PRC residents, as the transferors, are required to declare and pay such taxes to the tax authorities on their own within the statutory time limit. Failure to comply with the tax payment obligations by the non-PRC residents will result in penalties, including full payment of taxes owed, fines ranging from fifty percent to five times the amount of unpaid or underpaid tax and default interest on those taxes.

Under the EIT Law and its implementation rules, certain “high and new technology enterprises strongly supported by the state” that independently own core intellectual property and meet statutory criteria are permitted to enjoy a reduced 15% enterprise income tax rate. On January 29, 2016 the State Administration for Taxation, the Ministry of Science and Technology and the Ministry of Finance jointly issued the Administrative Measures for the Certification of High and New Technology Enterprises specifying the criteria and procedures for the qualification and certification of the High and New Technology Enterprises.

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## REGULATIONS

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Under the Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies, or the Circular 58, and the Bulletin of the STA on Issues of Enterprise Income Tax Concerning In-depth Implementation of Western Region Development Strategy promulgated on April 6, 2012, or the Circular 12, and the Announcement on Continuation of the Enterprise Income Tax Policy for the Western Region Development which will become effective on January 1, 2021, from January 1, 2011 to December 31, 2030, the primary business of the enterprise is listed in the one of industry items provided in the Catalogue of Encouraged Industries in Western Regions and annual primary business revenue of which accounts for more than 70% of the total enterprise revenue, may pay enterprise income tax at the reduced tax rate of 15% subject to the examination and confirmation of the competent tax authority. The STA promulgated the Announcement of the STA on Enterprise Income Tax Issues concerning the Implementation of the Catalog of Encouraged Industries in the Western Region thereafter, and from October 1, 2014, the payment of enterprise income tax at the reduced tax rate of 15% shall cease to apply to enterprises that have enjoyed policies for preferential treatment of enterprise income tax under the Circular 12 if their primary businesses no longer fall within the “encouraged” category of Catalog of Encouraged Industries in the Western Region. Afterwards, the STA abolished the examination and confirmation procedures of the competent tax authority for the preferential treatment under the Circular 12.

### **PRC Value-Added Tax**

Pursuant to the Interim Value-Added Tax Regulations of the People’s Republic of China promulgated by the State Council and its Implementation Rules promulgated by the MOF, subject to applicable exceptions, tax payers selling goods, providing labor services of processing, repairs or maintenance, or selling services, intangible assets or real property in China, or importing goods to China shall pay value-added tax, or the VAT. A taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the revenue from services provided.

Pursuant to the Pilot Proposals for the Collection of Value-Added Tax in Lieu of Business Tax, or the Circular 110, starting from January 1, 2012, the PRC government has been gradually implementing a pilot program in certain provinces and municipalities, levying a 11% VAT on revenue generated from transportation services in lieu of the business tax. Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax issued afterwards, or the Circular 36, business tax shall be completely replaced by the VAT from May 1, 2016 and the VAT rate applicable to VAT taxpayers ranges from 6% to 17% (which has been reduced to 13% after April 1, 2019 pursuant to Circular 39). Pursuant to Circular of Taxation on Adjusting Value-added Tax Rates, or the Circular 32, issued by the MOF and STA, for VAT taxable sales or importation of goods originally subject to value-added tax rates of 17% and 11%, such tax rates were adjusted to 16% and 10%, respectively. Further, pursuant to the Announcement on Policies for Deepening the VAT Reform issued by the MOF, or the Circular 39, the STA and the General Administration of Customs on March 20, 2019, which came into force on April 1, 2019, for general VAT payers’ sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9%, respectively. Under Circular 39, during the period from April 2019 to December 2021, certain qualified service industry taxpayers can enjoy an extra 10% for deduction of the tax payable, which is calculated based on the input VAT filed with the tax bureau. In addition, under Circular 39, qualifying tax payers who meet certain requirements are eligible for the newly increased unutilized input VAT refund. The refund of newly increased unutilized input VAT for the current period shall be calculated as per the following formula: refundable amount of newly increased unutilized input VAT for the current period = newly increased unutilized input VAT × the input component ratio × 60%.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company immediately prior to and upon the completion of the Global Offering, assuming that the Global Offering becomes unconditional and the Offer Shares are issued pursuant to the Global Offering and without taking into account (i) Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, (ii) the Company's repurchase of Class A ordinary shares in the form of ADSs; and (iii) any allotment and issuance of Class A ordinary shares upon exercise of the Over-allotment Option.

#### 1. Share capital as at June 30, 2020

##### (i) Authorized share capital

<u>Number</u>	<u>Description of Shares</u>	<u>Approximate aggregate nominal value of shares</u>
8,000,000,000	Class A ordinary shares	US\$800,000
1,000,000,000	Class B ordinary shares	US\$100,000
1,000,000,000	Undesignated	US\$100,000
Total		<u>US\$1,000,000</u>

##### (ii) Issued, fully paid or credited to be fully paid

<u>Number</u>	<u>Description of Shares</u>	<u>Approximate aggregate nominal value of shares</u>
597,451,115 <sup>(1)</sup>	Class A ordinary shares	US\$59,745.11
206,100,000	Class B ordinary shares	US\$20,610.00
Total		<u>US\$80,355.11</u>

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## SHARE CAPITAL

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### 2. Share capital immediately following the completion of the Global Offering

#### (i) Authorized share capital

<b>Number</b>	<b>Description of Shares</b>	<b>Approximate aggregate nominal value of shares</b>
8,000,000,000	Class A ordinary shares	US\$800,000
1,000,000,000	Class B ordinary shares	US\$100,000
1,000,000,000	Undesignated	US\$100,000
Total		US\$1,000,000

#### (ii) Issued fully paid or credited to be fully paid

<b>Number</b>	<b>Description of Shares</b>	<b>Approximate aggregate nominal value of shares</b>
642,451,115 <sup>(2)</sup>	Class A ordinary shares	US\$64,245.11
206,100,000	Class B ordinary shares	US\$20,610.00
Total		US\$84,855.11

*Notes:*

- (1) Including (i) 7,447,313 Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, and (ii) the Company's repurchase of 12,209,069 Class A ordinary shares in the form of ADSs. The Company has 577,794,733 Class A ordinary shares excluding the above items.
- (2) Based on 597,451,115 class A ordinary shares as at June 30, 2020.

### WEIGHTED VOTING RIGHTS STRUCTURE

Under our weighted voting rights structure, our share capital comprises Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 10 votes, respectively, on all matters that require a shareholder's vote.

In addition, a quorum required for a meeting of shareholders consists of one or more shareholders present and holding shares which represent, in aggregate, not less than one-third of the votes attaching to the issued and outstanding voting shares in our Company entitled to vote at general meeting. The Company will put forth a resolution at or before its 2021 annual general meeting which is expected to be held in or before June 2021 to revise the Articles of Association so that the quorum for general meeting is lowered from the current one-third of the aggregate voting power of the Company to 10% of the aggregate voting power of the Company on a one vote per share basis. See "Waivers and Exemptions" for further details.

For further details, see the summary of the Articles of Association in Appendix III.

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## SHARE CAPITAL

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The table below sets out the ownership and voting rights to be held by the WVR beneficiary upon the completion of the Global Offering:

	Number of Shares	Approximate percentage of issued and outstanding share capital <sup>(1)</sup>	Approximate percentage of voting rights <sup>(1)(2)</sup>
Class A ordinary shares held by the WVR beneficiary . . . . .	7,608,313	0.9%	0.3%
Class B ordinary shares held by the WVR beneficiary <sup>(3)</sup> . . . . .	206,100,000	24.9%	76.8%
Total . . . . .	213,708,313	25.8%	77.1%

*Notes:*

- (1) Without taking into account (i) Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, (ii) the Company's repurchase of Class A ordinary shares in the form of ADSs; and (iii) any allotment and issuance of Class A ordinary shares upon exercise of the Over-allotment Option.
- (2) On the basis that Class A ordinary shares entitle the Shareholder to one vote per share and Class B ordinary shares entitle the Shareholder to 10 votes per share.
- (3) Please see "WVR Beneficiary" in this section.

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Upon the conversion of all the issued and outstanding Class B ordinary shares into Class A ordinary shares, the Company will issue 206,100,000 Class A ordinary shares, representing approximately 33.1% the total number of issued and outstanding Class A ordinary shares upon completion of the Global Offering (without taking into account (i) Class A ordinary shares issued and reserved for the purpose of our employee shareholding platform, the holder of which has waived all shareholder rights attached to those shares, (ii) the Company's repurchase of Class A ordinary shares in the form of ADSs; and (iii) any allotment and issuance of Class A ordinary shares upon exercise of the Over-allotment Option).

Upon any sale of Class B ordinary shares by a holder thereof to any person or entity that is not an Affiliate (as defined in our Articles of Association) of such holder or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person who is not an affiliate of the holder of such Class B ordinary shares, such Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares. In addition, if at any time, Mr. Meisong Lai and his affiliates collectively own less than 10% of the issued share capital of the Company, each issued and outstanding Class B ordinary share will be automatically and immediately converted into one Class A ordinary share.

### **WVR Beneficiary**

Immediately upon the completion of the Global Offering, the WVR beneficiary will be Mr. Meisong Lai, our chairman and chief executive officer. Mr. Lai beneficially owns 7,608,313 Class A ordinary shares and 206,100,000 Class B ordinary shares, and controls 77.1% of the aggregate voting power of our Company.



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## SHARE CAPITAL

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The Company's WVR structure enables the WVR beneficiary to exercise voting control over the Company notwithstanding that the WVR beneficiary does not hold a majority economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR beneficiary who will control the Company with a view to its long-term prospects and strategy.

Prospective investors are advised to be aware of the potential risks of investing in companies with weighed voting rights structures, in particular that interests of the WVR beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders' resolutions, irrespective of how other shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to section headed "Risk Factors — Risks Related to our Shares, our ADSs and the Listing."

Save for the weighted voting rights attached to Class B ordinary shares, the rights attached to all classes of Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A ordinary shares and Class B ordinary shares, please see the section headed "Summary of the Constitution of our Company and Cayman Companies Law — Articles of Association" in Appendix III for further details.

### **Assumptions**

The above table assumes that the Global Offering becomes unconditional and the Class A ordinary shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased by us.

### **Ranking**

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

### **Share Incentive Plans**

See "Directors and Senior Management — Compensation" for details about our Share Incentive Plans.

### **Share Repurchases**

On May 21, 2017, we announced a share repurchase program, pursuant to which we were authorized to repurchase our own Class A ordinary shares, in the form of ADSs, with an aggregate value of up to US\$300 million during the 12-month period thereafter. We had purchased an aggregate of 15,625,375 ADSs for US\$225.4 million on the open market under this program, at a weighted average price of US\$14.42 per ADS, including repurchase commissions.

On November 14, 2018, we announced a new share repurchase program, pursuant to which we were authorized to repurchase our own Class A ordinary shares, in the form of ADSs, with an aggregate value of up to US\$500 million during an 18-month period thereafter. In March 2020, our board of directors approved the extension of this share repurchase program to June 30,

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## SHARE CAPITAL

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2021. As of December 31, 2019, we had purchased an aggregate of 7,716,436 ADSs for US\$133.7 million on the open market under this program, at a weighted average price of US\$17.33 per ADS, including repurchase commissions.

The following table sets forth some information about our repurchases during the periods presented.

<b>Period</b>	<b>(a) Total Number of ADSs Repurchased</b>	<b>(b) Average Price Paid per ADS (US\$)</b>	<b>(c) Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Dollar Value of ADSs that May Yet be Purchased Under the Announced Plans or Programs (US\$)</b>
November 2018 . . .	—	—	—	500,000,000
December 2018 . . .	1,700,000	15.85	1,700,000	473,060,261
January 2019 . . . . .	43,563	15.91	43,563	472,366,967
May 2019 . . . . .	1,668,069	17.94	1,668,069	442,433,803
June 2019 . . . . .	4,137,791	17.69	4,137,791	369,235,842
August 2019 . . . . .	167,013	17.88	167,013	366,250,322
<b>Total . . . . .</b>	<b>7,716,436</b>	<b>N/A</b>	<b>7,716,436</b>	<b>N/A</b>

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## USE OF PROCEEDS

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We estimate that we will receive net proceeds from the Global Offering of approximately HK\$11,882.22 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$268.00 per Offer Share for both the Hong Kong Public Offering and the International Offering, and assuming that the Over-allotment Option is not exercised, or HK\$13,673.13 million if the Over-allotment Option is exercised in full.

The International Offer Price in the International Offering may be higher than, or the same as, the Public Offer Price in the Hong Kong Public Offering. See “Structure of the Global Offering — Stabilization — Pricing and allocation.”

We plan to use the net proceeds we will receive from the Global Offering for the following purposes:

- **approximately 50% (approximately HK\$5,941 million, assuming that the Over-allotment Option is not exercised) for infrastructure and capacity development.** We plan to use 30% of the net proceeds to acquire land use rights in strategic locations across China and to establish additional sorting hubs to handle increasing volume; to build modern logistic parts to serve as one-stop multi-functional logistic facilities. We intend to use 10% of the net proceeds to acquire additional transportation vehicles to expand the capacity of our self-owned fleet and achieve higher transportation efficiency. We will use 10% of the net proceeds to continue to increase and upgrade the installed base of machineries and equipment in our sorting hubs, and apply advanced technologies to further improve the level of automation and digitalization.
- **approximately 25% (approximately HK\$2,971 million, assuming that the Over-allotment Option is not exercised) for empowering our network partners and strengthening the network stability.** We intend to use 15% of the net proceeds to invest resources in incentivizing our network partners to achieve better operational performance therefore further strengthen overall network stability and competitiveness. We will also use 10% of the net proceeds to continue to provide financing support to our network partners to make necessary investments to ramp up their operational capabilities and secure last mile presence and gain access to businesses and consumers.
- **approximately 15% (approximately HK\$1,782 million, assuming that the Over-allotment Option is not exercised) for investments in logistics ecosystem.** We aim to assemble and integrate pertinent resources across the logistics value chain, and expand our service offering to include warehousing, freight-forwarding, less-than-truckload, cold chain logistics, for examples. We will make additional investments to build and improve integrated logistics services capabilities and create synergies within our ecosystem.
- **approximately 10% (approximately HK\$1,188 million, assuming that the Over-allotment Option is not exercised) for general corporate purposes.** We will use the remaining proceeds for general corporate purposes and working capital needs.

If the net proceeds of the Global Offering are not immediately used for the purposes described above, we intend to place them on short-term deposit with banks.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.

UBS AG Hong Kong Branch

China International Capital Corporation Hong Kong Securities Limited

Citigroup Global Markets Asia Limited

BOCI Asia Limited

China Renaissance Securities (Hong Kong) Limited

CLSA Limited

CMB International Capital Limited

Mizuho Securities Asia Limited

### UNDERWRITING

This document is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. We expect the International Offering to be fully underwritten by the International Underwriters. If, for any reason, we do not agree with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the pricing of the Offer Shares, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 2,250,000 Hong Kong Offer Shares and the International Offering of initially 42,750,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on September 16, 2020. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this document and the Hong Kong Underwriting Agreement at the Public Offer Price.

Subject to (a) the Hong Kong Stock Exchange granting approval for the listing of, and permission to deal in, our Class A ordinary shares in issue and to be issued pursuant to the Global Offering (including the Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares, on the Main Board of the Hong Kong Stock

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## UNDERWRITING

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Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this document and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

### *Grounds for Termination*

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled, in its absolute discretion and by giving written notice to us to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the NYSE, the American Stock Exchange, the NASDAQ Global Market or the SEHK;
- trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market;
- a material disruption in securities settlement, payment or clearance services in the United States, the Cayman Islands, the PRC or Hong Kong shall have occurred;
- any moratorium on commercial banking activities shall have been declared by United States Federal, New York State, the Cayman Islands, the PRC or Hong Kong authorities; or
- there shall have occurred any outbreak or escalation of hostilities or any change in financial markets, currency exchange rates or controls or any calamity or crisis or any event or series of events in the nature of force majeure (including, without limitation, acts of government, declaration of a national, regional or international emergency or war, acts of war, acts of terrorism or acts of God) that, in the reasonable judgment of the Sole Global Coordinator, is material and adverse and which, singly or together with any other event specified in this paragraph, makes it, in the reasonable judgment of the Sole Global Coordinator, impracticable to proceed with the offer, sale or delivery of the Offer Shares on the terms and in the manner contemplated in the prospectus, the registration statement, the general disclosure package and the final prospectus to be filed or issued by us in connection with the International Offering.

### *Undertakings pursuant to the Hong Kong Underwriting Agreement*

Except for (i) the issue, offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to Over-Allotment Option), (ii) the grant or issue of securities pursuant to the terms of the Share Incentive Plans, (iii) any capitalization issue, capital reduction or consolidation or sub-division of the Shares, and (iv) any repurchase of securities pursuant to any of the Company's share repurchase programs existing on the date of the Hong Kong Underwriting Agreement, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is 90 days after the Listing Date, we have undertaken to each of the Sole Global Coordinator, the Joint Bookrunners, the

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## UNDERWRITING

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Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules,

- (a) offer, allot, issue, sell, pledge, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or ADSs or any securities convertible into or exchangeable or exercisable for or that represent the right to receive, any Shares or ADSs or other securities of the Company, or deposit any Shares or other securities of the Company, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or ADSs or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, any Shares or ADSs or other securities of the Company); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or contract to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above.

### **International Offering**

#### ***International Underwriting Agreement***

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with, among others, the Sole Global Coordinator (for itself and on behalf of the International Underwriters) on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. We expect that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering — The International Offering.”

#### ***Over-allotment Option***

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which we may be required to issue up to an aggregate of 6,750,000 Class A ordinary shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the International Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See “Structure of the Global Offering — Over-allotment Option.”



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## UNDERWRITING

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### *Commissions and Expenses*

The Underwriters will receive an underwriting commission of 0.8% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued by us pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

The Underwriters may receive a discretionary incentive fee of up to 0.2% of the aggregate Offer Price of all the Offer Shares to be issued by our Company under the Global Offering (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an indicative offer price of HK\$268.00 per Offer Share for both the Hong Kong Public Offering and the International Offering, the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) will be approximately HK\$138.69 million.

The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, SEC registration fees, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$195.87 million (assuming an indicative offer price of HK\$268.00 per Offer Share for both the Hong Kong Public Offering and the International Offering, the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) and will be paid by us.

### **ACTIVITIES BY SYNDICATE MEMBERS**

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to our assets, securities and/or instruments and/or persons and entities with relationships with us and may also include swaps and other financial instruments entered into for hedging purposes in connection with our loans and other debt.

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## UNDERWRITING

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In relation to the Class A ordinary shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Class A ordinary shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Class A ordinary shares (which financing may be secured by the Class A ordinary shares) in the Global Offering, proprietary trading in the Class A ordinary shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Class A ordinary shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Class A ordinary shares, which may have a negative impact on the trading price of the Class A ordinary shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Class A ordinary shares, in baskets of securities or indices including the Class A ordinary shares, in units of funds that may purchase the Class A ordinary shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Class A ordinary shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Class A ordinary shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the Class A ordinary shares, the liquidity or trading volume in the Class A ordinary shares and the volatility of the price of the Class A ordinary shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and certain of our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of the Offer Shares in the Global Offering.

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## UNDERWRITING

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### LOCK-UP

#### Undertakings by our Directors and Executive Officers and Certain Other Related Parties

Except for one director and executive officer who does not hold any of our ordinary shares and except as otherwise disclosed in “— Undertakings by Xing Liu” below, each of our directors and executive officers, Zto Lms Holding Limited, LMS Holding Limited, The LMS Family Trust, Zto Ljf Holding Limited, LJFA Holding Limited, The LJF Family Trust, Zto Wjl Holding Limited, WJL Holding Limited, and The WJL Family Trust (each, a “**Lock-up Party**”), has agreed that, subject to limited exceptions, without the prior written consent of the Sole Sponsor on behalf of the Underwriters, it will not, and will not cause any of its direct or indirect affiliates to, during the period commencing on the Price Determination Date and ending on, and including, the date that is 90 days after the Price Determination Date or such earlier date that the Sole Sponsor consents to in writing (the “**Restricted Period**”), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any of our ordinary shares or ADSs beneficially owned (as such term is used in Rule 13d-3 of the Exchange Act), by it or any securities so owned convertible into or exercisable or exchangeable for our ordinary shares or ADSs (collectively, “**Lock-Up Securities**”) or (2) enter into any hedging, swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Lock-Up Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Lock-Up Securities, in cash or otherwise or (3) publicly disclose the intention to do any of the foregoing.

The foregoing restrictions do not apply to (a) transactions relating to our ordinary shares or ADSs or other securities acquired in the Global Offering or otherwise in open market transactions after the completion of the Global Offering, provided that no filing under the Exchange Act is required or shall be voluntarily made in connection with subsequent sales of our ordinary shares or ADSs or other securities acquired in such transactions, (b) the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of our ordinary shares or ADSs during the Restricted Period, provided that (x) such plan does not provide for the transfer of Lock-Up Securities during the Restricted Period and (y) to the extent a public announcement or filing under the Exchange Act, if any, is required or voluntarily made by or on behalf of the Lock-up Party or the Company regarding the establishment of such plan, such announcement or filing shall include a statement to the effect that no transfer of our ordinary shares or ADSs may be made under such plan during the Restricted Period, (c) the enforcement of any security interest created prior to the completion of the Global Offering over assets of the Lock-up Party generally, which may include the Lock-Up Securities, (d) (A) the creation of any charge, lien, mortgage, pledge or other security interest over or in respect of, or (B) the delivery or posting as collateral of (in each case (A) and (B), a “**Pledge**”), any or all of the Lock-Up Securities to secure the obligations of the Lock-up Party or its affiliates arising under, or in connection with, any bona fide financing agreement or arrangement entered into by such Lock-up Party or its affiliates, provided that such Lock-up Party shall procure that the recipient of any Lock-Up Securities during the Restricted Period upon a foreclosure on any Pledged Lock-Up Securities shall sign and deliver a lock up letter, or (e) (A) with respect to one of our directors and executive officers, the award of Lock-Up Securities to recipients in accordance with, and pursuant to, the terms and conditions governing our employee shareholding platform, ZTO ES, provided however, that the director and executive officer shall procure that any director or officer (including their respective affiliates, if any) receiving Lock-Up Securities under such employee shareholding platform during the Restricted Period shall agree to be bound by the terms of the lock-up letter, or (B) the sale of Lock-Up Securities by Zto Es Holding Limited corresponding to the interests of any recipient who is not a director, officer or affiliates thereof pursuant to the terms and conditions of the Share Scheme.

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## UNDERWRITING

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Notwithstanding the foregoing, each Lock-up Party may transfer Lock-Up Securities (a) as a *bona fide* gift or gifts, or through will or intestacy, (b) if the Lock-up Party is a partnership, limited liability company or corporation, to limited partners or shareholders or “affiliates” (as such term is defined in Rule 12b-2 under the Exchange Act) of such Lock-up Party, provided that any such transfer shall not involve a disposition for value, (c) to immediate family members of the Lock-up Party, or to any trust for the direct or indirect benefit of the Lock-up Party or its immediate family, or to any entity beneficially owned and controlled by the Lock-up Party or its immediate family member, provided that any such transfer shall not involve a disposition for value, *provided* that in the case of any transfer or distribution pursuant to foregoing clause (a), (b) or (c), (i) each donee, distributee or transferee, as the case may be, shall agree to be bound by the terms of the lock-up letter and (ii) no filing under the Exchange Act, reporting a reduction in beneficial ownership of Lock-up Securities, shall be required or shall be voluntarily made during the Lock-up Period, or (d) with the prior written consent of the Sole Sponsor.

