

## IMPORTANT NOTICE

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A UNDER THE SECURITIES ACT (AS DEFINED BELOW) OR (2) PERSONS OR ADDRESSEES OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW)**

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the attached offering memorandum. You are therefore advised to read this disclaimer carefully before reading, accessing, or making any other use of the attached. In accessing the attached, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

**Confirmation of your Representation:** You have accessed the attached document on the basis that you have confirmed your representation to Goldman Sachs (Asia) L.L.C., Merrill Lynch (Asia Pacific) Limited, UBS AG Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, BOCI Asia Limited, and CCB International Capital Limited (collectively, the “initial purchasers”) that (1) either (i) you and any customers you represent are outside the United States and the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and, to the extent you purchase the securities described in the attached offering memorandum you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or (ii) you are acting on behalf of, or you are, a qualified institutional buyer as defined in Rule 144A under the Securities Act, and (2) you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the initial purchasers nor any of their respective employees, representatives, or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

**Restrictions:** The attached offering memorandum is being furnished in connection with an offering exempt from the registration requirement under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the offering memorandum. You are reminded that the information in the attached document is not complete and may be changed.

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the issuer or any initial purchaser to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers are licensed brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or their affiliates on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

**Actions that You May Not Take:** You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

**THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION, OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED.**

**You are responsible for protecting against viruses and other destructive items.** Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

# 美团

## Meituan

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)  
(SEHK Stock Code: 3690)

**US\$750,000,000 2.125% Senior Notes due 2025**

**US\$1,250,000,000 3.05% Senior Notes due 2030**

**Issue Price for US\$750,000,000 2.125% Senior Notes: 99.877%**

**Issue Price for US\$1,250,000,000 3.05% Senior Notes: 99.863%**

We are offering US\$750,000,000 principal amount of our 2.125% Senior Notes due 2025 (the “2025 Notes”), and US\$1,250,000,000 principal amount of our 3.05% Senior Notes due 2030 (the “2030 Notes,” and together with the 2025 Notes, the “Notes”). The 2025 Notes will bear interest at a rate of 2.125% per year. Interest on the 2025 Notes will accrue from October 28, 2020. Interest will be paid on the 2025 Notes semi-annually in arrears on April 28 and October 28 of each year, beginning on April 28, 2021. Unless previously repurchased, cancelled, or redeemed, the 2025 Notes will mature on October 28, 2025. The 2030 Notes will bear interest at a rate of 3.05% per year. Interest on the 2030 Notes will accrue from October 28, 2020. Interest will be paid on the 2030 Notes semi-annually in arrears on April 28 and October 28 of each year, beginning on April 28, 2021. Unless previously repurchased, cancelled, or redeemed, the 2030 Notes will mature on October 28, 2030.

We may at our option redeem the Notes in whole but not in part at a redemption price of 100% of principal amount plus accrued and unpaid interest at any time upon the occurrence of certain tax events. We may also at our option redeem the 2025 Notes at any time prior to September 28, 2025, in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the 2025 Notes to be redeemed and (ii) the make-whole amount (as defined elsewhere in this offering memorandum), plus, in each case, accrued and unpaid interest on the 2025 Notes to be redeemed, if any, to (but not including) the redemption date. In addition, we may at our option redeem the 2025 Notes at any time on or after September 28, 2025, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed, plus accrued and unpaid interest on the 2025 Notes to be redeemed, if any, to (but not including) the redemption date. We may also at our option redeem the 2030 Notes at any time prior to July 28, 2030, in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the 2030 Notes to be redeemed and (ii) the make-whole amount (as defined elsewhere in this offering memorandum), plus, in each case, accrued and unpaid interest on the 2030 Notes to be redeemed, if any, to (but not including) the redemption date. In addition, we may at our option redeem the 2030 Notes at any time on or after July 28, 2030, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2030 Notes to be redeemed, plus accrued and unpaid interest on the 2030 Notes to be redeemed, if any, to (but not including) the redemption date. Upon the occurrence of a triggering event, we will be required to make an offer to repurchase all of the Notes outstanding at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, on the Notes being repurchased to (but excluding) the date of repurchase.