### **Undertakings by Ali ZT and Cainiao Smart**

Each of Ali ZT and Cainiao Smart has agreed that, subject to limited exceptions, without the prior written consent of the Sole Sponsor on behalf of the Underwriters, it will not, during the Restricted Period, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any of the Lock-Up Securities or (2) enter into any hedging, swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-Up Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Lock-Up Securities, in cash or otherwise or (3) publicly disclose the intention to do any of the foregoing.

The foregoing restrictions do not apply to (a) transactions relating to Lock-Up Securities acquired after the completion of the Global Offering, provided that no filing under the Exchange Act shall be required or shall be voluntarily made by such lock-up party in connection with subsequent sales of Lock-Up Securities so acquired, (b) any arrangements or transactions that are entered into, undertaken or consummated pursuant to a requirement of a governmental authority, regulatory body to which such lock-up party is subject, a court of law, an arbitral tribunal or a requirement of any applicable law, rules and regulations; (c) the enforcement of any security interest created prior to the completion of the Global Offering over assets of such lock-up party generally, which may include the Lock-Up Securities, (d) transfers of Lock-Up Securities as a *bona fide* gift or gifts, (e) transfers of the Lock-Up Securities if such lock-up party is a partnership, limited liability company or corporation, to limited partners or shareholders or “affiliates” (as such term is defined in Rule 12b-2 under the Exchange Act) of such lock-up party, provided that any such transfer shall not involve a disposition for value, (f) transfers of Lock-up Securities to any trust for the direct or indirect benefit of such lock-up party or their immediate family, provided that any such transfer shall not involve a disposition for value, provided that in the case of any transfer or distribution pursuant to clause (d), (e) or (f), (i) each donee, distributee or transferee, as the case may be, shall sign and deliver to the Sole Sponsor a lock-up letter and (ii) no filing under the Exchange Act which reports a reduction in beneficial ownership of Lock-Up Securities shall be required or shall be voluntarily made during the Lock-up Period, (g) establishment or amendment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of Lock-Up Securities, provided that (x) such plan does not provide for the transfer of Lock-Up Securities during the Restricted Period and (y) to the extent a public announcement or filing under the Exchange Act, if any, is required or voluntarily made regarding the establishment of such plan, such announcement or filing shall include a statement to the effect that no transfer of such securities may be made under such plan during the Restricted Period or (h) transfers of the Lock-Up

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## UNDERWRITING

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Securities if such lock-up party is a company to any individual or entity that is an affiliate (as defined in Rule 405 promulgated under the Securities Act of 1933, as amended) of such lock-up party, provided that in any such case, it shall be a condition to the transfer that the transferee shall agree to be bound by the terms of the lock-up letter.

### **Undertakings by Xing Liu**

Xing Liu, our director, has agreed that, subject to limited exceptions, without the prior written consent of the Sole Sponsor on behalf of the Underwriters, he will not during the Restricted Period, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any of the Lock-Up Securities or (2) enter into any hedging, swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-Up Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Lock-Up Securities, in cash or otherwise or (3) publicly disclose the intention to do any of the foregoing.

The foregoing restrictions do not apply to (a) transactions relating to our ordinary shares or ADSs or other securities acquired in the Global Offering or after the completion of the Global Offering, provided that no filing under Section 16(a) of the Exchange Act shall be required or shall be voluntarily made in connection with subsequent sales of our ordinary shares or ADSs or other securities acquired in such transactions, (b) any conversion of the Lock-Up Securities into, or exchange or exercise of the Lock-Up Securities for, ordinary shares or ADSs, provided that the ordinary shares or ADSs received upon such conversion, exchange or exercise shall be subject to the terms of the lock-up restriction in the lock-up letter, (c) the establishment of a trading plan (“**Plan**”) pursuant to Rule 10b5-1 under the Exchange Act for the transfer of our ordinary shares or ADSs during the Restricted Period, provided that (x) such plan does not provide for the transfer of Lock-Up Securities during the Restricted Period and (y) to the extent a public announcement or filing under the Exchange Act, if any, is required of or voluntarily made by or on behalf of Xing Liu or the Company regarding the establishment of such plan, such announcement or filing shall include a statement to the effect that no transfer of ordinary shares or ADSs may be made under such plan during the Restricted Period (but for the avoidance of doubt, the restrictions shall not apply to any sale or other transfer of the shares or ADSs pursuant to a Plan adopted pursuant to Rule 10b5-1 under the Exchange Act in effect as of the date of the Price Determination Agreement), (d) the enforcement of any security interest created prior to the completion of the Global Offering over assets of Xing Liu generally, which may include the Lock-Up Securities, (e) the maintenance of existing pledges of the Lock-Up Securities to one or more lenders for the purpose of securing personal loans to Xing Liu or a Permitted Transferee (as defined below) under facilities outstanding prior to the completion of the Global Offering, or (f) any transfer of the Lock-Up Securities pursuant to a bona fide third-party tender offer, merger, consolidation or other similar transaction involving all holders of the ordinary shares or ADSs in connection with a change of control of the Company, provided that in the event the tender offer, merger, consolidation or other such transaction is not completed, the Lock-Up Securities shall remain subject to the restrictions set forth in the lock-up letter.

Notwithstanding the foregoing, Xing Liu may transfer the Lock-Up Securities (a) as a bona fide gift or gifts, or through will or intestacy, (b) to his immediate family members, or to any trust (including, for the avoidance of doubt, an entity owned and controlled by such trust) for the his direct or indirect benefit or his immediate family, or to any entity beneficially owned and controlled by Xing Liu or his immediate family member, including any transfer of options, restricted shares or underlying ordinary shares to a charitable trust or similar entity they have

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## UNDERWRITING

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established or will establish, provided that any such transfer shall not involve a disposition for value (the transferees in (a) to (c)), collectively, the “**Permitted Transferees**”), (d) by operation of law or by order of a court of competent jurisdiction including pursuant to a qualified domestic order or in connection with a divorce settlement, provided that in the case of any transfer or distribution pursuant to clause (a), (b) or (c), (i) each donee, distributee or transferee, as the case may be, shall sign and deliver to the Sole Sponsor a lock-up letter substantially in the form of this letter and (ii) no filing under the Exchange Act, reporting a reduction in beneficial ownership of Lock-up Securities, shall be required or shall be voluntarily made during the Lock-up Period, or (d) with the prior written consent of the Sole Sponsor.



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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The listing of the Class A ordinary shares on the Main Board of the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Sole Sponsor has made an application on our behalf to the Hong Kong Stock Exchange for the listing of, and permission to deal in, our Class A ordinary shares in issue and to be issued as mentioned in this document.

45,000,000 Offer Shares will initially be made available under the Global Offering comprising:

- the Hong Kong Public Offering of initially 2,250,000 Offer Shares (subject to reallocation) in Hong Kong as described in “— The Hong Kong Public Offering” below; and
- the International Offering of initially 42,750,000 Offer Shares (subject to reallocation and the Over-allotment Option) pursuant to the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on September 11, 2020, and the preliminary prospectus supplement filed with the SEC on September 15, 2020 and the final prospectus supplement to be filed with the SEC on or about September 22, 2020.

Investors may either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 5.43% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 6.19% of the total Shares in issue immediately following the completion of the Global Offering (without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of share awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares).

References in this document to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

We are initially offering 2,250,000 Offer Shares for subscription by the public in Hong Kong at the Public Offer Price, representing 5% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.27% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Class A ordinary shares

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## STRUCTURE OF THE GLOBAL OFFERING

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to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “— Conditions of the Global Offering” below.

### **Allocation**

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Public Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 1,125,000 Hong Kong Offer Shares is liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

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## STRUCTURE OF THE GLOBAL OFFERING

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We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules to the effect as further described below. 2,250,000 Offer Shares are initially available in the Hong Kong Public Offering, representing 5% of the Offer Shares initially available under the Global Offering.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 3,375,000 Offer Shares (in the case of (a)), 4,500,000 Offer Shares (in the case of (b)) and 9,000,000 Offer Shares (in the case of (c)), representing 7.5%, 10% and 20% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate.

In addition, the Sole Global Coordinator may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEX-GL91-18 issued by the Hong Kong Stock Exchange, if such allocation is done other than pursuant to Practice Note 18 of the Hong Kong Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 4,500,000 Offer Shares).

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement of the Hong Kong Public Offering, which is expected to be published on Monday, September 28, 2020.

### **Applications**

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the indicative maximum Public Offer Price of HK\$268.00 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$13,535.03 for one board lot of 50 Shares. If the Public Offer Price, as finally determined in the manner described in “— Pricing and Allocation” below, is less than the maximum Public Offer Price of HK\$268.00 per Offer Share,

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## STRUCTURE OF THE GLOBAL OFFERING

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appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares.”

### THE INTERNATIONAL OFFERING

#### Number of Offer Shares initially offered

The International Offering will consist of an initial offering of 42,750,000 Offer Shares offered by us (subject to reallocation and the Over-allotment Option), representing 95% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 5.16% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares).

#### Allocation

The International Offering will include marketing of Offer Shares in the United States as well as to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “— Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Class A ordinary shares and/or hold or sell its Class A ordinary shares after the Listing. Such allocation is intended to result in a distribution of the Class A ordinary shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our benefit and the benefit of the shareholders as a whole.

The Sole Global Coordinator (for itself on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

#### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### OVER-ALLOTMENT OPTION

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator (for itself on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 6,750,000 Class A ordinary shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the International Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 0.81% of the total Shares in issue immediately following the completion of the Global Offering without taking into account the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time, and the Class A ordinary shares to be issued after conversion of Class B ordinary shares. If the Over-allotment Option is exercised, an announcement will be made.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Public Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Class A ordinary shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as our best interest, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Class A ordinary shares, (b) selling or agreeing to sell the Class A ordinary shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Class A ordinary shares, (c) purchasing, or agreeing to purchase, the Class A ordinary shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Class A ordinary shares for the sole purpose of preventing or minimizing any reduction in the market price of the Class A ordinary

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## STRUCTURE OF THE GLOBAL OFFERING

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shares, (e) selling or agreeing to sell any Class A ordinary shares in order to liquidate any position established as a result of those purchases and (f) offering or attempting to do anything as described in clauses (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Class A ordinary shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Class A ordinary shares;
- no stabilizing action can be taken to support the price of the Class A ordinary shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Thursday, October 22, 2020, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Class A ordinary shares, and therefore the price of the Class A ordinary shares, could fall;
- the price of the Class A ordinary shares cannot be assured to stay at or above the Public Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Public Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

In addition, stabilization transactions with respect to the ADSs may be effected by one of the International Underwriters or its affiliates before and after the listing of the Class A ordinary shares on the Hong Kong Stock Exchange in accordance with applicable laws and regulations.

### **Over-Allocation**

Following any over-allocation of Class A ordinary shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Class A ordinary shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Public Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

### **STOCK BORROWING AGREEMENT**

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 6,750,000 Offer Shares (being the maximum number of Shares which may be sold pursuant to



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## STRUCTURE OF THE GLOBAL OFFERING

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the exercise of the Over-allotment Option) from Zto Ljf Holding Limited, pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and Zto Ljf Holding Limited on or about the Price Determination Date.

The same number of Shares so borrowed must be returned to Zto Ljf Holding Limited or their nominees, as the case may be, on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Over-allotment Option is exercised in full.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Zto Ljf Holding Limited by the Stabilizing Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

### PRICING AND ALLOCATION

#### Determining the Pricing of the Offer Shares

We will determine the pricing of the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about Tuesday, September 22, 2020 and, in any event, no later than Monday, September 28, 2020, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date, and the Public Offer Price will not be more than HK\$268.00 per Hong Kong Offer Share. The historical prices of our ADSs and trading volume on the NYSE are set out below.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>ADTV</u>
	<u>(US\$)</u>	<u>(US\$)</u>	<u>(ADSs)<sup>(1)</sup></u>
Fiscal year ended December 31, 2019 . . . . .	23.52	15.33	2,754,222
Fiscal year of 2020 (up to the Latest Practicable Date) . . . . .	38.64	21.72	2,731,587

*Note:*

(1) Average daily trading volume (“ADTV”) represents daily average number of our ADSs traded over the relevant period.

Applicants under the Hong Kong Public Offering must pay, on application, the indicative maximum Public Offer Price of HK\$268.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK\$13,535.03 for one board lot of 50 Shares.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we

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## STRUCTURE OF THE GLOBAL OFFERING

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believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price.

In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

We reserve the right not to proceed with the Hong Kong Public Offering or the International Offering on or at any time until the Price Determination Date if, for any reason, including as a result of volatility in the price of our ADSs or other changes in market conditions, we do not agree with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, September 28, 2020.

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it deems appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with our consent, reduce the number of Offer Shares offered below as stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website and the website of the Hong Kong Stock Exchange at [zto.investorroom.com](http://zto.investorroom.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares will be final. If the number of Offer Shares is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this document, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

### **Announcement of Final Pricing of the Offer Shares**

The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares — D. Publication of Results."

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## STRUCTURE OF THE GLOBAL OFFERING

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### UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, our agreeing with the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) on the pricing of the Offer Shares.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in “Underwriting.”

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Class A ordinary shares in issue and to be issued pursuant to the Global Offering (including the Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time, the Class A ordinary shares to be issued after conversion of Class B ordinary shares, on the Main Board of the Hong Kong Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- the pricing of the Offer Shares having been agreed between the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and us;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this document.

If, for any reason, we do not agree the pricing of the Offer Shares with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Monday, September 28, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

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## STRUCTURE OF THE GLOBAL OFFERING

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If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website and the website of the Hong Kong Stock Exchange at [zto.investorroom.com](http://zto.investorroom.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Tuesday, September 29, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

### DEALINGS IN THE CLASS A ORDINARY SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, September 29, 2020, it is expected that dealings in the Class A ordinary shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Tuesday, September 29, 2020.

The Class A ordinary shares will be traded in board lots of 50 Shares each and the stock code of the Class A ordinary shares will be 2057.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this document or any printed copies of any application forms for use by the public.**

This document is available at the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) under the “HKEXnews > New Listings > New Listing Information” section, and our website at [zto.investorroom.com](http://zto.investorroom.com). If you require a printed copy of this document, you may download and print from the website addresses above.

The contents of the electronic version of this document are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8600 from 9:00 a.m. to 9:00 p.m. on Thursday, September 17, 2020 and Friday, September 18, 2020; from 9:00 a.m. to 6:00 p.m. on Saturday, September 19, 2020 and Sunday, September 20, 2020; from 9:00 a.m. to 9:00 p.m. on Monday, September 21, 2020; and from 9:00 a.m. to 12:00 noon on Tuesday, September 22, 2020.

## A. APPLICATIONS FOR HONG KONG OFFER SHARES

### 1. How to Apply

*We will not provide any printed application forms for use by the public.*

To apply for Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
  - (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Sole Global Coordinator, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

## 2. Who Can Apply

### *Eligibility for the Application*

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address; and
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S.

If an application is made by a person under a power of attorney, we and the Sole Global Coordinator, as our agents, may accept it at our or its discretion, and on any conditions we or it thinks fit, including requiring evidence of the attorney’s authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules or any relevant waivers that have been granted by the Hong Kong Stock Exchange (details of the relevant waivers are set out in the sections headed “Waivers and Exemptions — Subscription for Shares By Existing Shareholders” and “Waivers and Exemptions — Dealings in Shares prior to Listing”), you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- you are our director or chief executive and/or a director or chief executive officer of our subsidiaries;
- you are a core connected person of the Company or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering;
- you are a close associate of any of the above persons; or
- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### *Items Required for the Application*

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

### **3. Terms and Conditions of an Application**

By applying through the application channels specified in this document you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Sole Global Coordinator (or its agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Law;
- confirm that you have read the terms and conditions and application procedures set out in this document and agree to be bound by them;
- confirm that you have received and read this document and have relied only on the information and representations in this document in making your application and will not rely on any other information or representations, except those in any supplement to this document;
- confirm that you are aware of the restrictions on the Global Offering set out in this document;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that none of us, the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners and Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, or the Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters and any of their or the Company's respective directors, officers, agents, or representatives or advisers or any other person involved in the Global Offering (the "**Relevant Persons**"), and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this document (and any supplement to this document);
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- agree to disclose to us, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this document;
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- agree that your application will be governed by the laws of Hong Kong;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "**— Personal Collection**" below to collect the Share certificate(s) and/or refund check(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- understand that we, our directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the White Form eIPO service or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this document acknowledge that each applicant and CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

#### 4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
50	13,535.03	800	216,560.51	7,000	1,894,904.45	100,000	27,070,063.60
100	27,070.06	900	243,630.57	8,000	2,165,605.09	150,000	40,605,095.40
150	40,605.10	1,000	270,700.64	9,000	2,436,305.72	200,000	54,140,127.20
200	54,140.13	1,500	406,050.95	10,000	2,707,006.36	250,000	67,675,159.00
250	67,675.16	2,000	541,401.27	20,000	5,414,012.72	300,000	81,210,190.80
300	81,210.19	2,500	676,751.59	30,000	8,121,019.08	350,000	94,745,222.60
350	94,745.22	3,000	812,101.91	40,000	10,828,025.44	400,000	108,280,254.40
400	108,280.25	3,500	947,452.23	50,000	13,535,031.80	450,000	121,815,286.20
450	121,815.29	4,000	1,082,802.54	60,000	16,242,038.16	500,000	135,350,318.00
500	135,350.32	4,500	1,218,152.86	70,000	18,949,044.52	625,000	169,187,897.50
600	162,420.38	5,000	1,353,503.18	80,000	21,656,050.88	750,000	203,025,477.00
700	189,490.45	6,000	1,624,203.82	90,000	24,363,057.24	1,125,000 <sup>(1)</sup>	304,538,215.50

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 5. Applying Through the White Form eIPO Service

#### *General*

Individuals who meet the criteria in “— Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this document, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

If you have any question on how to apply through the **White Form eIPO** service for Hong Kong Offer Shares, you may call the enquiry hotline of the **White Form eIPO** Service Provider at +852 2862 8600 which is available from 9:00 a.m. to 9:00 p.m. on Thursday, September 17, 2020 and Friday, September 18, 2020; from 9:00 a.m. to 6:00 p.m. on Saturday, September 19, 2020 and Sunday, September 20, 2020; from 9:00 a.m. to 9:00 p.m. on Monday, September 21, 2020; and from 9:00 a.m. to 12:00 noon on Tuesday, September 22, 2020.

#### *Time for Submitting Applications under the White Form eIPO Service*

You may submit your application through the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last day for applications) from 9:00 a.m. on Thursday, September 17, 2020 until 11:30 a.m. on Tuesday, September 22, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, September 22, 2020, the last day for applications, or such later time as described in “— C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

#### *Commitment to sustainability*

The obvious advantage of White Form eIPO service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “ZTO Express (Cayman) Inc.” White Form eIPO application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support sustainability.

### 6. Applying Through CCASS EIPO Service

#### *General*

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Share Registrar.

### *Applying through CCASS EIPO Service*

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this document; and
- HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
  - declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;
  - confirm that you understand that we, our directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
  - authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and despatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this document and agree to be bound by them;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- confirm that you have received and read a copy of this document and have relied only on the information and representations in this document in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this document;
- agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this document (and any supplement to this document);
- agree to disclose to us, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons any personal data which we or they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this document. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this document under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this document;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Law; and



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

### *Effect of Applying through CCASS EIPO Service*

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Public Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum Public Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this document.

### *Time for Inputting Electronic Application Instructions<sup>1</sup>*

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<b>Thursday, September 17, 2020</b>	<b>– 9:00 a.m. to 8:30 p.m.</b>
<b>Friday, September 18, 2020</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Saturday, September 19, 2020</b>	<b>– 8:00 a.m. to 1:00 p.m.</b>
<b>Monday, September 21, 2020</b>	<b>– 8:00 a.m. to 8:30 p.m.</b>
<b>Tuesday, September 22, 2020</b>	<b>– 8:00 a.m. to 12:00 noon</b>

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, September 17, 2020 until 12:00 noon on Tuesday, September 22, 2020 (24 hours daily, except on Tuesday, September 22, 2020, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, September 22, 2020, the last day for applications, or such later time as described in “— C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

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*Note:*

<sup>1</sup> These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

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If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

### *Personal Data*

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

### *Personal Information Collection Statement*

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

### *Reasons for the collection of your personal data*

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

### *Purposes*

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this document and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of our Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

### *Transfer of personal data*

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

### *Retention of personal data*

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

### *Access to and correction of personal data*

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed “Corporate Information” in this document or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

### 7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS eIPO** service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the White Form eIPO Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS eIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS internet System for submission of **electronic application instructions**, they should go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, September 22, 2020.

### 8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS eIPO** service (directly or indirectly through your broker or custodian) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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“**Unlisted company**” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### **B. HOW MUCH ARE THE HONG KONG OFFER SHARES**

The maximum Public Offer Price is HK\$268.00 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 50 Hong Kong Offer Shares, you will pay HK\$13,535.03.

You must pay the maximum Public Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 50 Hong Kong Offer Shares. If you make an electronic application instruction for more than 50 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section “— 4. Minimum Application Amount and Permitted Numbers.”

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Hong Kong Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Public Offer Price, see “Structure of the Global Offering — Pricing and Allocation.”

### **C. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS**

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, September 22, 2020. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, September 22, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made on our website at [zto.investorroom.com](http://zto.investorroom.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk).

### D. PUBLICATION OF RESULTS

We expect to announce the pricing of the Offer Shares on Tuesday, September 22, 2020 on our website at [zto.investorroom.com](http://zto.investorroom.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk).

We expect to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Monday, September 28, 2020 on our websites at [zto.investorroom.com](http://zto.investorroom.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of Hong Kong Exchanges and Clearing Limited at [zto.investorroom.com](http://zto.investorroom.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, by no later than Monday, September 28, 2020;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Monday, September 28, 2020 to 12:00 midnight on Sunday, October 4, 2020; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Monday, September 28, 2020, Tuesday, September 29, 2020, Wednesday, September 30, 2020 and Monday, October 5, 2020.

If we accept your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

*If your application is revoked:*

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this document under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this document; or
- if any supplement to this document is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

*If we or our agents exercise discretion to reject your application:*

We, the Sole Global Coordinator, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

*If:*

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;

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- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk);
- you apply for more than 1,125,000 Hong Kong Offer Shares, being 50% of the 2,250,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Sole Global Coordinator believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

### F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Public Offer Price as finally determined is less than the maximum Public Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering — Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Monday, September 28, 2020.

### G. DESPATCH/COLLECTION OF SHARE CERTIFICATE/E-REFUND PAYMENT INSTRUCTIONS/REFUND CHECKS

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on despatch/collection of Share certificates and refund checks as mentioned below, any refund checks and Share certificate(s) are expected to be posted on or before Monday, September 28, 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, September 29, 2020, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Personal Collection

- *If you apply through White Form eIPO service:*
  - If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, September 28, 2020, or any other place or date notified by us in the newspapers as the date of despatch or collection of Share certificates.
  - If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
  - If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, September 28, 2020 by ordinary post and at your own risk.
  - If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.
- *If you apply through CCASS EIPO service:*

#### *Allocation of Hong Kong Offer Shares*

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, September 28, 2020 or on any other date determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "— Publication of Results" above on

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Monday, September 28, 2020. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, September 28, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, September 28, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Public Offer Price and the maximum Public Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, September 28, 2020.

### H. ADMISSION OF THE CLASS A ORDINARY SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Class A ordinary shares and we comply with the stock admission requirements of HKSCC, the Class A ordinary shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Class A ordinary shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Class A ordinary shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-65, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZTO EXPRESS (CAYMAN) INC. AND GOLDMAN SACHS (ASIA) L.L.C.****Introduction**

We report on the historical financial information of ZTO Express (Cayman) Inc. (the “**Company**”), its subsidiaries, variable interest entity and subsidiaries of variable interest entity (together, the “**Group**”) set out on pages I-3 to I-65, which comprises the consolidated balance sheets of the Group as at December 31, 2017, 2018 and 2019 and June 30, 2020, the consolidated statements of comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2019 and the six months ended June 30, 2020 (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-3 to I-65 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated September 17, 2020 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2017, 2018 and 2019 and June 30, 2020, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information.

### **Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information.

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

#### *Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

#### *Dividends*

We refer to Note 25 to the Historical Financial Information which contains information about the dividends declared and paid by the Company in respect of the Track Record Period.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
September 17, 2020



**I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of Historical Financial Information**

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

The Historical Financial Information in this report was prepared based on previously issued consolidated financial statements of the Group for each of the three years ended December 31, 2019 and the consolidated financial statements of the Group for the six months ended June 30, 2020 (together, the **"Underlying Financial Statements"**). The consolidated financial statements for each of the three years ended December 31, 2019 have been prepared in accordance with the accounting policies which conform with the accounting principles generally accepted in the United States of America (**"U.S. GAAP"**) and were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) relating to the consolidated financial statements and the effectiveness of internal control over financial reporting. The consolidated financial statements for the six months ended June 30, 2020 have been prepared in accordance with the accounting policies which conform with U.S. GAAP and were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) relating to the consolidated financial statements.

The Historical Financial Information is presented in Renminbi (**"RMB"**) and United States Dollars (**"US\$" or "USD"**) and all values are rounded to the nearest thousand except when otherwise indicated.

## Consolidated Balance Sheets

(Amounts in thousands, except for share and per share data)

	Notes	As of December 31,			As of June 30,	
		2017	2018	2019	2020	
		RMB	RMB	RMB	RMB	US\$ (Note 2)
<b>Assets</b>						
Current assets:						
Cash and cash equivalents		5,425,024	4,622,554	5,270,204	5,261,920	744,776
Restricted cash		348,710	400	7,210	1,300	184
Accounts receivable, net		287,835	596,995	675,567	628,466	88,954
Financing receivables, net		64,030	517,983	511,124	471,837	66,784
Short-term investment		5,224,559	13,599,852	11,113,217	8,437,887	1,194,305
Inventories		34,231	43,813	43,845	64,152	9,080
Advances to suppliers		263,574	337,874	438,272	631,220	89,343
Prepayments and other current assets	4	719,983	1,507,996	1,964,506	2,239,249	316,945
Amounts due from related parties	18	9,900	6,600	74,312	81,529	11,540
Total current assets		12,377,846	21,234,067	20,098,257	17,817,560	2,521,911
Investments in equity investees	9	610,160	2,207,410	3,109,494	3,319,697	469,873
Property and equipment, net	5	6,473,010	9,035,704	12,470,632	14,651,069	2,073,724
Land use rights, net	6	1,602,908	1,969,176	2,508,860	3,829,158	541,982
Intangible assets, net	10	60,424	54,227	48,029	44,930	6,359
Operating lease right-of-use assets	7	–	–	901,956	784,780	111,078
Goodwill	8	4,241,541	4,241,541	4,241,541	4,241,541	600,351
Deferred tax assets	14	152,763	318,063	403,587	552,671	78,226
Long-term investment		–	–	946,180	1,390,510	196,814
Long-term financing receivables, net		–	–	549,775	1,240,680	175,607
Other non-current assets		308,986	622,669	612,191	607,178	85,940
<b>Total assets</b>		<b>25,827,638</b>	<b>39,682,857</b>	<b>45,890,502</b>	<b>48,479,774</b>	<b>6,861,865</b>

**Consolidated Balance Sheets (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	<i>Notes</i>	As of December 31,			As of June 30,	
		2017	2018	2019	2020	
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i> <i>(Note 2)</i>
<b>Liabilities, and Equity</b>						
Current liabilities (including amounts of the consolidated VIE without recourse to ZTO Express (Cayman) Inc. See Note 2(b))						
Short-term bank borrowings	12	250,000	–	–	1,690,000	239,204
Accounts payable		889,139	1,311,807	1,475,258	1,105,673	156,498
Advances from customers		258,965	436,710	1,210,887	1,208,970	171,119
Income tax payable		221,926	405,683	80,272	166,035	23,501
Amounts due to related parties	18	114,913	132,216	38,943	23,101	3,270
Operating lease liabilities	7	–	–	298,728	240,240	34,004
Acquisition consideration payable	3	130,004	19,581	22,942	22,942	3,247
Dividends payable		–	1,699	1,629	334,313	47,319
Notes payable		–	–	–	496,200	70,232
Other current liabilities	11	2,281,067	2,833,769	3,552,288	3,490,285	494,015
<b>Total current liabilities</b>		<b>4,146,014</b>	<b>5,141,465</b>	<b>6,680,947</b>	<b>8,777,759</b>	<b>1,242,409</b>
Deferred tax liabilities	14	157,320	157,940	207,896	215,617	30,519
Acquisition consideration payable	3	22,942	22,942	–	–	–
Other non-current liabilities		60,045	90,961	93,820	71,409	10,107
Non-current operating lease liabilities	7	–	–	504,442	420,310	59,491
<b>Total liabilities</b>		<b>4,386,321</b>	<b>5,413,308</b>	<b>7,487,105</b>	<b>9,485,095</b>	<b>1,342,526</b>

**Consolidated Balance Sheets (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	Notes	As of December 31,			As of June 30,	
		2017	2018	2019	2020	
		RMB	RMB	RMB	RMB	US\$ (Note 2)
Commitments and contingencies (Note 19)						
Shareholders' equity						
Ordinary shares (US\$0.0001 par value; 10,000,000,000 shares authorized as of December 31, 2017, 2018, 2019 and June 30, 2020, 731,406,440 shares issued and 710,804,716 shares outstanding as of December 31, 2017, 811,267,551 shares issued and 785,463,859 shares outstanding as of December 31, 2018; 803,551,115 shares issued and 781,947,464 shares outstanding as of December 31, 2019; 803,551,115 shares issued and 783,894,733 shares outstanding as of June 30, 2020)	16	471	523	517	517	73
Additional paid-in capital		15,975,979	24,137,681	22,336,594	20,852,513	2,951,482
Treasury shares, at cost		(914,611)	(1,545,077)	(1,436,767)	(1,350,529)	(191,155)
Retained earnings		6,669,370	11,052,395	16,726,540	18,549,594	2,625,525
Accumulated other comprehensive income		(295,896)	571,716	675,720	829,087	117,350
ZTO Express (Cayman) Inc. shareholders' equity		21,435,313	34,217,238	38,302,604	38,881,182	5,503,275
Noncontrolling interests	13	6,004	52,311	100,793	113,497	16,064
Total Equity		21,441,317	34,269,549	38,403,397	38,994,679	5,519,339
Total Liabilities and Equity		25,827,638	39,682,857	45,890,502	48,479,774	6,861,865

The accompanying notes are an integral part of these historical financial information.

**Consolidated Statements of Comprehensive Income**  
**(Amounts in thousands, except for share and per share data)**

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
Notes	RMB	RMB	RMB	RMB	RMB	US\$
				<i>(unaudited)</i>		
<b>Revenues</b> (including related party revenue of nil, nil, RMB36,366, RMB16,055 and RMB34,352 for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively)	13,060,073	17,604,451	22,109,946	9,997,671	10,318,310	1,460,462
<b>Cost of revenues</b> (including related party cost of revenues of RMB887,900, RMB677,831, RMB755,445, RMB349,715 and RMB262,451 for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively)	(8,714,489)	(12,239,568)	(15,488,778)	(6,969,511)	(7,730,487)	(1,094,179)
<b>Gross profit</b>	<b>4,345,584</b>	<b>5,364,883</b>	<b>6,621,168</b>	<b>3,028,160</b>	<b>2,587,823</b>	<b>366,283</b>
<b>Operating income (expenses)</b>						
Selling, general and administrative	(780,517)	(1,210,717)	(1,546,227)	(863,128)	(872,472)	(123,490)
Other operating income, net	183,368	178,057	387,890	87,633	303,270	42,924
Total operating expenses	(597,149)	(1,032,660)	(1,158,337)	(775,495)	(569,202)	(80,566)
<b>Income from operations</b>	<b>3,748,435</b>	<b>4,332,223</b>	<b>5,462,831</b>	<b>2,252,665</b>	<b>2,018,621</b>	<b>285,717</b>
<b>Other income (expenses)</b>						
Interest income	166,325	401,162	585,404	290,941	240,485	34,038
Interest expense	(15,668)	(780)	-	-	(9,426)	(1,334)
Gain/(loss) on disposal of equity investees and subsidiary	-	562,637	(2,860)	(529)	-	-
Impairment of investment in equity investees	(30,000)	-	(56,026)	-	-	-
Unrealized gain from investment in equity investee	-	-	754,468	-	-	-
Foreign currency exchange (loss)/gain	(48,149)	41,189	13,301	(3,662)	19,047	2,696

**Consolidated Statements of Comprehensive Income (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	Notes	Year ended December 31,			Six months ended June 30,		
		2017	2018	2019	2019	2020	
		RMB	RMB	RMB	RMB	RMB	US\$
					(unaudited)		
<b>Income before income tax and share of loss in equity method investments</b>		<b>3,820,943</b>	<b>5,336,431</b>	<b>6,757,118</b>	<b>2,539,415</b>	<b>2,268,727</b>	<b>321,117</b>
Income tax expense	14	(646,361)	(929,133)	(1,078,295)	(480,661)	(428,074)	(60,590)
Share of loss in equity method investments		(15,682)	(19,386)	(7,556)	(12,013)	(16,109)	(2,280)
<b>Net income</b>		<b>3,158,900</b>	<b>4,387,912</b>	<b>5,671,267</b>	<b>2,046,741</b>	<b>1,824,544</b>	<b>258,247</b>
Net loss/(income) attributable to noncontrolling interests		763	(4,887)	2,878	(6,547)	(1,490)	(211)
<b>Net income attributable to ZTO Express (Cayman) Inc.</b>		<b>3,159,663</b>	<b>4,383,025</b>	<b>5,674,145</b>	<b>2,040,194</b>	<b>1,823,054</b>	<b>258,036</b>
Net income attributable to ordinary shareholders		3,159,663	4,383,025	5,674,145	2,040,194	1,823,054	258,036
Net earnings per share attributable to ordinary shareholders	17						
Basic		4.41	5.83	7.24	2.60	2.33	0.33
Diluted		4.40	5.82	7.23	2.59	2.33	0.33
Weighted average shares used in calculating net earnings per ordinary share							
Basic		717,138,526	751,814,077	784,007,583	786,069,533	783,124,385	783,124,385
Diluted		717,599,562	752,672,956	784,331,120	786,262,099	783,224,329	783,224,329
<b>Net income</b>		<b>3,158,900</b>	<b>4,387,912</b>	<b>5,671,267</b>	<b>2,046,741</b>	<b>1,824,544</b>	<b>258,247</b>
<b>Other comprehensive (loss)/income, net of tax of nil</b>							
Foreign currency translation adjustment		(590,545)	867,612	104,004	(50,852)	153,367	21,708
<b>Comprehensive income</b>		<b>2,568,355</b>	<b>5,255,524</b>	<b>5,775,271</b>	<b>1,995,889</b>	<b>1,977,911</b>	<b>279,955</b>
Comprehensive loss/(income) attributable to noncontrolling interests		763	(4,887)	2,878	(6,547)	(1,490)	(211)
<b>Comprehensive income attributable to ZTO Express (Cayman) Inc.</b>		<b>2,569,118</b>	<b>5,250,637</b>	<b>5,778,149</b>	<b>1,989,342</b>	<b>1,976,421</b>	<b>279,744</b>



**Consolidated Statements of Changes in Shareholders' Equity  
(Amounts in thousands, except for share and per share data)**

		ZTO Express (Cayman) Inc. Shareholders' Equity								
		Ordinary shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other comprehensive income/(loss)	Total	Noncontrolling interests	Total Equity	
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
		Number of outstanding shares								
Balance at January 1, 2017		720,564,604	471	15,940,206	-	3,509,707	294,649	19,745,033	5,714	19,750,747
Net income (loss)		-	-	-	-	3,159,663	-	3,159,663	(763)	3,158,900
Foreign currency translation adjustments		-	-	-	-	-	(590,545)	(590,545)	-	(590,545)
Share based compensation		-	-	40,725	-	-	-	40,725	-	40,725
Repurchase of ordinary shares		(9,759,888)	-	-	(914,611)	-	-	(914,611)	-	(914,611)
Capital contribution from noncontrolling interest shareholder		-	-	-	-	-	-	-	1,000	1,000
Acquisition of noncontrolling interest of the Company's subsidiaries		-	-	(4,952)	-	-	-	(4,952)	53	(4,899)
Balance at December 31, 2017		710,804,716	471	15,975,979	(914,611)	6,669,370	(295,896)	21,435,313	6,004	21,441,317

**Consolidated Statements of Changes in Shareholders' Equity (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	ZTO Express (Cayman) Inc. Shareholders' Equity									
	Ordinary shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other comprehensive income/(loss)	Total	Noncontrolling interests	Total Equity		
	Number of outstanding shares	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance at December 31, 2017	710,804,716	471	15,975,979	(914,611)	6,669,370	(295,896)	21,435,313	6,004	21,441,317	
Net income	-	-	-	-	4,383,025	-	4,383,025	4,887	4,387,912	
Foreign currency translation adjustments	-	-	-	-	-	867,612	867,612	-	867,612	
Share based compensation and ordinary shares issued for share based compensation	2,363,519	-	142,940	106,538	-	-	249,478	-	249,478	
Repurchase of ordinary shares	(7,565,487)	-	-	(737,004)	-	-	(737,004)	-	(737,004)	
Capital contribution from noncontrolling interest shareholder	-	-	23,740	-	-	-	23,740	41,420	65,160	
Distribution of dividends	-	-	(896,835)	-	-	-	(896,835)	-	(896,835)	
Issuance of ordinary shares	79,861,111	52	8,891,857	-	-	-	8,891,909	-	8,891,909	
Balance at December 31, 2018	785,463,859	523	24,137,681	(1,545,077)	11,052,395	571,716	34,217,238	52,311	34,269,549	

**Consolidated Statements of Changes in Shareholders' Equity (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	ZTO Express (Cayman) Inc. Shareholders' Equity													
	Ordinary shares		Additional paid-in capital		Treasury shares, at cost		Retained earnings		Accumulated other comprehensive income/(loss)		Noncontrolling interests		Total Equity	
	Number of outstanding shares	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance at December 31, 2018	785,463,859	523	24,137,681	(1,545,077)	11,052,395	571,716	34,217,238	52,311	34,269,549					
Net income (loss)	-	-	-	-	5,674,145	-	5,674,145	(2,878)	5,671,267					
Foreign currency translation adjustments	-	-	-	-	-	104,004	104,004	-	104,004					104,004
Share based compensation and ordinary shares issued for share based compensation	2,500,041	-	190,065	126,601	-	-	126,601	-	316,666					316,666
Repurchase of ordinary shares	(6,016,436)	-	-	(738,746)	-	-	(738,746)	-	(738,746)					(738,746)
Capital contribution from noncontrolling interest shareholder	-	-	-	-	-	-	-	-	-			51,360		51,360
Distribution of dividends	-	-	(1,270,703)	-	-	-	-	-	(1,270,703)			-		(1,270,703)
Cancellation of ordinary shares	-	(6)	(720,449)	720,455	-	-	-	-	-			-		-
Balance at December 31, 2019	781,947,464	517	22,336,594	(1,436,767)	16,726,540	675,720	38,302,604	100,793	38,403,397					

**Consolidated Statements of Changes in Shareholders' Equity (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	ZTO Express (Cayman) Inc. Shareholders' Equity								
	Ordinary shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other comprehensive income/(loss)	Total	Noncontrolling interests	Total Equity	
	Number of outstanding shares	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
(Unaudited)									
Balance at December 31, 2018	785,463,859	523	24,137,681	(1,545,077)	11,052,395	571,716	34,217,238	52,311	34,269,549
Net income	-	-	-	-	2,040,194	-	2,040,194	6,547	2,046,741
Foreign currency translation adjustments	-	-	-	-	-	(50,852)	(50,852)	-	(50,852)
Share based compensation and ordinary shares issued for share									
based compensation	2,500,041	-	168,464	126,601	-	-	295,065	-	295,065
Repurchase of ordinary shares	(5,849,423)	-	-	(717,669)	-	-	(717,669)	-	(717,669)
Capital contribution from noncontrolling interest shareholder	-	-	-	-	-	-	-	18,260	18,260
Distribution of dividends	-	-	(1,270,703)	-	-	-	(1,270,703)	-	(1,270,703)
Cancellation of ordinary shares	-	(5)	(697,884)	697,889	-	-	-	-	-
Balance at June 30, 2019	782,114,477	518	22,337,558	(1,438,256)	13,092,589	520,864	34,513,273	77,118	34,590,391

**Consolidated Statements of Changes in Shareholders' Equity (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	ZTO Express (Cayman) Inc. Shareholders' Equity								
	Ordinary shares	Additional paid-in capital	Treasury shares, at cost	Retained earnings	Accumulated other comprehensive income/(loss)	Total	Noncontrolling interests	Total Equity	
	Number of outstanding shares	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Balance at December 31, 2019	781,947,464	517	22,336,594	(1,436,767)	16,726,540	675,720	38,302,604	100,793	38,403,397
Net income	-	-	-	1,823,054	-	-	1,823,054	1,490	1,824,544
Foreign currency translation adjustments	-	-	-	-	153,367	-	153,367	-	153,367
Share based compensation and ordinary shares issued for share based compensation	1,947,269	-	177,916	86,238	-	-	264,154	-	264,154
Acquisition of noncontrolling interest of the Group's subsidiaries	-	-	(13,960)	-	-	-	(13,960)	-	(13,960)
Capital contribution from noncontrolling interest shareholder	-	-	-	-	-	-	-	11,214	11,214
Distribution of dividends	-	-	(1,648,037)	-	-	-	(1,648,037)	-	(1,648,037)
Balance at June 30, 2020	783,894,733	517	20,852,513	(1,350,529)	18,549,594	829,087	38,881,182	113,497	38,994,679

**Consolidated Statements of Cash Flows**  
**(Amounts in thousands, except for share and per share data)**

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB (unaudited)	RMB	US\$ (Note 2)
<b>Cash flows from operating activities</b>						
Net income	3,158,900	4,387,912	5,671,267	2,046,741	1,824,544	258,247
Adjustments to reconcile net income to net cash provided by operating activities:						
Share based compensation	40,725	249,478	316,666	295,065	264,154	37,388
Depreciation and amortization	560,366	853,718	1,264,566	580,801	834,256	118,081
Loss on disposal of property and equipment	21,434	29,226	16,159	2,529	9,952	1,409
Allowance of credit losses	10,200	9,326	24,293	6,063	9,994	1,415
Deferred income tax	(29,035)	(139,081)	(40,527)	(8,955)	(158,536)	(22,439)
Loss/(gain) on disposal of equity investees and subsidiary	–	(562,637)	2,860	529	–	–
Unrealized gain from investment in equity investee	–	–	(754,468)	–	–	–
Impairment of equity investees	30,000	–	56,026	–	–	–
Share of loss in equity method investments	15,682	19,386	7,556	12,013	16,109	2,280
Changes in operating assets and liabilities:						
Accounts receivable	(100,231)	(309,431)	(84,468)	63,955	36,219	5,126
Financing receivables	(64,030)	(458,092)	1,839	8,287	41,882	5,928
Inventories	(271)	(9,582)	(32)	8,459	(20,307)	(2,874)
Advances to suppliers	(109,241)	(114,616)	(129,364)	(19,931)	(193,154)	(27,339)
Prepayments and other current assets	(339,853)	(764,223)	(545,079)	(179,278)	(279,818)	(39,606)
Amounts due from related parties	–	–	(67,712)	(73,025)	(17,217)	(2,437)
Operating lease right-of-use assets	–	–	(57,625)	187,678	117,176	16,585
Long-term financial receivable	–	–	(549,775)	(339,035)	(693,848)	(98,208)
Other non-current assets	(31,191)	(2,094)	(12,325)	(701)	23,315	3,300
Accounts payable	252,716	422,668	156,056	(126,533)	(369,585)	(52,311)
Advances from customers	29,241	177,745	774,177	421,950	(1,917)	(271)
Amounts due to related parties	(16,512)	17,303	(93,273)	(64,892)	(15,842)	(2,242)
Income tax payable	(196,384)	175,012	(303,500)	(238,578)	102,936	14,570
Operating lease liabilities	–	–	35,476	(150,444)	(142,620)	(20,187)
Other current liabilities	338,123	412,802	629,841	193,376	65,997	9,344
Other non-current liabilities	60,045	9,231	(14,448)	–	(23,629)	(3,344)
Net cash provided by operating activities	3,630,684	4,404,051	6,304,186	2,626,074	1,430,061	202,415



**Consolidated Statements of Cash Flows (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB (unaudited)	RMB	US\$ (Note 2)
<b>Cash flows from investing activities</b>						
Purchases of property and equipment	(2,572,242)	(3,323,822)	(4,635,685)	(1,551,103)	(2,615,452)	(370,194)
Purchases of land use rights	(254,497)	(657,454)	(590,733)	(182,968)	(1,372,197)	(194,222)
Cash paid for business acquisitions, net of cash received	–	(110,423)	(19,581)	(19,581)	–	–
Investments in equity investees	(89,055)	(1,865,309)	(218,260)	(7,656)	(206,595)	(29,242)
Purchases of short-term investments	(10,126,703)	(13,634,396)	(14,061,179)	(5,276,529)	(3,319,796)	(469,887)
Maturity of short-term investments	4,725,872	5,834,805	16,699,480	9,595,081	6,121,588	866,455
Purchases of long-term investment	–	–	(957,870)	(250,000)	(434,000)	(61,429)
Cash received from disposal of equity investees and subsidiary	–	797,850	1,350	1,350	–	–
Cash received from disposal of land use rights	–	71,723	–	–	–	–
Others	22,078	14,393	118,265	85,523	13,898	1,967
Net cash (used in) provided by investing activities	(8,294,547)	(12,872,633)	(3,664,213)	2,394,117	(1,812,554)	(256,552)
<b>Cash flows from financing activities</b>						
Proceeds from issuance of ordinary shares	–	8,891,909	–	–	–	–
Proceeds from capital contribution from noncontrolling interest shareholder	1,000	65,160	51,360	18,260	11,214	1,587
Proceeds from short-term borrowing	550,000	–	–	–	1,690,000	239,204
Repayment of short-term borrowing	(750,000)	(250,000)	–	–	–	–
Repurchase of ordinary shares	(857,658)	(769,811)	(762,893)	(741,818)	–	–
Prepayment for repurchase of ordinary shares	–	–	(514,875)	(514,875)	–	–
Repayment of prepayment for repurchase of ordinary shares	–	–	514,875	–	–	–
Payment of dividends	–	(895,136)	(1,270,773)	(1,268,619)	(1,330,762)	(188,357)
Others	(4,900)	–	–	–	(7,500)	(1,062)
Net cash (used in) provided by financing activities	(1,061,558)	7,042,122	(1,982,306)	(2,507,052)	362,952	51,372

**Consolidated Statements of Cash Flows (Continued)**  
**(Amounts in thousands, except for share and per share data)**

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB (unaudited)	RMB	US\$ (Note 2)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(424,000)	275,680	(3,207)	(23,430)	19,460	2,754
Net change in cash, cash equivalents and restricted cash	(6,149,421)	(1,150,780)	654,460	2,489,709	(81)	(11)
Cash, cash equivalents and restricted cash at beginning of year/period	11,923,155	5,773,734	4,622,954	4,622,954	5,277,414	746,969
Cash, cash equivalents and restricted cash at end of year/period	<u>5,773,734</u>	<u>4,622,954</u>	<u>5,277,414</u>	<u>7,112,663</u>	<u>5,277,333</u>	<u>746,958</u>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	As of December 31,			As of June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB (unaudited)	RMB	US\$
Cash and cash equivalents	5,425,024	4,622,554	5,270,204	7,111,684	5,261,920	744,776
Restricted cash	348,710	400	7,210	979	1,300	184
Restricted cash — non-current <sup>(1)</sup>	—	—	—	—	14,113	1,998
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>5,773,734</u>	<u>4,622,954</u>	<u>5,277,414</u>	<u>7,112,663</u>	<u>5,277,333</u>	<u>746,958</u>

Note:

(1) The non-current restricted cash is included in other non-current assets on the consolidated balance sheets.