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (《國家發展改革委員會關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) promulgated by the PRC National Development and Reform Commission (the “NDRC”) and effective on September 14, 2015, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated August 28, 2020 evidencing such registration. Pursuant to the registration certificate, we will cause the requisite information relating to the issue of the Notes to be reported to the NDRC within 10 working days of time after the issue date of the Notes.

The Notes are our senior unsecured obligations and will rank senior in right of payment to all of our existing and future obligations expressly subordinated in right of payment to the Notes, rank at least equal in right of payment with all of our existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law), and be effectively subordinated to all of our existing and future secured obligations, to the extent of the value of the assets serving as security therefor.

**Investing in the Notes involves risks. See “Risk Factors” beginning on page 15.**

A confirmation of the eligibility of the listing of the Notes has been received from the SEHK. Application will be made to The Stock Exchange of Hong Kong Limited (the “SEHK”) for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK and in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong)) (together, “Professional Investors”) only. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

**The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Notes or us or quality of disclosure in this document.** Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other place. Accordingly, the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes may be offered and sold only to (i) persons who are qualified institutional buyers (“QIBs”) (as defined in Rule 144A under the Securities Act) purchasing for their own account or the account of a QIB as to which the purchaser exercises sole investment discretion, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or (ii) persons or addressees outside the United States in offshore transactions in reliance on Regulation S under the Securities Act, and in accordance with any other applicable law. Prospective purchasers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resales and transfers, see “Transfer Restrictions.”

The Notes are expected to be assigned a rating of “BBB-” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”), “BBB” by Fitch Ratings Ltd. (“Fitch”), and “Baa3” by Moody’s Investors Services, Inc. (“Moody’s”). A rating is not a recommendation to buy, sell, or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by S&P, Fitch, or Moody’s. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

We expect that delivery of the Notes will be made to investors in book-entry form through The Depository Trust Company on or about October 28, 2020.

*Joint Global Coordinators, Joint Lead Managers, and Joint Bookrunners*

**Goldman Sachs (Asia) L.L.C.**

**BofA Securities**

*Joint Lead Managers and Joint Bookrunners*

**UBS**

**HSBC**

**ICBC International**

**BOC International**

**CCB International**

October 21, 2020

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## NOTICE TO INVESTORS

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

**IN CONNECTION WITH THIS OFFERING, ANY INITIAL PURCHASER, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS, AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES, IF UNDERTAKEN, WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE STABILIZING MANAGER, AND NOT FOR US OR ON OUR BEHALF.**

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

**PRIIPs REGULATION/PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** — The Notes are not intended to be offered, sold, or otherwise made available to and should not be offered, sold, or otherwise made available to any retail investor in the European Economic Area (“EEA”) or the United Kingdom (each a “Relevant State”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”), or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in a Relevant State has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in a Relevant State may be unlawful under the PRIIPs Regulation.

**Singapore Securities and Futures Act Product Classification** — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”), we have determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes are “prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018). You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled “Plan of Distribution” below.

This offering memorandum is not a prospectus for the purposes of the European Union’s Directive 2003/71/EC (as amended or superseded) as implemented in member states of the EEA.

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the Notes. We reserve the right to withdraw the offering of the Notes at any time, and Goldman Sachs (Asia) L.L.C., Merrill Lynch (Asia Pacific) Limited, UBS AG Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, BOCI Asia Limited, and CCB International Capital Limited (the “initial purchasers”) reserve the right to reject any commitment to purchase the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The initial purchasers and certain related entities may acquire a portion of the Notes for their own accounts.

This offering memorandum is personal to the prospective investor to whom it has been delivered by the initial purchasers and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. Distribution of this offering memorandum to any person other than the prospective investor and those persons, if any, retained to advise that prospective investor with respect thereto is unauthorized, and any disclosure of its contents without our prior written consent is prohibited. The prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees not to make any photocopies of this offering memorandum.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants, and other provisions contained in the indentures governing the 2025 Notes and the 2030 Notes (collectively, the “indentures”) and other transaction documents described herein. The information provided is not all-inclusive. We have obtained the market information in this offering memorandum from publicly available sources deemed to be reliable.

You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with information that is different. This offering memorandum may only be used where it is legal to sell the Notes. The information in this document may only be accurate as of the date of this offering memorandum. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs and those of each of our subsidiaries or that the information set forth herein is correct in all material respects as of any date subsequent to the date hereof.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to us. We accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable inquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**In making an investment decision, prospective investors must rely on their examination of us and the terms of this offering, including the merits and risks involved.**

**NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS OFFERING MEMORANDUM IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**None of us, the initial purchasers, Citicorp International Limited (the “trustee”), Citibank, N.A., London Branch (the “paying agent,” the “transfer agent,” and the “registrar,” and collectively, the “agents”), nor any of our or their respective affiliates or representatives are making any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of any investment by such offeree or purchaser under applicable laws. None of the initial purchasers, the trustee, the agents, or any person who controls any of them or any director, officer, employee, associate, advisor, representative, or agent of any of them, has independently verified all of the information contained in this offering memorandum. Each prospective investor should consult with its own advisors as to legal, tax, business, financial, and related aspects of a purchase of the Notes.**

No representation or warranty, express or implied, is made or given by the initial purchasers, the trustee, the agents, or any of their respective affiliates or advisors as to the accuracy, completeness, or sufficiency of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise, representation, or warranty, whether as to the past or the future. Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the initial purchasers, the trustee, the agents, or any person affiliated with the initial purchasers, the trustee, or the agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, or the Notes (other than as contained

herein and information given by our duly authorized officers and employees, as applicable, in connection with investors' examination of us and the terms of this offering) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the initial purchasers, the trustee, or the agents.

The distribution of this offering memorandum and the offer and sale of the Notes may, in certain jurisdictions, be restricted by law. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this offering memorandum, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. See "Plan of Distribution" for a description of certain restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions.

## **AVAILABLE INFORMATION**

At any time when we are neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will furnish, upon request, to any holder of the Notes, or any prospective purchaser designated by any such holder, information satisfying the requirements of Rule 144A(d)(4)(i) under the Securities Act to permit compliance with Rule 144A in connection with resales of the Notes for so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.



## CONVENTIONS THAT APPLY TO THIS OFFERING MEMORANDUM

In this offering memorandum, unless otherwise indicated or unless the context otherwise requires:

- “Active Merchant” refers to merchant that meets any of the following conditions in a given period: (i) completed at least one transaction on our platform, (ii) purchased any online marketing services from us, (iii) processed offline payment at least once through our integrated payment systems, or (iv) generated any order through our restaurant management systems;
- “AI” refers to artificial intelligence;
- “China” or “PRC” refers to the People’s Republic of China and, solely for the purpose of this offering memorandum, excludes Taiwan, Hong Kong Special Administrative Region, and Macau Special Administrative Region;
- “Company,” “Meituan,” “we,” “our,” or “us” refers to Meituan 美团, an exempted company with limited liability incorporated under the laws of the Cayman Islands;
- “Consolidated Affiliated Entities” refers to the entities we control through contractual arrangements, namely, the VIEs and their respective subsidiaries;
- “Class A Shares” refers to Class A ordinary shares of the share capital of the Company with a par value of US\$0.00001 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company’s general meeting, save for resolutions with respect to any reserved matters, in which case they shall be entitled to one vote per share;
- “Class B Shares” refers to Class B ordinary shares of the share capital of the Company with a par value of US\$0.00001 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company’s general meeting;
- “ERP” refers to enterprise resource planning;
- “Gross Transaction Volume” or “GTV” refers to the value of paid transactions of products and services on our platform by consumers, regardless of whether the consumers are subsequently refunded. This includes delivery charges and VAT, but excludes any payment-only transactions, such as QR code scan payments and point-of-sale payments;
- “Listed Merchant” refers to merchant that meets any of the following conditions in a given period: (i) an order can be placed with such merchant by a user on our platform, (ii) a merchant who purchased any online marketing services from us, (iii) a merchant who activated any of our integrated payment systems, or (iv) a merchant who activated any of our ERP systems;
- “Listed POI” refers to POI (point of interest, a specific point location that one may find useful or interesting) that can be searched, viewed, and is currently valid on our platform;
- “MAU” refers to monthly active user, which refers to, with respect to our apps, the aggregate number of unique mobile devices that were used to access certain of our apps at least once in a given month;
- “Renminbi” or “RMB” refers to the official currency of China;
- “SEHK” refers to The Stock Exchange of Hong Kong Limited;
- “SFC” refers to the Securities and Futures Commission of Hong Kong;
- “Shares” refers to any of the Class A Shares and Class B Shares, as the context so requires;