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB (unaudited)	RMB	US\$ (Note 2)
<b>Supplemental disclosure of cash flow information</b>						
Income taxes paid	871,780	893,202	1,422,322	728,194	498,139	70,507
Interest expense paid	15,668	780	—	—	8,384	1,187

**Consolidated Statements of Cash Flows (Continued)**  
**(Amounts in thousands, except for share and per share data)**

Supplemental disclosure on non-cash investing and financing activities:

In October 2017, the Company acquired the core business of China Oriental Express Co., Ltd. and its subsidiaries (the “**COE Business**”) for a consideration of HK\$180.0 million (approximately RMB152.9 million) in cash. Details of this business combination are set out in Note 3. In conjunction with the acquisition, non-cash investing and financing activities are as follows:

	<u>RMB</u>
Cash consideration payable	152,946
Fair value of assets acquired	79,096

As of December 31, 2017, 2018, 2019, June 30, 2019 and 2020, payables for repurchasing the ordinary shares are RMB56,953, RMB24,146, nil, nil (unaudited), and nil, respectively.

As of December 31, 2017, 2018, 2019, June 30, 2019 and 2020, payables for dividends are nil, RMB1,699, RMB1,629, RMB3,723 (unaudited) and RMB334,313, respectively.

As of December 31, 2017, 2018, 2019, June 30, 2019 and 2020, payables for equity investment are RMB35,000, RMB5,000, RMB5,000, RMB5,000 (unaudited) and RMB5,000, respectively.

As of December 31, 2017, 2018, 2019, June 30, 2019 and 2020, payables for purchase of property and equipment are RMB710,002, RMB973,620, RMB1,076,935, RMB693,567 (unaudited) and RMB1,438,198, respectively.

**II. NOTES TO HISTORICAL FINANCIAL INFORMATION**

(Amounts in thousands, except for share and per share data)

**1. Organization and Principal Activities**

The Company was incorporated under the laws of Cayman Islands on April 8, 2015. The Company, its subsidiaries and its variable interest entity and subsidiaries of variable interest entity (“**VIE**”) (collectively also referred to as the “**Group**”) are principally engaged in express delivery services in the People’s Republic of China (“**PRC**”) through a nationwide network partner model.

**2. Summary of Significant Accounting Policies****(a) Basis of preparation**

The Historical Financial Information has been prepared in accordance with accounting principles generally accepted in the United States of America (“**U.S. GAAP**”).

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

**(b) Principles of consolidation**

The Historical Financial Information includes the financial statements of the Company, its subsidiaries and VIE. All intercompany transactions and balances have been eliminated on consolidation.

The Group evaluates the need to consolidate its VIE of which the Group is the primary beneficiary. In determining whether the Group is the primary beneficiary, the Group considers if the Group (1) has power to direct the activities that most significantly affects the economic performance of the VIE, and (2) The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If deemed the primary beneficiary, the Group consolidates the VIE.

**Consolidation of Variable Interest Entity**

Applicable PRC laws and regulations currently limit foreign ownership of companies that provide delivery services in PRC. The Company is deemed a foreign legal person under PRC laws and accordingly subsidiaries owned by the Company are ineligible to engage in provisions of delivery services. To provide the Company effective control over its variable interest entity, ZTO Express Co., Ltd. (“**ZTO Express**”) and receive substantially all of the economic benefits of ZTO Express, the Company’s wholly owned subsidiary, Shanghai Zhongtongji Network Technology Ltd. (“**WFOE**”) entered into a series of contractual arrangements, described below, with ZTO Express and its individual shareholders.

**2. Summary of Significant Accounting Policies (Continued)****(b) Principles of consolidation (Continued)**

## Consolidation of Variable Interest Entity (Continued)

Agreements that provide the Company effective control over the VIE include:

*Voting Rights Proxy Agreements & Irrevocable Powers of Attorney*

Under which each shareholder of ZTO Express has executed a power of attorney to grant WFOE the power of attorney to act on his or her behalf on all matters pertaining ZTO Express and to exercise all of his or her rights as a shareholder of ZTO Express, including but not limited to convene, attend and vote at shareholders' meetings, designate and appoint directors and senior management members. The proxy agreements will remain in effect unless WFOE terminates the agreements by giving a prior written notice or giving its consent to the termination by ZTO Express.

*Exclusive Call Option Agreements*

Under which the shareholders of ZTO Express granted WFOE or its designated representative(s) an irrevocable and exclusive option to purchase their equity interests in ZTO Express when and to the extent permitted by PRC law. WFOE or its designated representative(s) has sole discretion as to when to exercise such options, either in part or in full. Without WFOE's written consent, the shareholders of ZTO Express shall not transfer, donate, pledge, or otherwise dispose any equity interests of ZTO Express in any way. The acquisition price for the shares or assets will be the minimum amount of consideration permitted under the PRC law at the time when the option is exercised. The agreements can be early terminated by WFOE, but not by ZTO Express or its shareholders.

*Equity Pledge Agreements*

Under which the shareholders of ZTO Express pledged all of their equity interests in ZTO Express to WFOE as collateral to secure their obligations under the VIE contractual arrangements. If the shareholders of ZTO Express or ZTO Express breach their respective contractual obligations, WFOE, as pledgee, will be entitled to certain rights, including the right to dispose the pledged equity interests. Pursuant to the agreements, the shareholders of ZTO Express shall not transfer, assign or otherwise create any new encumbrance on their respective equity interest in ZTO Express without prior written consent of WFOE. The equity pledge agreements will remain effective until ZTO Express and its shareholders have completed all of their obligations under the VIE contractual arrangements or discharged all of their obligations under the contractual arrangements.

The agreement that transfer economic benefits to the Company is:

*Exclusive Consulting and Services Agreement*

Under which ZTO Express engages WFOE as its exclusive technical and operational consultant and under which WFOE agrees to assist in business development and related services to conduct ZTO Express's operational activities for a service fee. ZTO Express shall not seek or accept similar services from other providers without the prior written approval of WFOE. The agreements will be effective as long as ZTO Express exists. WFOE may terminate this agreement at any time by giving a prior written notice to ZTO Express.

**2. Summary of Significant Accounting Policies (Continued)****(b) Principles of consolidation (Continued)**

## Consolidation of Variable Interest Entity (Continued)

Under the above agreements, the shareholders of ZTO Express irrevocably granted WFOE the power to exercise all voting rights to which they were entitled. In addition, WFOE has the option to acquire all of the equity interests in ZTO Express, to the extent permitted by the then-effective PRC laws and regulations, for nominal consideration. Finally, WFOE is entitled to receive service fees for services provided to ZTO Express.

The Call Option Agreements and Voting Rights Proxy Agreements provide the Company with effective control over the VIE, while the Equity Interest Pledge Agreements secure the obligations of the shareholders of ZTO Express under the relevant agreements. Because the Company, through WFOE, has (i) the power to direct the activities of ZTO Express that most significantly affect the entity's economic performance and (ii) the right to receive substantially all of the benefits from ZTO Express, the Company is deemed the primary beneficiary of ZTO Express. Accordingly, the Group consolidates the ZTO Express's financial results of operations, assets and liabilities in the Group's Historical Financial Information.

The Group believes that the contractual arrangements with the VIE are in compliance with the PRC law and are legally enforceable. However, the contractual arrangements are subject to risks and uncertainties, including:

- revoking the business licenses and/or operating licenses of such entities;
- discontinuing or placing restrictions or onerous conditions on the Group's operation through any transactions between the Group's PRC subsidiaries and consolidated affiliated entities;
- imposing fines, confiscating the income from PRC subsidiaries or consolidated affiliated entities, or imposing other requirements with which such entities may not be able to comply;
- requiring the Group to restructure its ownership structure or operations, including terminating the contractual arrangements with its variable interest entity and deregistering the equity pledges of its variable interest entity, which in turn would affect the Group's ability to consolidate, derive economic interests from, or exert effective control over its variable interest entity, or
- restricting or prohibiting the Group's use of the proceeds of its initial public offering to finance its business and operations in China.



## 2. Summary of Significant Accounting Policies (Continued)

## (b) Principles of consolidation (Continued)

## Consolidation of Variable Interest Entity (Continued)

The amounts and balances of ZTO Express and its subsidiaries (the “VIE”) after the elimination of intercompany balances and transactions within the VIE are presented in the following table:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	930,829	575,605	528,722	629,589	89,113
Restricted cash	192,559	400	–	–	–
Accounts receivable, net	286,286	519,389	635,606	539,870	76,414
Financing receivables, net	–	–	172,267	190,048	26,900
Inventories	32,571	40,480	42,134	43,748	6,192
Advances to suppliers	60,369	118,216	46,534	42,828	6,062
Prepayments and other current assets	581,825	984,004	1,241,975	1,347,895	190,782
Amounts due from related parties	9,900	6,600	18,364	6,600	934
<b>Total current assets</b>	<b>2,094,339</b>	<b>2,244,694</b>	<b>2,685,602</b>	<b>2,800,578</b>	<b>396,397</b>
Investments in equity investees	272,195	124,590	114,447	115,091	16,290
Property and equipment, net	3,545,635	4,541,751	5,920,211	5,894,496	834,312
Land use rights, net	1,077,385	1,085,729	1,150,849	1,159,684	164,143
Operating lease right-of-use assets	–	–	853,092	743,606	105,251
Goodwill	4,157,111	4,157,111	4,157,111	4,157,111	588,401
Deferred tax assets	91,586	213,745	234,080	315,579	44,667
Long-term financing receivables, net	–	–	536,473	1,195,197	169,169
Other non-current assets	70,609	118,858	120,877	150,667	21,321
<b>Total assets</b>	<b>11,308,860</b>	<b>12,486,478</b>	<b>15,772,742</b>	<b>16,532,009</b>	<b>2,339,951</b>

## 2. Summary of Significant Accounting Policies (Continued)

## (b) Principles of consolidation (Continued)

## Consolidation of Variable Interest Entity (Continued)

	As of December 31,			As of June 30,		
	2017	2018	2019	2020		
	RMB	RMB	RMB	RMB	US\$	
<b>Liabilities</b>						
Current liabilities:						
Short-term bank						
borrowings	250,000	–	–	1,554,000	219,954	
Accounts payable	774,182	1,093,822	1,448,490	691,123	97,822	
Notes payable	–	–	–	136,000	19,250	
Advances from customers	256,893	435,784	1,185,920	1,161,658	164,422	
Income tax payable	110,116	16,692	9,359	–	–	
Amounts due to related						
parties	857,665	622,298	769,951	359,946	50,947	
Operating lease liabilities	–	–	273,524	222,730	31,525	
Other current liabilities	1,625,089	2,119,810	2,536,131	2,134,368	302,100	
<b>Total current liabilities</b>	<b>3,873,945</b>	<b>4,288,406</b>	<b>6,223,375</b>	<b>6,259,825</b>	<b>886,020</b>	
Non-current operating						
lease liabilities	–	–	478,327	419,433	59,367	
Deferred tax liabilities	96,582	94,364	123,173	155,342	21,987	
<b>Total liabilities</b>	<b>3,970,527</b>	<b>4,382,770</b>	<b>6,824,875</b>	<b>6,834,600</b>	<b>967,374</b>	
	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
<i>(unaudited)</i>						
Total revenue	12,866,016	17,127,930	21,465,515	9,707,963	9,753,094	1,380,462
Net income	726,915	720,323	841,707	435,471	258,218	36,548
Net cash provided by (used						
in) operating activities	1,256,049	436,074	1,783,718	696,225	(822,716)	(116,447)
Net cash used in investing						
activities	(703,679)	(777,197)	(1,831,001)	(804,913)	(630,417)	(89,230)
Net cash (used in) provided						
by financing activities	(203,900)	(206,260)	–	–	1,554,000	219,954
Net increase (decrease) in						
cash and cash equivalents	348,470	(547,383)	(47,283)	(108,688)	100,867	14,277
Cash and cash equivalents and						
restricted cash at beginning						
of year/period	774,918	1,123,388	576,005	576,005	528,722	74,836
Cash and cash equivalents and						
restricted cash at end of						
year/period	1,123,388	576,005	528,722	467,317	629,589	89,113

**2. Summary of Significant Accounting Policies (Continued)****(b) Principles of consolidation (Continued)**

## Consolidation of Variable Interest Entity (Continued)

The VIE contributed 98.5%, 97.3%, 97.1%, 97.1% (unaudited) and 94.5% of the Group's consolidated revenues for the years ended December 31, 2017, 2018, 2019, the six months ended June 30, 2019 and 2020, respectively. As of December 31, 2017, 2018, 2019 and June 30, 2020, the VIE accounted for an aggregate of 44%, 31%, 34% and 34%, respectively, of the consolidated assets, and 91%, 81%, 91% and 72%, respectively, of the consolidated liabilities.

The VIE pays transportation fees and service fees pursuant to the Exclusive Consulting and Services Agreements to WFOE based on the VIE's operating results and WFOE's operating cost of sorting hubs and the Group's owned fleet. The WFOE is entitled to receive substantially all of the net income and transfer a majority of the economic benefits in the form of service fees from the VIEs. The inter-company transportation fees and service fees charged by WFOE were RMB5,982,432, RMB7,776,622, RMB9,420,012, RMB4,444,143 (unaudited) and RMB4,404,525 for the years ended December 31, 2017, 2018, 2019, the six months ended June 30, 2019 and 2020, respectively.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Group to provide financial support to the VIE. However, if the VIE was ever to need financial support, the Group may, at its option and subject to statutory limits and restrictions, provide financial support to its VIE through loans to the shareholders of the VIE or entrustment loans to the VIE.

The Group believes that there are no assets held in the consolidated VIE that can be used only to settle obligations of the VIE, except for registered capital and the PRC statutory reserves. As the consolidated VIE is incorporated as a limited liability company under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Group for any of the liabilities of the consolidated VIE.

Relevant PRC laws and regulations restrict the VIE from transferring a portion of their net assets, equivalent to the balance of its paid-in capital, additional paid-in capital and statutory reserves, to the Group in the form of loans and advances or cash dividends. See Note 23 for disclosure of restricted net assets.

## Nonconsolidated Variable Interest Entity

Tonglu Tongze Logistics Ltd. and its subsidiaries ("**Tonglu**"), established in 2013, are transportation service companies providing line-haul transportation services to the Group. Tonglu is majority owned by the employees of the Group who are considered as related parties to the Group. The variable interests in Tonglu held by the Group are in the form of a waiver of management fees. The Group has concluded that it is not the primary beneficiary of Tonglu as it does not have the obligation to absorb losses of Tonglu or the right to receive benefits from Tonglu, that could potentially be significant to Tonglu.

The Group had amounts due to Tonglu as of December 31, 2017, 2018, 2019 and June 30, 2020 for transportation service received from Tonglu, pursuant to the contractual terms that are considered commensurate with market. Transactions and balances relating to the transportation services are disclosed in Note 18 (a) and (b).

**2. Summary of Significant Accounting Policies (Continued)****(c) Use of estimates**

The preparation of the Historical Financial Information in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Group bases its estimates on historical experience and other relevant factors. Significant accounting estimates reflected in the Group's financial statements include assumptions used to determine the fair value of the assets acquired through business combination, assessment of allowance of credit losses, useful lives of long-lived assets, realization of deferred tax assets, impairment assessment of long-lived assets and goodwill, and valuation of investments in equity investees. Actual results may differ from those estimates.

**(d) Fair value**

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs based on the Group's own assumptions used to measure assets and liabilities at fair value.

The short-term financial instruments, which consist of cash and cash equivalents, accounts receivable, financing receivable, short-term investment, amounts due from related parties, other current assets, accounts payable, amounts due to related parties, short-term borrowing, notes payable and other current liabilities, are recorded at costs which approximate their fair values due to the short-term nature of these financial instruments. The carrying values of non-current restricted cash, long-term financing receivables and long-term investment which are time deposits, approximate their fair values as their interest rates are comparable to the prevailing interest rates in the market.

**2. Summary of Significant Accounting Policies (Continued)****(d) Fair value (Continued)**

The Group measures equity method investments at fair value on a nonrecurring basis when they are deemed to be impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include future performance projections, discount rate and other assumptions that are significant to the measurement of fair value. An impairment charge to these investments is recorded when the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. During the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, no impairment of equity method investments was recorded.

Beginning January 1, 2018, the Group's equity investments without readily determinable fair values, which do not qualify for NAV practical expedient and over which the Group does not have the ability to exercise significant influence through the investments in common stock or in substance common stock, are accounted for under the measurement alternative upon the adoption of Accounting Standards Update ("ASU") 2016-01 "Recognition and Measurement of Financial Assets and Liabilities". Under the measurement alternative, the carrying value is measured at cost, less any impairment, plus and minus changes resulting from observable price changes in orderly transactions for identical or similar investments. The Group recognized an unrealized gain of RMB754,468 related to the investee of Cai Niao Smart Logistics Network Limited as a result of an observable price change event for the year ended December 31, 2019. The Group recognized impairment losses of RMB30,000, nil, RMB56,026, nil (unaudited) and nil related to equity investments without readily determinable fair values for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively (note 9).

Certain non-financial assets are measured at fair value on a nonrecurring basis, including property, plant, and equipment, right-of-use assets, goodwill and intangible assets. They are recorded at fair value only when impairment is recognized by applying unobservable inputs such as forecasted financial performance, discount rate, and other significant assumptions to the discounted cash flow valuation methodology.

**(e) Foreign currency translation**

The Group's reporting currency is RMB. The functional currency of the Company and subsidiaries incorporated outside the mainland China is USD or Hong Kong dollar. The functional currency of all the other subsidiaries and the VIE is RMB. The determination of the respective functional currency is based on the criteria of ASC 830, Foreign Currency Matters.

Transactions denominated in currencies other than functional currency are translated into functional currency at the exchange rates quoted by authoritative banks prevailing at the dates of the transactions. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. Exchange gains and losses resulting from those foreign currency transactions denominated in a currency other than the functional currency are recorded in the Consolidated Statements of Comprehensive Income. The Historical Financial Information of the Group is translated from the functional currency into RMB. Assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated into RMB

**2. Summary of Significant Accounting Policies (Continued)****(e) Foreign currency translation (Continued)**

at the appropriate historical rates. Revenues, costs, gains and losses are translated into RMB at the average rates of exchange for the year/period. The resulting foreign currency translation adjustments are recorded in accumulated other comprehensive income as a component of shareholders' equity.

**(f) Convenience translation**

The Group's business is primarily conducted in China and almost all of the Group's revenues are denominated in RMB. However, periodic reports made to shareholders include current period amounts translated into US dollars using the then current exchange rates, solely for the convenience of the readers. Translations of balances in the consolidated balance sheets, consolidated statements of comprehensive income and consolidated statements of cash flows from RMB into US dollars as of and for the six months ended June 30, 2020 were calculated at the rate of US\$1.00 = RMB7.0651, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on June 30, 2020. No representation was made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on June 30, 2020, or at any other rate.

**(g) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased.

**(h) Restricted cash**

Restricted cash represents (a) cash received from network partners that was immediately restricted for use until the final delivery of parcel to the recipients; and (b) secured deposits held in designated bank accounts for issuance of bank acceptance notes, and letter of guarantee related to short-term borrowing and international forwarding services.

**(i) Accounts receivable, net**

Accounts receivable mainly consists of amount due from the Group's customers, which is recorded net of allowance for credit losses.

On January 1, 2020, the Group adopted Accounting Standards Update No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326") using the modified retrospective transition method. ASC 326 replaces the existing incurred loss impairment model with a forward-looking current expected credit loss ("CECL") methodology, which results in more timely recognition of credit losses. The Group has developed a CECL model based on historical experience, the age of the accounts receivable balances, credit quality of its customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers. The cumulative effect from the adoption as of January 1, 2020 was immaterial to the consolidated financial statements.



**2. Summary of Significant Accounting Policies (Continued)****(j) Short-term and long-term investment**

Short-term investment primarily comprises of time deposits with maturities between three months and one year, and investments in wealth management products with variable interest rates or principal not-guaranteed with certain financial institutions, whereby the Group has the intent and the ability to hold to maturity within one year. Long-term investment comprises of time deposits with maturities more than one year. The Group classifies the short-term investment in wealth management products as held-to-maturity securities and stated at amortized cost. As of June 30, 2020, RMB497,000 of short-term investment was used as a collateral to issue of bank acceptance draft.

Upon adoption of ASC 326, the Group changed its impairment analysis to utilize a forward-looking CECL model for financial instruments measured at amortized cost, including the short-term investment in wealth management products. Based upon the Group's assessment of various factors, including historical experience, credit quality of the related financial institutions, and other factors that may affect its ability to collect the short-term investment, the Group determined there was no cumulative effect from the adoption of ASC 326 as of January 1, 2020 and for the six months ended June 30, 2020, no credit losses from the short-term investment were expected.

The Group recorded interest income of RMB74,127, RMB307,084, RMB432,566, RMB219,236 (unaudited) and RMB186,272 from the short-term and long-term investments in the consolidated statements of comprehensive income for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively.

**(k) Financing receivables, net**

The Group started to provide financial services to its network partners in 2017 with credit terms mainly ranging from three months to three years. Total outstanding financing receivables as of December 31, 2017, 2018, 2019 and June 30, 2020 were RMB64,030, RMB517,983, RMB1,060,899, and RMB1,712,517 respectively, among which nil, nil, RMB549,775 and RMB1,240,680 were recorded in long-term financing receivables. Such amounts are measured at amortized cost and reported in the Consolidated Balance Sheets at the outstanding principal amount less allowance of credit losses. The accrued interest receivables are also included in financing receivables as of the balance sheet date.

Allowance relating to financing receivables represents the Group's best estimate of the losses inherent in the outstanding portfolio of financing receivables. Nil, RMB4,139 and RMB9,159 of allowance relating to short-term financing receivables, and nil, nil and RMB14,097 relating to long-term financing receivables were recorded as of December 31, 2017, 2018 and 2019, respectively. The related losses recorded in the Consolidated Statements of Comprehensive Income were nil, RMB4,139, RMB19,117 and RMB2,600 (unaudited) for the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2019, respectively. After the adoption of ASC 326 on January 1, 2020 using the modified retrospective transition method, the Group has developed a forward looking CECL model based on the conditions of collaterals and guarantees for financing receivables, historical experiences, credit quality of the borrowers, current economic conditions and the borrowers' operating results, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from the borrowers. The cumulative effect from the adoption as of January 1, 2020 was immaterial to the consolidated financial statements. RMB6,564 of allowance of credit losses relating to

**2. Summary of Significant Accounting Policies (Continued)****(k) Financing receivables, net (Continued)**

short-term financing receivables, and RMB17,039 relating to long-term financing receivables were recorded as of June 30, 2020. The expected credit loss recognized was RMB347 for the six months ended June 30, 2020. Interest income generated from the financing receivables was recorded as revenue in the amounts of RMB1,161, RMB24,917, RMB70,228, RMB26,950 (unaudited) and RMB49,325 for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively.

**(l) Property and equipment, net**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Lesser of lease term or estimated useful life of 3 years
Furniture, office and electric equipment	3 to 5 years
Machinery and equipment	10 years
Vehicles	5-10 years
Buildings	20 years

**(m) Intangible assets**

Intangible assets include customer relationship acquired in a business combination which are recognized initially at fair value at the date of acquisition and are carried at cost less accumulated amortization. Amortization of customer relationship is computed using the straight-line method over 10 years. The useful life of customer relationship was estimated to be 10 years based on the nature of the customer base and average attrition rate. See Note 3 “Business Combination” for further details.

**(n) Investments in equity investees**

Investments in equity investees of the Group are comprised of investments in privately-held companies. The Group uses the equity method to account for an equity investment over which it has significant influence but does not own a majority equity interest or otherwise control. The Group records equity method adjustments in share of profits and losses. Equity method adjustments include the Group’s proportionate share of investee income or loss, impairments, and other adjustments required by the equity method. Dividends received are recorded as a reduction of carrying amount of the investment. Cumulative distributions that do not exceed the Group’s cumulative equity in earnings of the investee are considered as a return on investment and classified as cash inflows from operating activities. Cumulative distributions in excess of the Group’s cumulative equity in the investee’s earnings are considered as a return of investment and classified as cash inflows from investing activities. The Group continually reviews equity method investments to determine whether a decline in such fair value to below the carrying value is other-than-temporary. The primary factors the Group considers in determination are the duration and severity of the decline in fair value; the financial condition, operating

**2. Summary of Significant Accounting Policies (Continued)****(n) Investments in equity investees (Continued)**

performance and the prospects of the equity investee; and other company specific information such as recent rounds of financing. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investment is written down to fair value.

Prior to January 1, 2018, for equity investment over which the Group does not have significant influence or control, the cost method of accounting was used. Effective January 1, 2018, upon adoption of ASU 2016-01, the Group elected to measure the investments without readily determinable fair value at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

**(o) Impairment of long-lived assets**

The Group evaluates the recoverability of long-lived assets with determinable useful lives whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques and significant assumptions such as future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and may differ from actual results. No impairment charge was recognized for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020.

**(p) Goodwill**

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of business acquired. Several factors give rise to goodwill in the Group's acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired businesses. Unless circumstances otherwise indicate, goodwill is reviewed annually at December 31 for impairment. In evaluation of goodwill impairment, the Group performs a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Prior to January 1, 2020, based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount, the Group performed a two-step test to determine the amount of goodwill impairment. In Step 1, the Group compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Group performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. Starting from January 1, 2020, the Group

**2. Summary of Significant Accounting Policies (Continued)****(p) Goodwill (Continued)**

adopted ASU 2017-04, which simplifies the accounting for goodwill impairment by eliminating Step 2 from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step 2 to measure the impairment loss. The impairment test is performed as of year-end or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount by comparing the fair value of a reporting unit with its carrying value.

The Group had two reporting units for purposes of allocating, testing goodwill for the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2020. The Group conducted qualitative assessment to determine whether it is necessary to perform a quantitative goodwill impairment test. In assessing the qualitative factors, the Group considered the impact of key factors such as changes in the general economic conditions including the impact of COVID-19, changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, and cash flow generation. Based on the results of the qualitative assessment completed as of December 31, 2017, 2018 and 2019, and June 30, 2020, there were no indicators of impairment. Therefore, no impairment charge was recognized for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

**(q) Share based compensation**

The Group grants share options, ordinary share units and restricted share units to eligible employees, management and directors and accounts for these share based awards in accordance with ASC 718 "Compensation — Stock Compensation".

Employees' share based awards are measured at the grant date fair value of the awards and recognized as expenses (a) immediately at grant date if no vesting conditions are required; or (b) using graded vesting method, net of forfeitures, over the requisite service period, which is the vesting period. The Group elects to recognize forfeitures when they occur. When there is a modification of the terms and conditions of an award, the Group measures the pre-modification and post-modification fair value of the share based awards as of the modification date and recognizes the incremental value and the remaining unrecognized compensation expenses as compensation cost over the remaining service period. In determining the fair value of share options, ordinary share units and restricted share units, the closing market price of the underlying shares on the grant date is applied.

**(r) Treasury shares**

Treasury shares represent ordinary shares repurchased by the Group that are no longer outstanding and are held by the Group. The repurchase of ordinary shares is accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock.

**(s) Revenue recognition**

The Group derives a substantial part of its revenues from express delivery services provided to its network partners, mainly including parcel sorting and line-haul transportation. In addition, the Group directly provides express delivery services to certain enterprise customers, including vertical e-commerce and traditional merchants, in connection with the delivery of their products to end consumers. The Group also provides freight forwarding services to its customers. Revenues generated from express delivery services and freight forwarding services are recognized over time as the Group performs the services.

## 2. Summary of Significant Accounting Policies (Continued)

### (s) Revenue recognition (Continued)

Revenues also include sales of accessories, such as portable barcode readers and ZTO-branded packing supplies and apparels. Revenues are recognized when control of the product is transferred to the customer and in an amount the Group expects to earn in exchange for the product.

Prior to January 1, 2018, the Group recognized express delivery services revenue and freight forwarding services revenue when the parcels were delivered. On January 1, 2018, using the modified retrospective method, the Group adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," including related amendments and implementation guidance (collectively, "ASC 606"). Upon the adoption of ASC 606, the Group generally recognizes revenue over time as the Group performs the services stipulated in the contract because of the continuous transfer of control to the customer. The cumulative adjustment to the Group's retained earnings as of January 1, 2018 for the cumulative effect of initially applying the new standard was immaterial due to the short service period, and therefore, the retained earnings as of January 1, 2018 was not adjusted. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

#### Disaggregation of revenue

	Year Ended December 31,						Six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US\$	%	
			<i>(in thousands)</i>				<i>(unaudited)</i>					
Express delivery services	12,173,690	93.2	15,400,080	87.5	19,606,214	88.7	8,823,274	88.3	8,947,074	1,266,376	86.7	
Freight forwarding services	269,557	2.1	1,278,741	7.3	1,235,961	5.6	639,402	6.4	762,571	107,935	7.4	
Sale of accessories	591,716	4.5	812,866	4.6	1,089,977	4.9	501,407	5.0	498,214	70,518	4.8	
Others	25,110	0.2	112,764	0.6	177,794	0.8	33,588	0.3	110,451	15,633	1.1	
Total revenues	<u>13,060,073</u>	<u>100.0</u>	<u>17,604,451</u>	<u>100.0</u>	<u>22,109,946</u>	<u>100.0</u>	<u>9,997,671</u>	<u>100.0</u>	<u>10,318,310</u>	<u>1,460,462</u>	<u>100.0</u>	

#### Performance obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the basis of revenue recognition in accordance with U.S. GAAP. The customer generally contracts with the Group for distinct services. Substantially all of the Group's service contracts include only one performance obligation, the express delivery or freight forwarding services. However, if a contract contains more than one performance obligation, the Group allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. In these instances, as the Group frequently sells standard express delivery services and freight forwarding services with observable standalone sales prices, the observable standalone sales are used to determine the standalone selling prices of express delivery services and freight forwarding services.

**2. Summary of Significant Accounting Policies (Continued)****(s) Revenue recognition (Continued)**

## Satisfaction of performance obligations

The Group generally recognizes revenue over time as the Group performs the services stipulated in the contract because of the continuous transfer of control to the customer. The customers receive the benefit of the services as the goods are transported from one location to another. That is, if the Group was unable to complete the delivery, the service that was already performed by the Group would not need to be reperformed. As such, revenue is recognized based on the extent of progress towards completion of the performance obligation. It normally takes one to seven days for the Group to complete its performance obligation.

## Variable consideration

The Group provides 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. The Group estimates the variable considerations in the most likely amounts it expects to earn. As the incentives are generally determined on a monthly basis, the uncertainty in estimating the variable considerations to be recorded is very limited.

## Principal vs. agent considerations

In its express delivery services provided to pickup outlets, the Group utilizes delivery outlets operated by its network partners to perform the dispatching services. The Group only fulfills parcel sorting and line-haul transportation services. U.S. GAAP requires the Group to use a control-model approach to evaluate whether the Group performs services directly to the customers (as a principal) or arranges for services to be provided by another party (as an agent). Based on an evaluation of the control model, the Group has determined that it acts as a principal in providing sorting and line haul transportation services to the pickup outlets as the Group is primarily responsible for the delivery of parcels between sorting hubs and has the ability to control the related services. The Group acts as an agent for dispatching services as it arranges for such services to be provided by the delivery outlets. Therefore, the revenue is recorded net of the dispatching fees paid to the delivery outlets.

The Group also provides express delivery services to certain enterprise customers. According to the contracts with the enterprise customers, the Group is primarily responsible for and has control over the entire delivery process including the dispatching services. Therefore, the Group has determined that it acts as a principal for all the express delivery services provided to enterprise customers and accordingly, the revenue is recorded on a gross basis, including the dispatching fees paid to the delivery outlets.

## Contract assets and liabilities

Contract assets include billed and unbilled receivables resulting from in-transit parcels, which were recorded in accounts receivable and not material as of December 31, 2018, 2019 and June 30, 2020.



**2. Summary of Significant Accounting Policies (Continued)****(s) Revenue recognition (Continued)**

Contract assets and liabilities (Continued)

Contract liabilities consist of advance payments as well as deferred revenue, which were recorded in advances from customers and not material as of December 31, 2018, 2019 and June 30, 2020.

Practical expedients and exemptions

The Group elects not to disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less, (ii) contracts for which the Group recognizes revenues at the amount it has the right to invoice for services performed and (iii) contracts with variable consideration related to wholly unsatisfied performance obligations.

**(t) Cost of revenues**

Cost of revenues mainly consists of the following:

- line-haul transportation costs, including payments to outsourced transportation companies, as well as costs associated with the Group's own transportation infrastructure, including, labor costs of truck drivers, depreciation of self-owned trucks, airfare cost, fuel cost, and road toll,
- operating costs for the ZTO delivery IT platform,
- cost of hub operations, such as operators' labor costs and depreciation and lease costs,
- cost of accessories including portable barcode readers, thermal papers and packaging materials, and
- cost of freight forwarding services, including cost of line-haul transportation and cargo handling costs.

**(u) Income taxes**

As part of the process of preparing the Historical Financial Information, the Group is required to estimate its income taxes in each of the jurisdictions in which it operates. The Group accounts for income taxes using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the Historical Financial Information. Net operating loss are carried forwards by applying enacted statutory tax rates applicable to future years when the reported amounts of the asset or liability are expected to be recovered or settled, respectively. Deferred tax assets are reduced by a valuation allowance when, based upon the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Group recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position.

**2. Summary of Significant Accounting Policies (Continued)****(u) Income taxes (Continued)**

According to ASC 740-270 Interim Reporting, an estimated annual effective tax rate (AETR) on full year estimated ordinary income should first be determined by the Group and the estimated AETR is then applied to year-to-date ordinary income to compute the interim tax provision on ordinary income.

**(v) Comprehensive income**

Comprehensive income is defined to include all changes in equity from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. For the years and periods presented, the Group's comprehensive income includes net income and foreign currency translation adjustments and is presented in the consolidated statements of comprehensive income.

**(w) Leased assets**

As a lessee

The Group leases office space, sorting hubs and warehouse facilities in different cities in PRC under operating leases. Effective January 1, 2019, the Group adopted ASU No. 2016-02 "Leases" (ASC 842) using the modified retrospective approach. The Group elected the transition package of practical expedients permitted within the standard, which allowed it not to reassess initial direct costs, lease classification, or whether the contracts contain or are leases for any leases that existed prior to January 1, 2019. Upon the adoption, the Group recognized operating lease right of use ("ROU") assets of RMB844,331, with corresponding lease liabilities of RMB767,694 on the consolidated balance sheets. The operating lease ROU assets include adjustments for prepayments and accrued lease payments. The adoption did not impact the Group's beginning retained earnings, or the Group's prior year financial information.

Under ASC 842, the Group determines whether an arrangement constitutes a lease and records lease liabilities and right-of-use assets on its consolidated balance sheets at the lease commencement. The Group measures the operating lease liabilities at the commencement date based on the present value of remaining lease payments over the lease term, which was computed using the lessees' incremental borrowing rates, an estimated rate the Group would be required to pay for a collateralized borrowing equal to the total lease payments over the lease term. The Group measures the operating lease ROU assets based on the corresponding lease liability adjusted for payments made to the lessor at or before the commencement date, and initial direct costs it incurs under the lease. The Group begins recognizing operating lease expense based on lease payments on a straight-line basis over the lease term when the lessor makes the underlying asset available to the Group. Some of the Group's lease contracts include options to extend the leases for an additional period which has to be agreed with the lessors based on mutual negotiation. After considering the factors that create an economic incentive, the Group does not include renewal option periods in the lease term for which it is not reasonably certain to exercise. The carrying amount of lease liabilities is remeasured if there is a modification, e.g. a change in the lease term or a change in the in-substance fixed lease payments.

**2. Summary of Significant Accounting Policies (Continued)****(w) Leased assets (Continued)**

As a lessee (Continued)

The Group determines its land use right agreements contain operating leases of land under ASC 842. However, this determination does not result in any changes to the accounting for land use rights as the cost for land use rights are fully prepaid and no liabilities would be recorded.

As a lessor

The Group's lessor arrangements include operating leases of land and buildings to its network partners. Under ASC 842, lessors account for operating leases in a manner similar to how they account for operating leases under ASC 840. The Group continues to recognize the underlying assets and records the lease payments as income over the lease term on a straight-line basis.

**(x) Concentration of credit risk**

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, financing receivables, short-term investment, other receivables, advances to suppliers, prepayments and other current assets, long-term investment and long-term financing receivables. The Group places its cash and cash equivalents, short-term investment and long-term investment with financial institutions with high-credit ratings and quality. Accounts receivable primarily comprise amounts receivable from enterprise customers. Financing receivables primarily comprise financing receivables from network partners. The Group performs on-going credit evaluations of the financial condition of its counter parties and establishes an allowance for credit losses estimated based on factors surrounding the credit risk of specific entities and other relevant information. The allowance amounts were immaterial for all the periods presented.

**(y) Earnings per share**

Basic earnings per share are computed by dividing net income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the years/periods.

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Ordinary share equivalents are excluded from the computation of diluted earnings per ordinary share if their effects would be anti-dilutive.

On October 27, 2016, the Group's shareholders voted in favor of a proposal to adopt a dual-class share structure, pursuant to which the Group's authorized share capital were reclassified and redesigned into Class A ordinary shares and Class B ordinary shares (Note 16). Both Class A ordinary shares and Class B ordinary shares are entitled to the same dividend right, as such, this dual class share structure has no impacts to the earnings per share calculation. Basic earnings per share and diluted earnings per share are the same for each Class A ordinary shares and Class B ordinary shares.

## 2. Summary of Significant Accounting Policies (Continued)

### (z) Adoption of new accounting standards

In May 2014, the FASB issued an ASU that changes the revenue recognition for companies that enter into contracts with customers to transfer goods or services (“**Revenue from Contracts with Customers**”). The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner depicting the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB has also issued a number of updates to this standard. Effective January 1, 2018, the Group adopted the requirements of this ASU using the modified retrospective method. See note 2(s) for required disclosures pertaining to the new ASU.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and lease liability on their balance sheet for all leases with terms beyond twelve months. The new standard also requires enhanced disclosures that will provide more transparency and information to financial statement users about the Group’s lease portfolio. For finance leases, lessees will continue to recognize interest expense on the lease liability using the effective yield method, while the right-of-use asset will be amortized on a straight-line basis. For operating leases, expense will be recognized on a straight-line basis, consistent with the previous standard. The consolidated financial statements for the year ended December 31, 2019 are presented under the new standard, while each of the two years ended December 31, 2018 presented have not been adjusted and continue to be reported in accordance with the previous standard. See Note 7 for additional disclosures required by this ASU.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326),” which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. The Group adopted ASC 326 and related ASUs effective January 1, 2020 using the modified retrospective transition method. The adoption and application of this standard did not have a material impact to the Group’s Historical Financial Information.

In January 2017, the FASB issued ASU 2017-04, “Intangibles — Goodwill and Other (Topic 350): simplifying the test for goodwill impairment,” the guidance removes step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment now is the amount by which a reporting unit’s carrying value exceeds its fair value, not the difference between the fair value and carrying amount of goodwill which was the step 2 test before. The Group adopted ASU 2017-04 and related ASUs effective January 1, 2020. The adoption and application of this standard did not have a material impact to the Historical Financial Information.

## 2. Summary of Significant Accounting Policies (Continued)

### (aa) Accounting standards issued but not yet effective

In December 2019, the FASB issued ASU 2019-12 to simplify the accounting for income taxes. The update removes certain exceptions to the general income tax principles. This ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Group is currently evaluating the impact of adopting this standard in its consolidated financial statements and does not expect this ASU to have a material impact on the consolidated financial position, results of operations or cash flows.

In January 2020, the FASB issued ASU 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (“ASU 2020-01”) to clarify the interaction in accounting for equity securities under Topic 321, investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Group is currently evaluating the impact of adopting this standard in its consolidated financial statements and does not expect this ASU to have a material impact on the consolidated financial statements.

## 3. Business Combination

### 2017 Acquisition

In October 2017, the Group acquired the core business of the China Oriental Express Co., Ltd. and its subsidiaries (the “COE Business”), a freight forwarding services provider in Hong Kong and Shenzhen, for cash consideration of HK\$180,000 (approximate to RMB152,946). As a result of the acquisition, the Group recognized property and equipment of RMB17,123, intangible assets of RMB61,973, representing customer relationships of the COE Business, and goodwill of RMB84,430. The unpaid balance in relation to the acquisition of COE Business was RMB152,946, RMB42,523, RMB22,942 and RMB22,942 as of December 31, 2017, 2018, 2019 and June 30, 2020, and has been recorded in acquisition consideration payable. The acquisition was not material to the consolidated financial statements for the year ended December 31, 2017, as such pro forma results of operations are not presented.

**4. Prepayments and Other Current Assets**

Prepayments and other current assets consist of the following:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
Input value added tax (“VAT”)	489,700	927,645	1,386,004	1,627,645	230,378
Prepaid expenses	63,780	109,702	80,388	100,210	14,184
Accrued interest income	40,447	185,555	150,157	167,563	23,717
Deposits	16,749	28,098	55,277	97,623	13,818
Others	109,307	256,996	292,680	246,208	34,848
Total	<u>719,983</u>	<u>1,507,996</u>	<u>1,964,506</u>	<u>2,239,249</u>	<u>316,945</u>

**5. Property and Equipment, Net**

Property and equipment, net consist of the following:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
Buildings	2,697,230	3,586,898	5,594,482	6,281,620	889,106
Machinery and equipment	1,299,553	2,475,795	3,778,753	4,056,682	574,186
Leasehold improvements	262,419	344,786	432,236	494,367	69,973
Vehicles	1,545,786	2,319,342	3,367,428	4,920,116	696,397
Furniture, office and electric equipment	207,953	309,214	462,842	495,855	70,184
Construction in progress	1,434,699	1,711,971	1,685,622	2,034,271	287,932
Total	<u>7,447,640</u>	<u>10,748,006</u>	<u>15,321,363</u>	<u>18,282,911</u>	<u>2,587,778</u>
Accumulated depreciation	<u>(974,630)</u>	<u>(1,712,302)</u>	<u>(2,850,731)</u>	<u>(3,631,842)</u>	<u>(514,054)</u>
Property and equipment, net	<u>6,473,010</u>	<u>9,035,704</u>	<u>12,470,632</u>	<u>14,651,069</u>	<u>2,073,724</u>

Depreciation expenses were RMB522,853, RMB809,005, RMB1,210,040, RMB554,832 (unaudited) and RMB801,006 for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively.

As at December 31, 2017, 2018, 2019 and June 30, 2020, the title certificates for certain buildings of the Group with an aggregate net book value of approximately RMB1,425,167, RMB2,040,167, RMB3,144,110 and RMB2,354,383, respectively, had not been obtained.



**6. Land Use Rights, Net**

There is no private land ownership in China. Companies or individuals are authorized to possess and use the land only through land use rights granted by the PRC government. Land use rights are amortized using the straight-line method over the lease term of around 50 years or less. The weighted average remaining lease term are 44 years as of December 31, 2019 and June 30, 2020, respectively.

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
Cost	1,688,966	2,093,750	2,681,762	4,032,210	570,722
Less: Accumulated amortization	(86,058)	(124,574)	(172,902)	(203,052)	(28,740)
Land use rights, net	<u>1,602,908</u>	<u>1,969,176</u>	<u>2,508,860</u>	<u>3,829,158</u>	<u>541,982</u>

Amortization expenses for land use rights were RMB35,964, RMB38,516, RMB48,328, RMB22,870 (unaudited) and RMB30,151 for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively.

As at December 31, 2017, 2018, 2019 and June 30, 2020, the title certificates for certain land use rights of the Group with carrying value of approximately RMB36,998, RMB114,807, RMB167,812 and RMB513,730, respectively, had not been obtained.

**7. Operating Leases****1) Lease as lessee**

The Group leases office space, sorting hubs and warehouse facilities under non-cancellable operating lease agreements that expire at various dates through December 2034. During the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, the Group incurred rental expenses related to operating lease costs amounting to RMB195,176, RMB271,630, RMB300,708, RMB131,820 (unaudited) and RMB169,070, respectively.