- “Transacting User” refers to user account that paid for transactions of products or services on our platform in a given period, regardless of whether the account is subsequently refunded;
- “Transaction” refers to the number of transactions that is generally recognized based on the number of payments made (i) with respect to our in-store business, one transaction is recognized if a user purchases multiple vouchers with a single payment; (ii) with respect to our hotel-booking business, one transaction is recognized if a user books multiple room nights with a single payment; (iii) with respect to our attraction, movie, air, and train ticketing businesses, one transaction is recognized if a user purchases multiple tickets with a single payment; and (iv) with respect to our bike-sharing business, if a user uses monthly pass, then one transaction is recognized only when the user purchases or claims the monthly pass, and subsequent rides are not recognized as transactions; if a user does not use monthly pass, then one transaction is recognized for every ride;
- “UGC” refers to user generated content, which refers to the information or content provided by users, including ratings, in-depth comments, recommendations, graphics, and videos, as well as information on POIs;
- “U.S. dollars” or “US\$” refers to United States dollars, the official currency of the United States of America;
- “VIE” refers to variable interest entity; and
- “WFOEs,” each a “WFOE,” refers to Tianjin Xiaoyi Technology Co., Ltd., Shanghai Juzuo Technology Co., Ltd., Beijing Kuxun Technology Co., Ltd., Tianjin Wanlong Technology Co., Ltd., Beijing Sankuai Online Technology Co., Ltd., Shenzhen Sankuai Online Technology Co., Ltd., Hanhai Information Technology (Shanghai) Co., Ltd., Sankuai Cloud Online Technology Co., Ltd., and Mobike (Beijing) Information Technology Co., Ltd.

Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

Our reporting currency is Renminbi because our business is primarily conducted in China and most of our revenue is denominated in Renminbi. This offering memorandum contains translations from Renminbi to U.S. dollars based on the exchange rate set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System solely for the convenience of the reader. Unless otherwise stated, all amounts in this offering memorandum have been translated from Renminbi to U.S. dollars at a rate of RMB7.0651 to US\$1.00, the exchange rate in effect as of June 30, 2020. The exchange rate in effect as of October 9, 2020 was RMB6.6933 to US\$1.00. We make no representation that any Renminbi or U.S. dollar amounts referred to in this offering memorandum could have been, or could be, converted to U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information, and industry publications. In many cases, there is no readily available external information (whether from trade associations, government bodies, or other organizations) to validate market-related analyses and estimates, requiring us to rely on our own internally developed estimates regarding our industry, our position in the industry, our market and segment share, and the market and segment shares of various industry participants based on experience, our own investigation of market conditions, and our review of industry publications, including information made available to the public by our competitors. Although this information is believed to be reliable, it has not been independently verified by us or the initial purchasers or our or their respective directors and advisors, and neither we or the initial purchasers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside of China. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

## PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements/information included elsewhere in this offering memorandum are prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), which differ in certain respects from generally accepted accounting principles in the United States and in certain other countries. There could be significant differences between IFRS and generally accepted accounting principles in the United States and in certain other countries as applied to the Company. We have made no attempt to describe or quantify the impact of those differences or reconcile to its IFRS financial information to accounting principles generally accepted in the United States and other countries. Accordingly, such information is not available to investors. In making an investment decision, investors must rely upon their own examination of us, the terms of the Notes, and the consolidated financial statements/information we present herein. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and accounting principles generally accepted in other countries, including the United States, and how those differences might affect the consolidated financial statements/information presented herein.