## 7. Operating Leases (Continued)

## 1) Lease as lessee (Continued)

Supplemental information related to leases and location within the consolidated balance sheets is as follows:

	<b>As of December 31, 2019</b>	<b>As of June 30, 2020</b>
	<i>RMB</i>	<i>RMB</i>
Operating lease right-of-use assets	901,956	784,780
Current operating lease liabilities	298,728	240,240
Non-current operating lease liabilities	504,442	420,310
Total operating lease liabilities	<u>803,170</u>	<u>660,550</u>
Weighted average remaining lease term (in years)	6	6
Weighted average discount rate	4.36%	4.34%

Supplemental cash flow information related to leases for the year ended December 31, 2019, six months ended June 30, 2020 are as follows:

	<b>Year ended December 31, 2019</b>	<b>Six months ended June 30, 2020</b>
	<i>RMB</i>	<i>RMB</i>
Cash paid for amounts included in measurement of liabilities:		
Operating cash flows from operating leases	322,857	194,514
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	499,124	92,671
Right-of-use assets decreased due to lease modifications:		
Operating leases	168,380	48,847

## 7. Operating Leases (Continued)

## 1) Lease as lessee (Continued)

The following is a maturity analysis of the annual undiscounted cash flows as of December 31, 2019 and June 30, 2020:

	<b>As of December 31, 2019</b>	<b>As of June 30, 2020</b>
	<i>RMB</i>	<i>RMB</i>
Within one year	285,743	261,118
Within a period of more than one year but not more than two years	196,902	152,080
Within a period of more than two year but not more than three years	105,055	120,737
Within a period of more than three year but not more than four years	82,610	78,729
Within a period of more than four year but not more than five years	50,415	53,230
Within a period of more than five year	184,470	137,603
Total lease commitment	<u>905,195</u>	<u>803,497</u>
Less: Imputed interest	(102,025)	(142,947)
Total operating lease liabilities	803,170	660,550
Less: Current operating lease liabilities	(298,728)	(240,240)
Long-term operating lease liabilities	504,442	420,310

Disclosures related to periods prior to the adoption of ASC 842:

As of December 31, 2018, minimum lease payments under all non-cancellable leases are as follows:

	<b>As of December 31, 2018</b>
	<i>RMB</i>
2019	167,585
2020	152,779
2021	103,181
2022	85,816
2023	61,779
2024 and after	411,050
Total lease commitment	<u>982,190</u>

As of December 31, 2017, minimum lease payments under all non-cancellable leases are as follows:

	<b>As of December 31, 2017</b>
	<i>RMB</i>
2018	191,157
2019	158,333
2020	114,123
2021	93,263
2022	84,827
2023 and after	462,512
Total lease commitment	<u>1,104,215</u>

Under ASC 842, land use rights agreements are also considered as operating lease contracts. See Note 6 for separate disclosures related to land use right.

**7. Operating Leases (Continued)****2) Lease as lessor**

The Group rents land and buildings to network partners under non-cancellable operating lease agreements that expire at various dates through December 2037. All of the Group's lease arrangements as lessor are classified as operating leases. Rental income is recognized on a straight-line basis over the rental period. During the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, the Group recorded rental income amounting to RMB31,107, RMB69,483, RMB79,254, RMB44,423 (unaudited) and RMB32,541, respectively.

**8. Goodwill**

The changes in the carrying amount of goodwill for the years ended December 31, 2017, 2018, 2019 and June 30, 2020 were as follows:

	<u>Amount</u>
	<i>RMB</i>
Balance at January 1, 2017	4,157,111
Increase in goodwill related to acquisition of COE Business	<u>84,430</u>
Balance at December 31, 2017, 2018, 2019 and June 30, 2020	<u><u>4,241,541</u></u>

## 9. Investments in Equity Investees

The Group's investments in equity investees comprise the following:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
<b>Investments accounted for under equity method:</b>					
ZTO Supply Chain Management Co., Ltd. (“ZTO LTL”) <sup>(1)</sup>	76,014	194,235	206,986	291,923	41,319
Feng Wang Investment Co., Ltd. (“Feng Wang”) <sup>(2)</sup>	51,419	52,238	51,068	49,905	7,064
Shanghai CRRC Green City Logistics Co., Ltd. (“CRRC”) <sup>(3)</sup>	30,000	27,999	29,652	27,510	3,894
Others	22,328	36,225	83,605	95,412	13,505
Total investments accounted for under the equity method	179,761	310,697	371,311	464,750	65,782
<b>Investments accounted for as equity investments without readily determinable fair values:</b>					
Cai Niao Smart Logistics Network Limited (“Cai Niao”) <sup>(4)</sup>	212,063	224,097	1,122,218	1,139,847	161,335
Wheat Commune Group Inc. (“Wheat Commune”) <sup>(4)</sup>	48,228	47,552	–	–	–
Zhejiang Yizhan Network Technology Co., Ltd. (“Cainiao Post”) <sup>(4)</sup>	–	1,075,000	1,075,000	1,075,000	152,156
Zhijiang New Industries Limited (“ZJ New Industries”) <sup>(4)</sup>	–	500,000	500,000	500,000	70,770
Shenzhen Feng Chao Technology Ltd.	149,230	–	–	–	–
Others	20,878	50,064	40,965	140,100	19,830
Total investments accounted for equity investments without readily determinable fair values	430,399	1,896,713	2,738,183	2,854,947	404,091
<b>Total investments in equity investees</b>	<b>610,160</b>	<b>2,207,410</b>	<b>3,109,494</b>	<b>3,319,697</b>	<b>469,873</b>

**9. Investments in Equity Investees (Continued)****(1) ZTO LTL**

On August 22, 2016, the Group entered into an investment agreement with ZTO LTL and Mr. Jianfa Lai to invest cash of RMB54,000 in exchange of 18% equity interest in ZTO LTL. ZTO LTL is engaged in provision of less-than-truckload transportation services in China. The principal shareholders of ZTO LTL are also the principal shareholders of the Group. Owing to the shareholders' structure of ZTO LTL, the Group has significant influence over ZTO LTL's operating activities. Therefore, the investment is accounted for using the equity method. In August 2017, the Group increased investment in ZTO LTL by RMB36,000 to maintain its equity interest in ZTO LTL at 18%. In 2018, ZTO LTL went through a restructuring and as a result, became a wholly owned subsidiary of ZTO Freight (Cayman) Inc. ("**ZTO Freight**"), a newly established Cayman company by shareholders of ZTO LTL. The Group holds 18% equity in ZTO Freight after the restructuring. The Group contributed additional investment in ZTO Freight by USD19,000 (approximate to RMB130,150) and its equity interest decreased to 17.7% due to the additional capital contributions from other shareholders in 2018. The Group contributed additional investment in ZTO Freight by USD12,715 (approximate to RMB90,243) and its equity interest further decreased to 17.3% in 2020.

**(2) Feng Wang**

In December 2013, the Group entered into an agreement with other three top express delivery companies in China, to establish Feng Wang, which is to invest in the upstream industries and integrate resources across the express delivery value chain. The capital contribution by the Group was RMB50,000 in cash, representing 25% of the equity interest of Feng Wang. In 2015, the Group's equity interest to Feng Wang decreased to 20% due to the additional capital contributions from other shareholders of Feng Wang.

**(3) CRRC**

In December 2017, the Group entered into a subscription and contribution agreement with CRRC Urban Traffic Co., Ltd. and two other express delivery companies in PRC, to establish a new company named CRRC, for developing the clean energy vehicles used in the express and logistics industries. The capital contribution by the Group was RMB30,000, representing 15% equity interest of CRRC. The Group has one board seat out of seven, and has significant influence over CRRC's operating activities. Therefore, the investment is accounted for using the equity method.

**(4) Investments accounted for as equity investments without readily determinable fair values**

In May 2013, the Group obtained equity interests in Cai Niao, which provides a platform that connects with a network of logistics providers through a proprietary logistics information system and facilitates the delivery of packages across PRC. During the fourth quarter of 2019, the Group further invested RMB150,485 in Cai Niao in connection with a new round of financing completed in 2019, which represented an observable price change in an orderly transaction for Cai Niao equity interest and resulted in an unrealized gain of RMB754,468 recorded in other income (expense) in the consolidated statement of comprehensive income for the year ended December 31, 2019.



**9. Investments in Equity Investees (Continued)**

In December 2015, the Group obtained equity interest in Wheat Commune. Wheat Commune is an Omni-channel platform providing comprehensive campus service in more than 100 cities across PRC. Due to the continued operating loss, this investment has been fully impaired.

In May 2018, the Group entered into a subscription and contribution agreement with four other leading express delivery companies in PRC, to obtain 15% equity interest in Cainiao Post, Cainiao's network of last-mile delivery stations, in an amount of RMB1,075,000.

In October 2018, the Group entered into an investment agreement with several investment corporations to establish a new investment company, named ZJ New Industries and obtain 2% equity interest in ZJ New Industries. The total capital contribution made by the Group was RMB500,000.

The Group recognized impairment losses totaling RMB30,000, nil, RMB56,026, nil and nil related to equity investments for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively. In which, the Group recognized impairment losses of RMB30,000, nil, RMB48,526, nil (unaudited) and nil related to equity investment in Wheat Commune, and nil, nil, RMB7,500, nil (unaudited) and nil related to equity investment in others for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively.

**10. Intangible Assets, Net**

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
Customer relationships	61,973	61,973	61,973	61,973	8,771
Less: accumulated amortization	(1,549)	(7,746)	(13,944)	(17,043)	(2,412)
Customer relationships, net	<u>60,424</u>	<u>54,227</u>	<u>48,029</u>	<u>44,930</u>	<u>6,359</u>

Amortization expenses for customer relationships acquired through business combination of COE Business were RMB1,549, RMB6,197, RMB6,198, RMB3,099 (unaudited) and RMB3,099 for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively.

The estimated amortization expenses for each of the five succeeding fiscal years and thereafter are as follows:

	<u>RMB</u>
Six months ending December 31, 2020	3,098
Year ending December 31, 2021	6,197
Year ending December 31, 2022	6,197
Year ending December 31, 2023	6,197
Year ending December 31, 2024	6,197
Year ending December 31, 2025 and after	<u>17,044</u>
Total	<u><u>44,930</u></u>

**11. Other Current Liabilities**

Other current liabilities consist of the following:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
Payables related to property and equipment	710,002	973,620	1,076,935	941,998	133,331
Deposits from network partners <sup>(1)</sup>	645,923	741,914	925,925	1,063,975	150,596
Salary and welfare payable	576,581	643,129	838,527	810,199	114,676
Payables related to land use rights	67,644	–	–	–	–
Payables for repurchasing ordinary shares	56,953	24,146	–	–	–
Deposits	20,360	27,362	55,832	81,085	11,477
Payables to network partners <sup>(2)</sup>	–	202,343	260,228	155,895	22,066
Others	203,604	221,255	394,841	437,133	61,869
<b>Total</b>	<b>2,281,067</b>	<b>2,833,769</b>	<b>3,552,288</b>	<b>3,490,285</b>	<b>494,015</b>

(1) Deposits from network partners represent the waybill deposits collected from the pickup outlets operated by network partners, which is refunded when the parcel is delivered to the recipients.

(2) Payables to network partners represent the amount collected by the Group on behalf of its network partners in the provision of express delivery services.

**12. Short-term Bank Borrowings**

Short-term bank borrowings consist of the following:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
PRC domestic commercial banks	250,000	–	–	1,690,000	239,204
	250,000	–	–	1,690,000	239,204

As of December 31, 2017, short-term borrowings were collateralized by the letter of guarantee issued from the Group's designated bank accounts in an amount of RMB156,151. The weighted average interest rate of the short-term borrowings in the year ended December 31, 2017 was 3.9%. The Group fully repaid the borrowings in January 2018.

**12. Short-term Bank Borrowings (Continued)**

In 2020, the Group entered into collectively RMB1,690,000 bank loan contracts with several banks. The weighted average interest rate of the short-term borrowings was 3.00% for the six months ended June 30, 2020. Certain borrowings are subject to financial covenants such as asset-liability ratio less than 65% and current ratio not less than 0.8. The Group has been in compliance with the financial covenants. The borrowings are repayable within one year.

**13. Noncontrolling Interests**

Below are the changes in the Group's ownership in its subsidiaries on the Group's equity.

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
Net income attributable to ZTO Express (Cayman) Inc.	3,159,663	4,383,025	5,674,145	2,040,194	1,823,054	258,036
Transfers from/(to) noncontrolling interest						
Increase in ZTO's paid in capital for capital contribution from noncontrolling interest shareholder	-	23,740	-	-	-	-
Decrease in ZTO's paid in capital for purchase shares of the Group's subsidiaries	(4,952)	-	-	-	(13,960)	(1,976)
Net transfers from/(to) noncontrolling interest	(4,952)	23,740	-	-	(13,960)	(1,976)
Change from net income attribute to ZTO and transfers from/(to) noncontrolling interest	<u>3,154,711</u>	<u>4,406,765</u>	<u>5,674,145</u>	<u>2,040,194</u>	<u>1,809,094</u>	<u>256,060</u>

In 2018, a third-party investor made a capital contribution to one of the Group's subsidiary. As a result, additional paid-in capital and the value of the noncontrolling interests increased.

#### 14. Income Tax

Under the current laws of the Cayman Islands, the Group is incorporated in the Cayman Islands and not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Under the current laws of the British Virgin Islands, the Group's subsidiary incorporated in British Virgin Island are not subject to tax.

The Group's subsidiary in the U.S. is registered in the state of Oregon and is subject to U.S. federal corporate marginal income tax rate of 21% and state income tax rate of 5%-9.9% respectively.

Under the current Hong Kong Inland Revenue Ordinance, the Group's subsidiaries domiciled in Hong Kong has introduced a two-tiered profits tax rate regime which is applicable to any year of assessment commencing on or after April 1, 2018. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Additionally, payments of dividends by the subsidiary incorporated in Hong Kong to the Group are not subject to any Hong Kong withholding tax.

Under the Law of the People's Republic of China on Enterprise Income Tax ("**EIT Law**"), the Group's subsidiaries domiciled in PRC are subject to statutory rate of 25%. Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they qualify as high and new technology enterprises ("**HNTes**"), or if they are located in applicable PRC regions as specified in the Catalogue of Encouraged Industries in Western Regions (effective for 2020), or the Western Regions Catalogue, subject to certain general restrictions described in the EIT Law and the related regulations.

WFOE was qualified for HNTE status and therefore eligible for a preferential income tax rate of 15% for the years ended December 31, 2017, 2018 and 2019. As of June 30, 2020, WFOE has submitted its HNTE application documents to in-charge authority for HNTE status for the following three years, and expects to obtain the approval in the end of 2020.

Ten of the Companies' subsidiaries, which are located in the municipalities or provinces of Chongqing, Sichuan, Guizhou, Yunnan and Shaanxi, were qualified enterprises within the Catalog of Encouraged Industries in the Western Region to enjoy the 15% preferential income tax rate for the years ended December 31, 2018 and 2019, and six months ended June 30, 2020. The preferential income tax rate will expire in December 2030.

**14. Income Tax (Continued)**

The current and deferred portion of income tax expenses included in the consolidated statements of comprehensive income, which were substantially attributable to the Group's subsidiaries are as follows:

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
				(unaudited)		
Current tax expenses	675,396	1,068,214	1,118,822	489,616	586,610	83,029
Deferred tax	(29,035)	(139,081)	(40,527)	(8,955)	(158,536)	(22,439)
Total	<u>646,361</u>	<u>929,133</u>	<u>1,078,295</u>	<u>480,661</u>	<u>428,074</u>	<u>60,590</u>

Reconciliations of the differences between PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2017, 2018, 2019 are as follows:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Statutory income tax rate	25.00%	25.00%	25.00%
Preferential tax rates	(7.67)%	(7.36)%	(6.26)%
Research & Development super deduction	(0.29)%	(0.61)%	(0.96)%
Non-deductible expenses	0.53%	1.41%	1.48%
Non-taxable income	–	(0.24)%	–
Different tax rates of operations in other jurisdictions	(0.63)%	(0.74)%	(3.34)%
True up	(0.02)%	(0.05)%	0.04%
	<u>16.92%</u>	<u>17.41%</u>	<u>15.96%</u>

The effective tax rate is based on expected income and statutory tax rates. For interim financial reporting, the Group estimates the annual effective tax rate based on projected accounting incomes for the full year and records a quarterly income tax provision in accordance with the guidance on accounting for income taxes in a period. As the year progresses, the Group refines the estimates of the year's taxable income as new information becomes available. This continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, the Group adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate.

The Group's effective tax rate for the six months ended June 30, 2019 and 2020 was 18.93% (unaudited) and 18.87%, respectively.

**14. Income Tax (Continued)**

The effect of the tax holiday on the income per share is as follows:

	<b>As of December 31,</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Tax saving amount due to preferential tax rates	293,066	392,761	422,996
Income per share effect — basic	0.41	0.52	0.54
Income per share effect — diluted	0.41	0.52	0.54

The principal components of the Group's deferred income tax assets and liabilities as of December 31, 2017, 2018, 2019 are as follows:

	<b>As of December 31,</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Deferred tax assets:</b>			
Accrued expense	75,858	96,786	131,007
Net loss carryforward	35,021	147,634	159,969
Financial subsidy	19,400	29,781	31,916
Depreciation for property and equipment	13,553	28,013	47,433
Unrealized gain from intragroup transactions	5,105	9,760	20,467
Provision for allowance of credit losses	3,826	6,089	12,795
Total deferred tax assets	<u>152,763</u>	<u>318,063</u>	<u>403,587</u>
<b>Deferred tax liabilities:</b>			
Difference in basis of land use rights	(146,740)	(148,993)	(145,477)
Difference in basis of fixed assets	—	—	(54,471)
Difference in basis of intangible assets	(10,580)	(8,947)	(7,948)
Total deferred tax liabilities	<u>(157,320)</u>	<u>(157,940)</u>	<u>(207,896)</u>

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will more likely than not be realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, the Group's experience with tax attributes expiring unused and tax planning alternatives. Considering all the above factors, the management concluded that all the deferred tax assets could be utilized before its expiry. As such, no valuation allowances are provided to the deferred tax assets.

As of June 30, 2020, the Group had tax loss carryforward in subsidiaries of RMB621,370 which will expire from 2020 to 2024.



**14. Income Tax (Continued)**

Uncertainties exist with respect to how the current income tax law in PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within PRC. The implementation rules to the EIT Law provide that nonresident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, occurs within PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of PRC within the Group should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Group and its subsidiaries registered outside PRC should be deemed resident enterprises, the Group and its subsidiaries registered outside PRC will be subject to the PRC income taxes, at a statutory income tax rate of 25%. The Group is not subject to any other uncertain tax position.

According to PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or withholding agent. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined (but an underpayment of tax liability exceeding RMB0.1 million is specifically listed as a special circumstance). In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. From inception to 2020, the Group is subject to examination of the PRC tax authorities.

Aggregate undistributed earnings of the Group's PRC subsidiaries and VIE that are available for distribution were RMB6,034,204, RMB10,019,541, RMB15,607,474 and RMB17,583,772 as of December 31, 2017, 2018, 2019 and June 30, 2020 respectively.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ("FIEs") earned after January 1, 2008, are subject to a 10% withholding income tax. In addition, under tax treaty between PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor holds at least 25% in the FIE, or 10%, if the investor holds less than 25% in the FIE. A deferred tax liability should be recognized for the undistributed profits of PRC subsidiaries unless the Group has sufficient evidence to demonstrate that the undistributed dividends will be reinvested and the remittance of the dividends will be postponed indefinitely. The Group plans to indefinitely reinvest undistributed profits earned from its PRC subsidiaries in its operations in PRC. Therefore, no withholding income taxes for undistributed profits of the Group's subsidiaries were provided as of December 31, 2017, 2018, 2019 and June 30, 2020.

**14. Income Tax (Continued)**

Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Group completed its feasibility analysis on a method, which the Group will ultimately execute if necessary to repatriate the undistributed earnings of the VIE without significant tax costs. As such, the Group does not accrue deferred tax liabilities on the earnings of the VIE given that the Group will ultimately use the means.

**15. Share Based Compensation****Employee Share Holding Platform**

In June 2016, the Group established an employee share holding platform (the “**Share Holding Platform**”). The purpose of the Share Holding Platform is to allow employees of the Group in PRC to receive equity share incentives. ZTO ES Holding Limited (“**ZTO ES**”), a British Virgin Islands company was established as a holding vehicle for the Group’s Share Holding Platform. Four limited liability partnerships (“**LLPs**”) were established in PRC as the shareholders of ZTO ES, each holding 25% equity interest in ZTO ES. At the time of establishment of these LLPs, Mr. Lai Meisong, chairman and chief executive officer of the Group, and his wife, Ms. Lai Yufeng agreed to serve as the general partner and sole limited partner of the four LLPs. ZTO ES and the LLPs have no activities other than administering the plan and does not have employees. On behalf of the Group and subject to approval of board of director of the Group, Mr. Lai Meisong as the general partner of the LLPs, has the authority to select the eligible participants to whom awards will be granted; and determine the number of shares covered; establish the terms, conditions and provision of such awards.

On June 28, 2016, the Group issued 16 million ordinary shares to ZTO ES. All shareholder rights associated with these 16 million ordinary shares including but not limited to voting right and dividend right were waived until such time when the economic interests in the ordinary shares are granted to the employees, through transfer of interests in the LLPs. Pursuant to the terms of the partnership agreement, a recipient of limited partnership interests is entitled to indirectly all of the economic rights associated with the underlying ordinary shares of the Group and accordingly, at the direction of the employee, the LLPs will sell the Group’s ordinary shares held in connection with the limited partnership interest owned by the employee, and remit the proceeds to the employee. The other shareholder’s rights associated with the Group’s ordinary shares held by the partnership may be exercised by the general partner of these LLPs. The Group referred to these limited partner’s partnership interests as ordinary share units and five ordinary share units correspond to the indirect economic interest in one ordinary share of the Group.

Pursuant to a board of director resolution, on March 28, 2017, 3,945,750 ordinary share units corresponding to 789,150 Company’s ordinary shares were granted to certain employees at the consideration of nil. These awards are subject to vesting ratably over a period of three years. The Group recorded the share based compensation of RMB23,303 based on the market price of ordinary shares at USD12.88 on the grant date for each of the three years ended December 31, 2019. As of June 30, 2020, all compensation expense were recognized in the Historical Financial Information.

**15. Share Based Compensation (Continued)****Employee Share Holding Platform (Continued)**

On March 7, 2018, 4,534,745 ordinary share units corresponding to 906,949 Company's ordinary shares were granted to certain officers and employees at the consideration of nil. These share awards vested immediately upon grant. The Group recorded the share based compensation of RMB97,424 based on the market price at USD16.99 of ordinary shares on the grant date for the year ended December 31, 2018.

On March 11, 2019, 4,722,885 ordinary share units corresponding to 944,577 Company's ordinary shares were granted to certain officers and employees at the consideration of nil. These share awards vested immediately upon grant. The Group recorded the share based compensation of RMB127,805 based on the market price at USD20.13 of ordinary shares on the grant date for the year ended December 31, 2019.

On March 13, 2020, 3,925,485 ordinary share units corresponding to 785,097 Company's ordinary shares were granted to certain officers and employees at the consideration of nil. These share awards vested immediately upon grant. The Group recorded the share based compensation of RMB139,308 based on the market price at USD25.32 of ordinary shares on the grant date for six months ended June 30, 2020.

A summary of changes in the ordinary share awards relating to the Share Holding Platform granted by the Group during each of the three years ended December 31, 2019 and the six months ended June 30, 2020 is as follows:

	<b>Number of ordinary shares under Incentive Platform</b>	<b>Weighted average grant- date fair value</b>
Non-Vested at January 1, 2017	–	–
Granted	789,150	88.59
Non-Vested at January 1, 2018	789,150	88.59
Granted	906,949	107.42
Less: vested	1,159,581	103.32
Non-Vested at January 1, 2019	536,518	88.59
Granted	944,577	135.30
Less: vested	1,197,209	125.45
Non-Vested at January 1, 2020	283,886	88.59
Granted	785,097	177.44
Less: vested	1,068,983	153.84
Non-Vested at June 30, 2020	–	–

**15. Share Based Compensation (Continued)****Employee Share Holding Platform (Continued)**

The fair value of ordinary share units was determined based on the market price of ordinary shares on the grant date.

**2016 Share Incentive Plan**

On June 20, 2016, the Board also approved a 2016 share incentive plan (the “**2016 Share Incentive Plan**”) in order to provide appropriate incentives to directors, executive officers and other employees of the Group, pursuant to which the maximum number of shares of the Group available for issuance pursuant to all awards under the 2016 Share Incentive Plan shall be 3,000,000 ordinary shares. On the same date, the Group granted options to purchase 300,000 ordinary shares to certain executive of the Group at an exercise price of US\$9.97 per share under the 2016 Share Incentive Plan. The options expire in 10 years from the date of grant and vest ratably at each grant date anniversary over a requisite service period of five years.

In September 2016, the Board approved 2016 Share Incentive Plan (as amended and restated), the maximum aggregate number of shares which may be issued pursuant to all awards under the 2016 Plan is initially 3,000,000, plus an annual increase, by an amount equal to the least of (i) 0.5% of the total number of shares issued and outstanding on the last day of the immediately preceding fiscal year; (ii) 3,000,000 shares or (iii) such number of shares as may be determined by the board of directors.

The Group uses a binominal pricing model to estimate the fair value of the above options granted under the 2016 Share Incentive Plan. The fair value per option was estimated at the date of grant using the following assumptions:

	<b>June 20, 2016</b>
Risk-free interest rate	2.54%
Contract life	10
Expected volatility	31.25%
Expected dividend yield	3.14%
Exercise multiple	2.8x
Fair value of underlying ordinary shares on the date of option grants (RMB)	67.37

The Group estimated the risk free interest rate based on the yield to maturity of U.S. treasury bonds denominated in USD and adjusted for country risk premium of PRC at the option valuation date. The expected volatility at the grant date was estimated based on the annualized standard deviation of the daily return embedded in historical share prices of comparable peer companies with a time horizon close to contract life. The Group estimated dividend yield based on the average dividend yield of comparable peer companies.

**15. Share Based Compensation (Continued)****2016 Share Incentive Plan (Continued)**

In April 2018, the Group granted 125,000 options with exercise price of nil to certain executive. The options vested immediately and was fully exercised as of December 31, 2018. The Group had recorded share based compensation expense in selling, general and administrative expenses based on grant date fair value of options, totaled at RMB13,148, in the consolidated statement of comprehensive income for the year ended December 31, 2018.

In May 2018, the Group cancelled 300,000 share options granted in June 2016. Total unrecognized share based compensation expense of RMB3,261 was recorded as share based compensation expense and included in selling, general and administrative expenses in the consolidated statement of comprehensive income for the year ended December 31, 2018.

**Restricted share units**

On March 28, 2017, the Group granted 679,645 restricted share units (“RSUs”) at par value to certain director, executive offices and employees pursuant to the 2016 Share Incentive Plan. These grants are subject to vesting ratably over a period of three years from the grant date. The Group recorded the share based compensation of RMB16,419, RMB21,192, RMB19,899, RMB9,949 (unaudited) and RMB3,316 based on the market price of ordinary shares at USD12.88 on the grant date for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively. As of June 30, 2020, all compensation expense were recognized in the Historical Financial Information.

On March 7, 2018, the Group granted 852,390 RSUs at par value to certain director, executive offices and employees pursuant to the 2016 Share Incentive Plan. These grants are vested immediately upon grant. The Group recorded the share based compensation of RMB91,150 based on the market price of ordinary shares at USD16.99 on the grant date for the year ended December 31, 2018.

On March 11, 2019, the Group granted 1,076,532 RSUs at par value to certain director, executive offices and employees pursuant to the 2016 Share Incentive Plan. These grants are vested immediately upon grant. The Group recorded the share based compensation of RMB145,659 based on the market price of ordinary shares at USD20.13 on the grant date for the year ended December 31, 2019.

On March 13, 2020, the Group granted 684,905 RSUs at par value to certain director, executive offices and employees pursuant to the 2016 Share Incentive Plan. These grants are vested immediately upon grant. The Group recorded the share based compensation of RMB121,530 based on the market price of ordinary shares at USD25.32 on the grant date for the six months ended June 30, 2020.

## 16. Ordinary Shares

As disclosed in Note 15, on June 28, 2016, 16 million ordinary shares of the Group were issued to ZTO ES to establish a reserve pool for future issuance of equity share incentive to the Group's employees. All shareholder rights of these 16 million ordinary shares including but not limited to voting rights and dividend rights are unconditionally waived until the corresponding ordinary share units are transferred to the employees. While the ordinary shares were legally issued to ZTO ES, ZTO ES does not have any of the rights associated with the ordinary shares, as such the Group accounted for these shares as issued but not outstanding ordinary shares until the waiver is released by the Group, which occurs when Ordinary Shares Units are awarded to the employees. 10,841,836, 9,682,255, 8,485,046 and 7,447,313 ordinary shares transferred to ZTO ES were considered issued but not outstanding as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively.

Prior to the consummation of the initial public offering, on October 27, 2016, pursuant to the revised Articles of Association, the Group's authorized share capital was reclassified and re-designated into Class A ordinary shares and Class B ordinary shares, with each Class A ordinary share being entitled to one vote and each Class B ordinary share being entitled to ten votes on all matters that are subject to shareholder vote. Both Class A ordinary shares and Class B ordinary shares are entitled to the same dividend right. The holders of the Group's ordinary shares are entitled to such dividends as may be declared by the board of directors subject to the Companies Law. The authorized 10,000,000,000 shares of the Group were comprised of 8,000,000,000 Class A ordinary shares, 1,000,000,000 Class B ordinary shares and 1,000,000,000 shares designated as the board of directors may determine. Upon such re-designation, the Group had 453,206,440 Class A ordinary shares issued and 442,364,604 Class A ordinary shares outstanding; and 206,100,000 Class B ordinary shares issued and outstanding. All of the Class B ordinary shares were held by the chairman of the board of the Group.

Upon the initial public offering in October 2016, the Group issued 72,100,000 Class A ordinary shares.

On May 29, 2018, Alibaba Group Holding Limited ("**Alibaba**") and its logistic arm Cainiao Network ("**Cainiao Network**"), and the Group announced a strategic agreement in which investors led by Alibaba and Cainiao Network invested US\$1.38 billion in the Group in exchange for an approximately 10% equity stake in the Group. Accordingly, the Group issued 79,861,111 Class A ordinary shares. The transaction was closed by the end of June 2018.



**17. Earnings Per Share**

Basic and diluted earnings per share for each of the years presented are calculated as follows:

	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
				(unaudited)		
<b>Numerator:</b>						
Net income attributable to ordinary shareholders in computing basic and diluted earnings per share	3,159,663	4,383,025	5,674,145	2,040,194	1,823,054	258,036
<b>Shares (Denominator):</b>						
Weight average ordinary shares outstanding — basic	717,138,526	751,814,077	784,007,583	786,069,533	783,124,385	783,124,385
Plus:						
Shares for option	49,054	19,376	—	—	—	—
Shares for ordinary share units and restricted share units	411,982	839,503	323,537	192,566	99,944	99,944
Weight average ordinary shares outstanding — diluted	717,599,562	752,672,956	784,331,120	786,262,099	783,224,329	783,224,329
<b>Earnings per share — basic</b>	<b>4.41</b>	<b>5.83</b>	<b>7.24</b>	<b>2.60</b>	<b>2.33</b>	<b>0.33</b>
<b>Earnings per share — diluted</b>	<b>4.40</b>	<b>5.82</b>	<b>7.23</b>	<b>2.59</b>	<b>2.33</b>	<b>0.33</b>

10,841,836, 9,682,255, 8,485,046 and 7,447,313 ordinary shares transferred to ZTO ES were considered issued but not outstanding as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively, and therefore not included in the calculation of basic and dilutive earnings per share.

**18. Related Party Transactions**

The table below sets forth the major related parties and their relationships with the Group:

Name of related parties	Relationship with the Group
Tonglu Tongze Logistics Ltd. and its subsidiaries	Majority equity interests held by the employees of the Group
Shanghai Mingyu Barcode Technology Ltd.	Controlled by brother of chairman of the Group
Shanghai Kuaibao Network Technology Ltd.	The Group's equity investee
ZTO Lianshang Technology Co., Ltd. and its subsidiaries	The Group's equity investee
ZTO Supply Chain Management Co., Ltd. and its subsidiaries <sup>(1)</sup>	The Group's equity investee
ZTO Cloud Warehouse Technology Co., Ltd. and its subsidiaries	The Group's equity investee
Hangzhou Tonglu Hengze Investment Co., Ltd.	Controlled by vice president of the Group
Ningbo Haitaotong International Logistics Co., Ltd.	The Group's equity investee
ZTO ES Holding Limited	Entity controlled by chairman of the Group

- (1) In June 2018, ZTO LTL went through a restructuring and as a result, became a wholly owned subsidiary of ZTO Freight (Cayman) Inc. ("**ZTO Freight**"), a newly established Cayman company by shareholders of ZTO LTL. The Group holds 18% equity in ZTO Freight after the restructuring. The Group contributed additional investment in ZTO Freight by USD19,000 (approximate to RMB130,150) and its equity interest decreased to 17.7% due to the additional capital contributions from other shareholders in 2018. The Group contributed additional investment in ZTO Freight by USD12,715 (approximate to RMB90,243) and its equity interest further decreased to 17.3% in 2020.

**18. Related Party Transactions (Continued)****(a) The Group entered into the following transactions with its related parties:**

Transactions	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB (unaudited)	RMB	US\$
<b>Revenues:</b>						
Transportation revenue from ZTO Cloud Warehouse Technology Co., Ltd. and its subsidiaries	–	–	32,699	15,772	33,420	4,730
Advertisement revenue from Shanghai Kuaibao Network Technology Ltd.	–	–	2,936	283	–	–
Transportation revenue from Ningbo Haitaotong International Logistics Co., Ltd.	–	–	717	–	576	82
Transportation revenue from ZTO Lianshang Technology Co., Ltd. and its subsidiaries	–	–	14	–	356	50
	<u>–</u>	<u>–</u>	<u>36,366</u>	<u>16,055</u>	<u>34,352</u>	<u>4,862</u>
<b>Cost of revenues:</b>						
Transportation service fees paid to Tonglu Tongze Logistics Ltd. and its subsidiaries	809,415	547,500	479,124	237,945	140,102	19,830
Transportation service fees paid to ZTO Supply Chain Management Co., Ltd. and its subsidiaries	35,421	40,280	63,808	31,919	42,155	5,967
Purchases of supplies from Shanghai Mingyu Barcode Technology Ltd.	43,064	90,051	212,513	79,851	80,194	11,351
	<u>887,900</u>	<u>677,831</u>	<u>755,445</u>	<u>349,715</u>	<u>262,451</u>	<u>37,148</u>

## 18. Related Party Transactions (Continued)

(a) The Group entered into the following transactions with its related parties:  
(Continued)

Transactions	Year ended December 31,			Six months ended June 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
				(unaudited)		
<b>Other income:</b>						
Gain on disposal of subsidiary from ZTO Lianshang Technology Co., Ltd. and its subsidiaries	-	12,904	-	-	-	-
Rental income from ZTO Supply Chain Management Co., Ltd. and its subsidiaries	9,436	11,103	17,979	7,225	11,174	1,582
Rental income from ZTO Cloud Warehouse Technology Co., Ltd. and its subsidiaries	-	-	9,739	1,797	8,942	1,266
Interest income related to financing receivables from ZTO Lianshang Technology Co., Ltd. and its subsidiaries	-	-	963	-	826	117
Rental income derived from ZTO Lianshang Technology Co., Ltd. and its subsidiaries	-	-	-	-	212	30
	<u>9,436</u>	<u>24,007</u>	<u>28,681</u>	<u>9,022</u>	<u>21,154</u>	<u>2,995</u>

## 18. Related Party Transactions (Continued)

(b) The Group had the following balances with its related parties:

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
<b>Amounts due from</b>					
ZTO Cloud Warehouse Technology Co., Ltd. and its subsidiaries <sup>(1)</sup>	–	–	37,266	59,511	8,423
ZTO Lianshang Technology Co., Ltd. and its subsidiaries <sup>(2)</sup>	–	–	20,221	14,167	2,005
Tonglu Tongze Logistics Ltd. and its subsidiaries	–	–	–	1,261	178
Hangzhou Tonglu Hengze Investment Co., Ltd. <sup>(3)</sup>	–	–	10,000	–	–
Shanghai Kuaibao Network Technology Ltd. <sup>(3)</sup>	9,900	6,600	6,512	6,512	922
Others	–	–	313	78	12
<b>Total</b>	<b>9,900</b>	<b>6,600</b>	<b>74,312</b>	<b>81,529</b>	<b>11,540</b>

Amounts due to related parties consisted of accounts payable to related parties for transportation, waybill material and deposits as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively.

	As of December 31,			As of June 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US\$
<b>Amounts due to</b>					
Tonglu Tongze Logistics Ltd. and its subsidiaries	105,754	45,483	20,655	–	–
Shanghai Mingyu Barcode Technology Ltd.	2,128	17,237	16,906	21,080	2,984
ZTO Supply Chain Management Co., Ltd.	7,031	69,496	1,165	1,938	274
Others	–	–	217	83	12
<b>Total</b>	<b>114,913</b>	<b>132,216</b>	<b>38,943</b>	<b>23,101</b>	<b>3,270</b>

- (1) The amount comprised loan to related parties with no interest bearing and accounts receivable generated from the transportation service provided by the Group.
- (2) Mainly comprised financing receivable from ZTO Lianshang Technology Co., Ltd. and its subsidiaries, refer to Note 18(a).
- (3) Amounts due from related parties were loans to related parties with no interest bearing.

## 19. Commitments and Contingencies

### Capital commitments

The Group's capital commitments primarily relate to commitments on construction of office building, sorting hubs and warehouse facilities. Total capital commitments contracted but not yet reflected in the Historical Financial Information amounted to RMB3,219,310 as of June 30, 2020. All of these capital commitments will be fulfilled in the following years based on the construction progress.

### Investment commitments

The Group was obligated to pay RMB98,800 for certain investment in equity investees as of June 30, 2020 with payment due within three years.

### Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material effect on its business or financial condition.

The Group has not made adequate contributions to employee benefit plans, as required by applicable PRC laws and regulations, but the Group has recorded accruals for the estimated underpaid amounts in the Historical Financial Information. However, the Group has not made any accruals for the interest on underpayments and penalties that may be imposed by the relevant PRC government authorities in the Historical Financial Information as the Group believes it would be unlikely that the relevant PRC government authorities will impose any significant interests or penalties.

Starting in May 2017, the Group, certain directors and officers of the Group, and the underwriters of the Group's initial public offering in October 2016 have been named as defendants in three putative securities class actions. Management of the Group believes that the claims are without merit and intends to defend vigorously.

## 20. Repurchase of Ordinary Shares

In November 2014, the Group repurchased an aggregate of 13,800,000 ordinary shares from certain shareholders at RMB16.67 per share for a total cash consideration of RMB230 million, which approximated the fair value as of then.

On May 21, 2017, the Group announced a share repurchase program whereby the Group is authorized to repurchase its own Class A ordinary shares in the form of ADSs with an aggregate value of up to US\$300 million during the 12-month period thereafter. As of December 31, 2017, the Group had purchased an aggregate of 9,759,888 ADSs at an average purchase price of US\$14.12, for a total cash consideration of RMB914,611, including repurchase commissions, among which RMB56,953 was paid in January 2018. As of December 31, 2018, the Group had purchased an aggregate of 15,625,375 ADSs at an average purchase price of US\$14.42, for a total cash consideration of RMB1,465,942, including repurchase commissions, which had been fully paid as of December 31, 2018, under this share repurchase program.



**20. Repurchase of Ordinary Shares (Continued)**

On November 14, 2018, the Group announced a new share repurchase program whereby the Group is authorized to repurchase its own Class A ordinary shares in the form of ADSs with an aggregate value of up to US\$500 million during an 18-month period thereafter. The Group expects to fund the repurchase out of its existing cash balance. As of December 31, 2018, the Group had purchased an aggregate of 1,700,000 ADSs at an average purchase price of US\$15.85 per ADS, for a total cash consideration of RMB185,673 including repurchase commissions, among which RMB24,146 was paid in January 2019. As of December 31, 2019, the Group had purchased an aggregate of 7,716,436 ADSs at an average purchase price of US\$17.33, for a total cash consideration of RMB924,418, including repurchase commissions, which had been fully paid as of December 31, 2019.

On March 13, 2020, the board of directors of the Company approved the extension of the current share repurchase program to June 30, 2021. The Group expects to fund the repurchase out of its existing cash balance. As of June 30, 2020, the Group has purchased an aggregate of 7,716,436 ADSs at an average purchase price of US\$17.33, including repurchase commissions.

**21. Employee Benefit Plans**

The Group's PRC subsidiaries are required by law to contribute a certain percentages of applicable salaries for retirement benefits, medical insurance benefits, housing funds, unemployment and other statutory benefits for full time employees. The Group contributed RMB158,389, RMB195,101, RMB254,534, RMB93,630 (unaudited) and RMB79,599 for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively, for such benefits and has no legal obligation for the benefits beyond the contribution made. The PRC government is responsible for the medical benefits and ultimate liability to those employees.

**22. Segment Information**

The Group has only one reportable segment since the Group does not distinguish revenues, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole.

The Group's chief operating decision maker, who has been identified as the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole. The Group does not distinguish among markets or segments for the purpose of internal reports.

The majority of the Group's revenues for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020 were generated from PRC. As of December 31, 2017, 2018, 2019 and June 30, 2020, the majority of the long-lived assets of the Group are located in PRC, and no geographical segments are presented.

**23. Restricted Net Assets**

Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises and local enterprises, the Group's entities in PRC must make appropriation from after-tax profit to non-distributable reserve funds as determined by the Board of Directors of the Group.

PRC laws and regulations permit payments of dividends by the Group's subsidiaries and VIE incorporated in PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Group's subsidiaries and VIE incorporated in PRC are required to annually appropriate 10% of their net income to the statutory reserve prior to payment of any dividends, unless such reserve has reached 50% of their respective registered capital. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in PRC, up to the amount of net assets held in each subsidiary and VIE.

The appropriation to these reserves by the Group's PRC entities were RMB291,064, RMB353,803, RMB12,894, RMB7 (unaudited) and nil for the years ended December 31, 2017, 2018, 2019, six months ended June 30, 2019 and 2020, respectively. The accumulated reserves as of December 31, 2017, 2018, 2019 and June 30, 2020 were RMB627,239, RMB981,042, RMB993,936 and RMB993,936, respectively.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital, additional paid-in capital and the statutory reserves of the Group's PRC subsidiaries and VIE. As of June 30, 2020, the aggregate amount of capital and statutory reserves restricted which represented the amount of net assets of the relevant subsidiaries and VIE in the Group not available for distribution was RMB14,950,758.

**24. Subsequent Events**

The Group has evaluated subsequent events through the date of the Accountants' Report, and noted no significant subsequent events.

**25. Dividends**

No dividend was paid or proposed for ordinary shareholders of the Company during 2017.

On March 7, 2018, a dividend in respect of the year ended 31 December 2017 of USD0.20 per ordinary share, in an aggregate amount of USD142,400 (RMB896,835), had been approved by the board of directors of the Company. The Group has paid USD142,152 and USD248 during the year ended December 31, 2018 and 2019, respectively.

On March 18, 2019, a dividend in respect of the year ended 31 December 2018 of USD0.24 per ordinary share, in an aggregate amount of USD189,101 (RMB1,270,703), had been approved by the board of directors of the Company. The Group has paid USD188,867 during the year ended December 31, 2019.

On March 13, 2020, a dividend in respect of the year ended 31 December 2019 of USD0.30 per ordinary share, in an aggregate amount of USD235,168 (RMB1,648,037), had been approved by the board of directors of the Company. The Group has paid USD188,083 for during the six months ended June 30, 2020.

No dividends or distributions have been declared or made by the Company in respect of any period subsequent to June 30, 2020.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited consolidated financial statements have been prepared by the Company in respect of any period subsequent to June 30, 2020 and up to the date of this report.

The following information does not form part of the accountants' report on the historical financial information of the Group for each of the three years ended December 31, 2019 and for the six months ended June 30, 2020 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus and is included in this prospectus for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Reports as set forth in Appendix I to this prospectus.

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY**

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to the ordinary shareholders of the Company as of June 30, 2020, as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group, had the Global Offering been completed as of June 30, 2020 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of June 30, 2020 as derived from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

Audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of June 30, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of June 30, 2020	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS		
<i>(in thousands of RMB)</i> <i>(Note 1)</i>	<i>(in thousands of RMB)</i> <i>(Note 2)</i>	<i>(in thousands of RMB)</i>	<i>RMB</i> <i>(Note 3)</i>	<i>RMB</i> <i>(Note 4)</i>	<i>HK\$</i> <i>(Note 5)</i>	<i>HK\$</i> <i>(Note 5)</i>		
Based on the indicative offer price of HK\$268.00 per Offer Share		34,594,711	10,831,562	45,426,273	54.80	54.80	60.12	60.12

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of June 30, 2020 is derived from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to ordinary shareholders of the Company as of June 30, 2020 of RMB 38,881,182,000 with adjustments for goodwill and intangible assets attributable to ordinary shareholders of the Company of RMB4,241,541,000 and RMB44,930,000, respectively.
- (2) The estimated net proceeds from the Global Offering are based on 45,000,000 Offer Shares at the indicative offer price of HK\$268.00 per Offer Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Company subsequent to June 30, 2020 and without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of restricted share units ("RSUs") or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to RMB0.9116, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 828,894,733 Shares were in issue assuming that the Global Offering had been completed on June 30, 2020 without taking into account any allotment and issuance of any Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares by the Company.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents one Share.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company, the balances stated in Renminbi are converted into Hong Kong dollars at the exchange rate of RMB1.00 to HK\$1.0970, which is derived from the respective exchange rate of Hong Kong dollars and Renminbi against U.S. Dollars on June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2020.

**B. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of ZTO Express (Cayman) Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of ZTO Express (Cayman) Inc. (the "**Company**"), its subsidiaries, variable interest entity and subsidiaries of variable interest entity (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at June 30, 2020 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated September 17, 2020 (the "**Prospectus**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of Global Offering on the Group's financial position as at June 30, 2020 as if the Global Offering had taken place at June 30, 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended December 31, 2019 and the six months ended June 30, 2020, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "*Code of Ethics for Professional Accountants*" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.



Our firm applies Hong Kong Standard on Quality Control 1 “*Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at June 30, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
September 17, 2020

**SUMMARY OF THE CONSTITUTION OF OUR COMPANY****1 Memorandum of Association**

Our Memorandum of Association was conditionally adopted on September 30, 2016 and effective on November 1, 2016 and states, *inter alia*, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

Our Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection.”

**2 Articles of Association**

Our Articles of Association were conditionally adopted on September 30, 2016 and effective on November 1, 2016 and include provisions to the following effect:

**2.1 Ordinary Shares**

Our Company’s ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Ordinary shares are issued in registered form. Shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a holder thereof to any person who is not an Affiliate (as defined in the Articles of Association) of such holder, or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person or entity that is not an Affiliate of such holder, such Class B ordinary share shall be automatically and immediately converted into an one Class A ordinary share.

**2.2 Dividends**

The holders of ordinary shares are entitled to such dividends as may be declared by the board of directors. In addition, shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by the directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or our Company’s share premium account, and provided further that a dividend may not be paid if this would result in our Company being unable to pay our debts as they fall due in the ordinary course of business.