This offering memorandum contains non-IFRS financial measures that are not required by, or presented in accordance with, IFRS, including adjusted EBITDA and adjusted net profit/(loss). We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of operations, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and certain impact of investment transactions. We also believe that the non-IFRS measures are appropriate for evaluating our operating performance. However, the use of these non-IFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS measures may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies.

## FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum 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 offering memorandum), uncertainties, and other factors, some of which are beyond our 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 business and growth strategies and our ability to implement such strategies;
- our ability to develop and manage our expanding operations;
- our ability to control operating costs and expenses;
- competition for, among other things, consumer spending, merchants, delivery riders, capital, technology, and skilled personnel;
- our ability to maintain and enhance our brands;
- changes to regulatory and operating conditions in the industries in which we operate; and
- all other risks and uncertainties described in “Risk Factors.”

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward-looking statements due to a number of factors, including factors disclosed under “Risk Factors” and elsewhere in this offering memorandum.

Subject to the requirements of applicable laws, rules, and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this offering memorandum, whether as a result of new information, future events, or otherwise. Because of these risks, uncertainties, or assumptions, the forward-looking events and circumstances discussed in this offering memorandum might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this offering memorandum are qualified by reference to this cautionary statement.

## ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES

We were incorporated under the laws of the Cayman Islands as an exempted company with limited liability, because of certain benefits associated with being a Cayman Islands exempted company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions, and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws than the United States and provides less protection for investors. In addition, Cayman Islands companies do not have standing to sue before the federal courts of the United States.

A majority of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or these persons, or to enforce judgments obtained in U.S. courts against us or them, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors.

Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands law, has advised us that there is uncertainty as to whether the courts of the Cayman Islands would (1) recognize or enforce judgments of U.S. courts obtained against us or our directors or officers that are predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state in the United States, or (2) entertain original actions brought in the Cayman Islands against us or our directors or officers that are predicated upon the federal securities laws of the United States or the securities laws of any state in the United States.

Maples and Calder (Hong Kong) LLP has informed us that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment *in personam* obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (i) is given by a competent foreign court with jurisdiction to give the judgment, (ii) imposes on the judgment debtor a liability (to pay a liquidated sum for which the judgment has been given), (iii) is final and conclusive, (iv) is not in respect of taxes, a fine or a penalty; and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. There is uncertainty with regard to Cayman Islands law relating to whether a judgment obtained from the United States courts under civil liability provisions of the securities laws of the United States will be determined by the courts of the Cayman Islands as penal or punitive in nature. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Han Kun Law Offices, our counsel as to the laws of mainland China, has advised us that there is uncertainty as to whether the courts of China would (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States, or (2) entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Han Kun Law Offices has further advised us that the recognition and enforcement of foreign judgments are provided for under the Civil Procedures Law. Mainland China's courts may recognize and enforce foreign judgments in accordance with the requirements of the Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. Mainland China does not have any treaties or other form of reciprocal arrangements with the United States or the Cayman Islands that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, courts in China will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of China's law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a court in mainland China would enforce a judgment rendered by a court in the United States or in the Cayman Islands.

In addition, it will be difficult for holders of the Notes to originate actions against us in China in accordance with mainland China's laws because we are incorporated under the laws of the Cayman Islands and it will be difficult to establish a connection to China for a mainland China's court to have jurisdiction as required under the Civil Procedures Law.