Dividends received by each Class B ordinary share and Class A ordinary share in any dividend distribution shall be the same.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited by the board of directors and, if so forfeited, shall revert to our Company.

### ***2.3 Voting Rights***

Holders of Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of the shareholders, except as may otherwise be required by law or provided for in the Memorandum and Articles of Association. In respect of matters requiring shareholders' vote, on a show of hands, each shareholder is entitled to one vote for each ordinary shares registered in his name on the register of members of our Company or, on a poll, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy with a right to attend and vote at such meeting.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Holders of the ordinary shares may, among other things, divide or consolidate their shares by ordinary resolution. A special resolution requires the affirmative vote of no less than two-thirds of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to the Memorandum and Articles of Association. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our Company, as permitted by the Cayman Companies Law and the Memorandum and Articles of Association.

If a recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) could exercise if it were an individual member of our Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

### ***2.4 Transfer of Shares***

Any of the shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing and in the usual or common form or any other form approved by the board of directors.

However, the board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which our Company has a lien. The board of directors may also decline to register any transfer of any ordinary share unless:

- (a) the instrument of transfer is lodged with our Company, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as the board of directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped, if required;
- (d) in the case of a transfer to joint holders, the transfer is not to more than four joint holders;  
or
- (e) any fee related to the transfer has been paid to our Company.

If the directors refuse to register a transfer they are required, within three months after the date on which the instrument of transfer was lodged with our Company, to send to each of the transferor and the transferee notice of such refusal.

### ***2.5 Liquidation***

On a winding up of our Company, if the assets available for distribution among the shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among the shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our Company for unpaid calls or otherwise. If the assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by the shareholders in proportion to the par value of the shares held by them.

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if our company is solvent, or (b) by an ordinary resolution of its members if our company is insolvent.

### ***2.6 Redemption, Repurchase and Surrender of Shares***

Our Company may issue shares on terms that such shares are subject to redemption, at the option of our Company or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by the board of directors or by a special resolution of the shareholders. Our Company may also repurchase any of our Company's shares provided that the manner and terms of such purchase have been approved by the board of directors or by ordinary resolution of the shareholders, or are otherwise authorized by the Memorandum and Articles of Association. Under the Cayman Companies Law, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our Company can, immediately following such payment, pay our debts as they fall due in the ordinary course of business. In addition, under the Cayman Companies Law no such share may

be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if our Company has commenced liquidation. In addition, our Company may accept the surrender of any fully paid share for no consideration.

### ***2.7 Variation of Rights of Shares***

The rights attaching to any class of shares may, subject to any rights or restrictions for the time being attached to any class, be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

### ***2.8 General Meetings of Shareholders***

Shareholders' general meetings may be held in such place within or outside the Cayman Islands as the board of directors considers appropriate.

As a Cayman Islands exempted company, our Company is not obliged by the Cayman Companies Law to call shareholders' annual general meetings. The Memorandum and Articles of Association provide that we may in each year hold a general meeting as our annual general meeting.

Shareholders' annual general meetings and any other general meetings of the shareholders may be convened by a majority of the board of directors or the chairman of the board of directors. The board of directors shall give not less than ten calendar days' notice of a shareholders' meeting to those persons whose names appear as members in our Company's register of members on the date the notice is given (or on any other date determined by the directors to be the record date for such meeting) and who are entitled to vote at the meeting. Prior to the amendment of our Articles, we undertake to provide 14 days' notice for any general meetings to be held by the Company after the Listing. See "Information about the Listing — Our Articles of Association" for details.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. The Memorandum and Articles of Association allow one or more shareholder holding shares representing in aggregate not less than one-third of the aggregate number of votes attaching to the issued and outstanding shares of our Company entitled to vote at general meetings, to requisition an extraordinary general meeting, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, the Memorandum and Articles of Association do not provide the shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. We undertake to put forth a resolution to revise our Articles to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. Prior to the amendment to our Articles, we undertake to convene general meetings at the request of shareholders holding in aggregate not less than 10% of the Company's voting rights, on a one vote per share basis. Our Controlling Shareholder(s) will provide an irrevocable undertaking to the Company prior to the Listing to vote in favor of the proposed resolutions. See "Waivers and Exemptions — Shareholder protection requirements" for details.

### ***2.9 Appointment and Removal of Directors***

The Articles of Association provide that unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than three, the exact number of Directors to be determined from time to time by the board of directors.

The Articles of Association provide that our Company may by ordinary resolution appoint any person to be a Director or remove any Director. In addition, the board may, by the affirmative vote of a simple majority of the remaining Directors present and voting at a board meeting, appoint any person as a Director to fill a casual vacancy or as an addition to the existing board. An appointment of a Director may be on terms that the Director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between our Company and the Director, if any; but no such term shall be implied in the absence of express provision. Each Director whose term of office expired shall be eligible for re-election at a meeting of the Shareholders or re-appointment by the board of directors.

There is no shareholding qualification for Directors nor is there any specific age limit for Directors.

The office of a Director shall be vacated if the Director:

- (a) becomes bankrupt or makes any arrangement or composition with his creditors;
- (b) dies or is found to be or becomes of unsound mind;
- (c) resigns his office by notice in writing to our Company;
- (d) without special leave of absence from the board, he is absent from meetings of the board for three consecutive meetings, and the board resolves that his office be vacated; or
- (e) is removed from office pursuant to any other provision of the Articles.

### ***2.10 Proceedings of the board***

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be a majority of the then existing Directors.

The Directors may meet together (whether within or outside the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### ***2.11 Changes in Share Capital***

Our Company may by ordinary resolution:

- (a) increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- (b) increase our share capital by new shares of such amount as it thinks expedient;



- (c) consolidate and divide all or any of our share capital into shares or larger amount than our existing shares;
- (d) subdivide our existing shares, or any of them, into shares of an amount smaller than that fixed by the Memorandum, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- (e) cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

### ***2.12 Directors' Power to Issue Shares***

Subject to the provisions, if any, in the Memorandum and Articles of Association and to any direction that may be given by our Company in a general meeting, the Directors may in their absolute discretion and without approval of the shareholders, issue shares, grant rights over existing shares or issue other securities in one or more series as they deem necessary and appropriate and determine designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the shares held by existing shareholders, at such times and on such other terms as they think proper.

### ***2.13 Directors Borrowing Powers***

The board may exercise all the powers of our Company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock and other such securities whenever money is borrowed or as security for any debt, liability or obligation of our Company or of any third party.

### ***2.14 Disclosure of Interest in Contracts with our Company or any of our Subsidiaries***

A Director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our Company shall declare the nature of his interest at a meeting of the Directors. A general notice given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract or transaction which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made or transaction so consummated.

Subject to the rules of the stock exchange in the United States on which any Shares and ADSs are listed for trading and disqualification by the chairman of the relevant board meeting, a Director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Directors at which any such contract or transaction or proposed contract or transaction shall come before the meeting for consideration.

***2.15 Remuneration of Directors***

The remuneration of the Directors may be determined by the Directors or by ordinary resolution.

The Directors shall be entitled to be paid their travelling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or committee of the Directors, or general meetings of our Company, or otherwise in connection with the business of our Company, or to receive such fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.

***2.16 Restriction on Ownership of Securities***

There are no provisions in the Articles of Association relating to restrictions on ownership of our Company's shares or securities.

**SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION****1 Introduction**

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**2 Incorporation**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 April 2015 under the Cayman Companies Law. As such, our operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of our authorised share capital.

### 3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account.” At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as our Company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of our Company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- (d) writing-off the preliminary expenses of our Company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of our Company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid our Company will be able to pay our debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our Company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of our Company. The articles of association may provide that the manner of purchase may be determined by the directors of our Company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of our Company holding shares. A payment out of capital by a company for the

redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, our Company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of our Company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of our Company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **4 Dividends and Distributions**

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of our Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

#### **5 Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of our Company to challenge (a) an act which is ultra vires our Company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of our Company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

#### **6 Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of our Company in issue, appoint an inspector to examine into the affairs of our Company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that our Company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our Company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**7 Disposal of Assets**

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of our Company.

**8 Accounting and Auditing Requirements**

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by our Company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by our Company; and
- (c) the assets and liabilities of our Company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of our Company's affairs and to explain its transactions.

**9 Register of Members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**10 Inspection of Books and Records**

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's articles of association.

**11 Special Resolutions**

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of our Company may take effect as special resolutions if this is authorised by the articles of association of our Company.

**12 Subsidiary Owning Shares in Parent**

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**13 Mergers and Consolidations**

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

**14 Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

**15 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within

one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

#### **16 Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

#### **17 Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if our Company is solvent, or (b) by an ordinary resolution of its members if our Company is insolvent. The liquidator's duties are to collect the assets of our Company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge our Company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

#### **18 Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

#### **19 Taxation**

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, our Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - (i) on or in respect of the shares, debentures or other obligations of our Company; or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government



of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

**20 Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**21 General**

Maples and Calder (Hong Kong) LLP, our Company's legal advisers on Cayman Islands law, have sent to us a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

## FURTHER INFORMATION ABOUT US

## Our Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on April 8, 2015. We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with an address at Unit A1 of Unit A, 11th Floor, Success Commercial Building, 245-251 Hennessy Road, Hong Kong. Luona Zhang has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of our Constitution and Cayman Companies Law” in Appendix III.

## Changes in Our Share Capital

As at June 30, 2020, we had an authorized share capital of US\$1,000,000 divided into 8,000,000,000 Class A ordinary shares of a nominal or par value of US\$0.0001 each, 1,000,000,000 Class B ordinary shares of a nominal or par value of US\$0.0001 each, 1,000,000,000 undesignated ordinary shares of a nominal or par value of US\$0.0001, and our issued share capital was 597,451,115 Class A ordinary shares and 206,100,000 Class B ordinary shares.

The following tables set out the changes in the share capital of our Company during the periods presented in this document:

	<b>Fiscal year ended December 31, 2017</b>		
	<b>Class A ordinary share</b>	<b>Class B ordinary share</b>	<b>Shareholders’ Equity</b>
			<i>(US\$)</i>
Balances as at January 1, 2017	514,464,604	206,100,000	72,056
Issuance of Shares	–	–	–
Repurchase and/or retirement of Shares	(9,759,888)	–	(976)
Balances as at December 31, 2017	<u>504,704,716</u>	<u>206,100,000</u>	<u>71,080</u>

	<b>Fiscal year ended December 31, 2018</b>		
	<b>Class A ordinary share</b>	<b>Class B ordinary share</b>	<b>Shareholders' Equity</b> <i>(US\$)</i>
Balances as at January 1, 2018	504,704,716	206,100,000	71,080
Issuance of Shares	79,861,111	–	7,986
Repurchase and/or retirement of Shares	<u>(5,201,968)</u>	<u>–</u>	<u>(520)</u>
Balances as at December 31, 2018	<u>579,363,859</u>	<u>206,100,000</u>	<u>78,546</u>
	<b>Fiscal year ended December 31, 2019</b>		
	<b>Class A ordinary share</b>	<b>Class B ordinary share</b>	<b>Shareholders' Equity</b> <i>(US\$)</i>
Balances as at January 1, 2019	579,363,859	206,100,000	78,546
Issuance of Shares	–	–	–
Repurchase and/or retirement of Shares	<u>(3,516,395)</u>	<u>–</u>	<u>(352)</u>
Balances as at December 31, 2019	<u>575,847,464</u>	<u>206,100,000</u>	<u>78,194</u>
	<b>Six months ended June 30, 2020</b>		
	<b>Class A ordinary share</b>	<b>Class B ordinary share</b>	<b>Shareholders' Equity</b> <i>(US\$)</i>
Balances as at January 1, 2020	575,847,464	206,100,000	78,194
Issuance of Shares	–	–	–
Repurchase and/or retirement of Shares	<u>1,947,269</u>	<u>–</u>	<u>195</u>
Balances as at June 30, 2020	<u>577,794,733</u>	<u>206,100,000</u>	<u>78,389</u>

#### **Changes in the Share Capital of Our Major Subsidiaries**

There has been no alteration in the share capital of our Major Subsidiaries within the two years immediately preceding the date of this document.

## FURTHER INFORMATION ABOUT OUR BUSINESS

### Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material:

1. a supplemental agreement in respect of the exclusive consulting and services agreement dated August 10, 2020 and entered into between Shanghai Zhongtongji Network Technology Co., Ltd. (上海中通吉網絡技術有限公司) and ZTO Express Co., Ltd. (中通快遞股份有限公司), pursuant to which the parties agreed to supplement and amend certain aspects of the exclusive consulting and services agreement dated August 18, 2015; and
2. the Hong Kong Underwriting Agreement.

### Our Intellectual Property Rights

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on copyright, trademark and patent law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of June 30, 2020, we had more than 270 patents, copyrights, trademarks and domain names registered inside and outside of China, a number of which we consider material to our business and future development, including the registered trademarks for “ZTO” (**ZTO**), “Zhong Tong” (**中 通**) and domain names for “zto.com” and “zto.cn.”

### Summary of the Contractual Arrangements

As described in “History and Corporate Structure — Corporate Structure — Contractual Arrangements”, Shanghai Zhongtongji Network entered into the following contracts in relation to the Contractual Arrangements:

1. a voting rights proxy agreement dated August 18, 2015 and entered into between ZTO Express Co., Ltd., Shanghai Zhongtongji Network Technology Co., Ltd., Meisong Lai, Jianfa Lai, Jilei Wang, Xiangliang Hu, Shunchang Zhang, Xuebing Shang, Feixiang Qiu, Baixi Lan, Feng Meng, Hongjun Xu, Yaoren Zhang, Beijing Sequoia Xinyuan Equity Investment Center (L.P.), Tianjin Sequoia Juye Equity Investment Centre (L.P.), Lemou Wu, Jianying Teng, Baozhen Li, Shumin Ma, Wei Wang, Jianchang Lai, Mingsong Lai, Senliang Wang, Youwang Zeng, Zongrui Hong, Lijun Huang, Zhiming Lin, Rui Wang, Dianyuan Ren, Minye Xu, Ziwen Chen, Shunfeng Chen, Fushan Cui, Jian Zhang, Shunmei Pan, Xiaoliang Yuan, Haifeng Zhou, Jiangxiu Xi, Kunman Xiao, Weijun Yao, Bo Yang, Genfu Zhu, Jian Zhang, Yongfang Pan, and Beijing Wudao Technology Investment Management Co., Ltd., pursuant to which, among others, the registered shareholders of ZTO Express Co., Ltd. entrusted their voting rights to the individuals designated by Shanghai Zhongtongji Network Technology Co., Ltd.;

2. an equity pledge agreement dated August 18, 2015 and entered into between ZTO Express Co., Ltd., Shanghai Zhongtongji Network Technology Co., Ltd., LAI Meisong, LAI Jianfa, WANG Jilei, HU Xiangliang, ZHANG Shunchang, SHANG Xuebing, QIU Feixiang, LAN Baixi, MENG Feng, XU Hongjun, ZHANG Yaoren, Beijing Sequoia Xinyuan Equity Investment Center (L.P.), Tianjin Sequoia Juye Equity Investment Centre (L.P.), WU Lemou, TENG Jianying, LI Baozhen, MA Shumin, WANG Wei, LAI Jianchang, LAI Mingsong, WANG Senliang, ZENG Youwang, HONG Zongrui, HUANG Lijun, LIN Zhiming, WANG Rui, REN Dianyuan, XU Minye, CHEN Ziwen, CHEN Shunfeng, CUI Fushan, ZHANG Jian, PAN Shunmei, YUAN Xiaoliang, ZHOU Haifeng, XI Jiangxiu, XIAO Kunman, YAO Weijun, YANG Bo, ZHU Genfu, ZHANG Jian, PAN Yongfang, and Beijing Wudao Technology Investment Management Co., Ltd., pursuant to which, among others, the registered shareholders of ZTO Express Co., Ltd. pledged all of their equity interest in ZTO Express Co., Ltd. in favor of Shanghai Zhongtongji Network Technology Co., Ltd. and granted to Shanghai Zhongtongji Network Technology Co., Ltd. the first ranking pledge of the equities interest so pledged;
3. an exclusive call option agreement dated August 18, 2015 and entered into between ZTO Express Co., Ltd., Shanghai Zhongtongji Network Technology Co., Ltd., Meisong Lai, Jianfa Lai, Jilei Wang, Xiangliang Hu, Shunchang Zhang, Xuebing Shang, Feixiang Qiu, Baixi Lan, Feng Meng, Hongjun Xu, Yaoren Zhang, Beijing Sequoia Xinyuan Equity Investment Center (L.P.), Tianjin Sequoia Juye Equity Investment Centre (L.P.), Lemou Wu, Jianying Teng, Baozhen Li, Shumin Ma, Wei Wang, Jianchang Lai, Mingsong Lai, Senliang Wang, Youwang Zeng, Zongrui Hong, Lijun Huang, Zhiming Lin, Rui Wang, Dianyuan Ren, Minye Xu, Ziwen Chen, Shunfeng Chen, Fushan Cui, Jian Zhang, Shunmei Pan, Xiaoliang Yuan, Haifeng Zhou, Jiangxiu Xi, Kunman Xiao, Weijun Yao, Bo Yang, Genfu Zhu, Jian Zhang, Yongfang Pan, and Beijing Wudao Technology Investment Management Co., Ltd., pursuant to which, among others, the registered shareholders of ZTO Express Co., Ltd. agree to grant Shanghai Zhongtongji Network Technology Co., Ltd. an exclusive and irrevocable share transfer option and an exclusive and irrevocable asset purchase option respectively;
4. powers of attorney each dated August 18, 2015 and executed by each of LAI Meisong, LAI Jianfa, WANG Jilei, HU Xiangliang, ZHANG Shunchang, SHANG Xuebing, QIU Feixiang, LAN Baixi, MENG Feng, XU Hongjun, ZHANG Yaoren, WU Lemou, TENG Jianying, LI Baozhen, MA Shumin, WANG Wei, LAI Jianchang, LAI Mingsong, WANG Senliang, ZENG Youwang, HONG Zongrui, HUANG Lijun, LIN Zhiming, WANG Rui, REN Dianyuan, XU Minye, CHEN Ziwen, CHEN Shunfeng, CUI Fushan, ZHANG Jian, PAN Shunmei, YUAN Xiaoliang, ZHOU Haifeng, XI Jiangxiu, XIAO Kunman, YAO Weijun, YANG Bo, ZHU Genfu, ZHANG Jian, PAN Yongfang, Tianjin Sequoia Juye Equity Investment Centre (L.P.), Beijing Sequoia Xinyuan Equity Investment Center (L.P.), and Beijing Wudao Technology Investment Management Co., Ltd., pursuant to which they each, among others, appointed a qualified person as the sole and exclusive agent and attorney with respect to all matters concerning their respective holdings of shares in ZTO Express Co., Ltd.;

5. a spousal consent letter dated June 18, 2016 and executed by FU Aiyun acknowledging various matters relating to the contractual arrangements;
6. a spousal consent letter dated June 17, 2016 and executed by CHEN Xinyu acknowledging various matters relating to the contractual arrangements;
7. a spousal consent letter dated June 18, 2016 and executed by SHEN Linxian acknowledging various matters relating to the contractual arrangements;
8. a spousal consent letter dated June 15, 2016 and executed by LAI Yufeng acknowledging various matters relating to the contractual arrangements;
9. a spousal consent letter dated June 18, 2016 and executed by WU Yanfen acknowledging various matters relating to the contractual arrangements;
10. a spousal consent letter dated June 18, 2016 and executed by FAN Feiqun acknowledging various matters relating to the contractual arrangements; and
11. an exclusive consulting and services agreement dated August 18, 2015 and entered into between Shanghai Zhongtongji Network Technology Co., Ltd. and ZTO Express Co., Ltd., pursuant to which, among others, ZTO Express Co., Ltd. engaged Shanghai Zhongtongji Network Technology Co., Ltd. to provide technical support and consulting services, in exchange for service fees.

These contracts are made available on our Company's website at [zto.investorroom.com/](http://zto.investorroom.com/) pursuant to the Hong Kong Stock Exchange's Guidance Letter HKEX-GL94-18 and Listing Decision HKEX-LD43-3.

## **FURTHER INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS**

### **Disclosure of Interests**

See "Major Shareholders" for disclosure of interests of directors and executive officers.

### **Directors' Service Contracts**

We have entered into employment agreements with each of our directors who is also an officer. See "Directors and Senior Management — Compensation — Employment Agreements."

### **Directors' Remuneration**

See "Directors and Senior Management — Compensation" for a discussion of Directors' remuneration.

**Disclosures relating to Directors and Experts**

Save as disclosed in this document:

- None of our directors nor any of the persons listed in “— Other Information — Qualification of Experts” below is materially interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities, or are proposed to be acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities.
- None of our directors is materially interested in any contract or arrangement with us subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to our business as a whole.

**SHARE INCENTIVE PLANS**

See “Directors and Senior Management — Compensation” for details about our Share Incentive Plans.

**OTHER INFORMATION****Estate duty**

Our directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

**Litigation**

See “Our Business — Legal Proceedings” for further information.

**Sole Sponsor**

The Sole Sponsor made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, our Class A ordinary shares in issue and to be issued pursuant to the Global Offering (including the additional Class A ordinary shares which may be issued pursuant to the exercise of the Over-allotment Option), and the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

Goldman Sachs (Asia) L.L.C. satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The fee payable to the Sole Sponsor is US\$500,000 and is payable by our Company.

**No Material Adverse Change**

Our directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2020 (being the date to which our latest audited consolidated financial statements were prepared).



**Qualification of Experts**

The following are the qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this document:

<b>Name</b>	<b>Qualification</b>
Goldman Sachs (Asia) L.L.C.	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Shanghai iResearch Co., Ltd, China	Industry consultant
Global Law Office Shanghai	Legal adviser to Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal adviser to Company as to Cayman Islands law

**Consents of Experts**

Each of the experts above has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

**Preliminary Expenses**

Our Company did not incur any material preliminary expenses.

**Promoter**

Our Company has no promoter for the purpose of the Hong Kong Listing Rules. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this document.

**Binding Effect**

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

**Bilingual Document**

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**Miscellaneous**

Save as disclosed in this document or otherwise waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this document, within the two years immediately preceding the date of this document:

- to the best of our knowledge, neither we nor any of our Major Subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
- no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share capital or debentures of our Company or any of our Major Subsidiaries;
- no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
- there is no arrangement under which future dividends are waived or agreed to be waived.

Our branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless the directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by our share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

Our directors confirm that save as disclosed in this document:

- there has not been any interruption in our business which may have or have had a material adverse effect on our financial position in the 12 months immediately preceding the date of this document;
- there are no hire purchase commitments, guarantees or other material contingent liabilities of our Company or any member of our Group; and
- we and our Major Subsidiaries have no outstanding debentures or convertible debt securities.

The English version of this document shall prevail over the Chinese version.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- a copy of the **GREEN** Application Form;
- a copy of each of the material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this document; and
- the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix IV to this document.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- the Memorandum and Articles of Association of our Company;
- our audited consolidated financial statements for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020;
- the Accountants’ Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I;
- the report on the unaudited pro forma financial information from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II;
- the report issued by Shanghai iResearch Co., Ltd, China, a summary of which is set forth in the section headed “Industry overview”;
- the legal opinion issued by Global Law Office Shanghai, our PRC legal adviser, in respect of certain aspects of us;
- the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal adviser, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this document;
- the material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this document;
- the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix IV to this document; and
- the Cayman Companies Law.