## SUMMARY

*This summary may not contain all of the information that may be important to you. You should read this entire offering memorandum before making an investment decision to purchase the Notes.*

### **Our Mission**

Our mission is: “We help people eat better, live better.”

We founded our Company with the belief that technology will make everyone’s life better. We remain excited and steadfast in our mission, and will continue using technology to help people eat better, live better.

### **Overview**

We are China’s leading e-commerce platform for services. Our platform uses technology to connect consumers and merchants. Service offerings on our platform address people’s daily needs for food, and extend further to broader local services. In the twelve months ended June 30, 2020, we served 457.3 million Transacting Users and 6.3 million Active Merchants in over 2,800 cities and counties across China.

Through our flagship Meituan app and an array of other specialized apps, we focus on a “food + platform” strategy to drive value propositions for both consumers and merchants. Food is our primary service offering category as we believe it is a massive market and presents significant opportunities, fueling our growth. Our food-related service offerings include food delivery, restaurant booking, review and promotion, grocery retail, restaurant management systems, and business-to-business food distribution service. Extending our food-related service offerings, we have established a platform of services, including hotel and travel, other local services, and new initiatives to satisfy consumers’ daily needs. Our platform also provides merchants with a trustworthy on-demand delivery network and an attractive marketplace with rich user content, location-based local search system, and diversified digital marketing tools.

We play an important role in consumers’ daily lives. Through our food-related services, we help consumers discover merchant information, make informed decisions, complete online and offline transactions, and enjoy on-demand delivery. We focus on mass-market, essential, and high-frequency service categories and have established market leadership in these core categories. We are China’s largest on-demand food delivery service provider in terms of GTV for the six months ended June 30, 2020, according to Trustdata, and China’s largest e-commerce platform for in-store dining services in terms of GTV for the six months ended June 30, 2020, according to iiMedia Research. Our leadership in these core categories allows us to attract a large and growing consumer base, increase user stickiness, and cater to evolving consumption habits. The number of our Transacting Users increased from 309.5 million in 2017 to 457.3 million for the twelve months ended June 30, 2020. On average, the annual number of transactions each Transacting User made on our platform increased from 18.8 transactions in 2017 to 25.7 transactions for the twelve months ended June 30, 2020.

Our leadership in food-related services also enables us to expand into new service categories efficiently. We have established many touch points with consumers’ daily lives through food-related services, which allow us to launch and cross-sell a broad range of additional service categories. For example, in 2019, over 75% of our new hotel-booking Transacting Users and over 80% of our new Transacting Users of other in-store local services were converted from Transacting Users of our food delivery and in-store dining services. The breadth of our service offerings allows us to enjoy low user acquisition cost, enhance user stickiness, and grow user lifetime value. Our platform has achieved significant operating leverage. Our selling and marketing expenses as a percentage of total revenues decreased from 32.2% in 2017 to 19.3% in 2019, and further to 17.8% for the six months ended June 30, 2020. Our marketing efficiency has been improving since 2017. As our business further grows, we believe that our massive scale, combined with our strong network effects, will allow us to acquire consumers and merchants more cost-effectively and benefit from substantial economies of scale.

We aim to transform China’s service industry by providing merchants with a wide range of solutions and digitizing their operations. Our solutions include targeted online marketing tools, cost-effective on-demand delivery infrastructure, restaurant management systems, business-to-business food distribution service, and financing solutions. We help merchants establish online presence, engage with consumers in real



time, and improve operational efficiency. Merchants can grow on our platform beyond the physical boundaries of their stores. As a result, we have sustainably expanded our merchant base over time and fostered long-term merchant loyalty. Our Active Merchants increased from 4.4 million in 2017 to 6.3 million for the twelve months ended June 30, 2020.

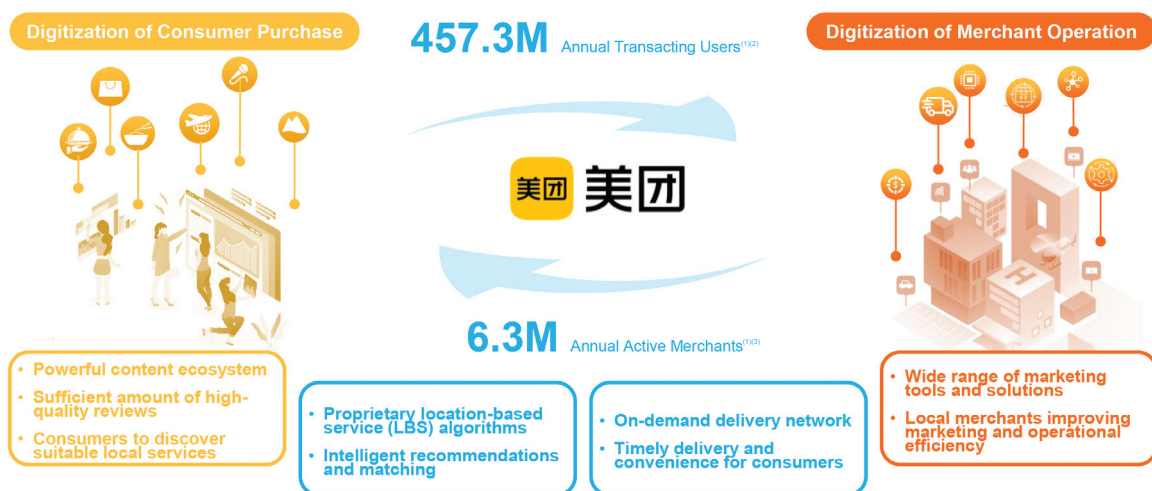
We have built and currently operate the world’s leading on-demand delivery network in terms of the number of deliveries in the fourth quarter of 2019. Our network had an average of 920,000 daily active delivery riders and fulfilled an average of 27.2 million daily transactions in the fourth quarter of 2019. In 2019, our delivery network completed 8.7 billion deliveries, representing approximately 90% of total on-demand delivery transactions generated on our platform, while the remaining transactions were directly fulfilled by merchants. We continue to optimize cost per delivery and improve the efficiency of our delivery network. In 2019, we achieved an average delivery time of less than 30 minutes.

We enable the service industry with cutting-edge big data and AI technologies. Our data-driven personalized recommendations improve efficiency for consumers and merchants. Powered by AI technologies, our intelligent dispatch system optimizes order-rider matching based on the real-time locations of delivery riders, and runs the route planning algorithms 2.9 billion times per hour during the daily peak time. We are also utilizing AI-based autonomous driving technology to develop autonomous delivery vehicles.

We are a pioneer of the service e-commerce model globally. We have evolved from a single-category service provider to a multi-category service e-commerce platform, and have expanded from large cities to small cities across China, creating a truly “online + offline” business model with nationwide coverage. We have extended our platform from digitizing the demand side to the supply side, driving internet penetration of the entire service industry value chain. With our one-stop multi-category platform and highly efficient on-demand delivery network, we have developed into an infrastructure for people’s daily lives and merchants’ daily operations in the digitization era.

We have achieved significant growth. We generate revenues from commissions, online marketing services, and other services and sales. Our total revenues increased by 92.3% from RMB33.9 billion in 2017 to RMB65.2 billion in 2018 and further increased by 49.5% to RMB97.5 billion (US\$13.8 billion) in 2019. Our total revenues for the six months ended June 30, 2020 were RMB41.5 billion (US\$5.9 billion).

The following diagram illustrates how we connect consumers and merchants through our platform and accelerate the digitization on both demand and supply sides. On the consumer side, we offer diversified services covering people’s daily lives to digitize consumer purchases. On the merchant side, we offer a wide range of solutions to digitize their operations. This is all supported by our powerful content ecosystem, extensive and intelligent technology platform, and massive on-demand delivery network.





*Notes:*

- (1) For the twelve months ended June 30, 2020.
- (2) “Transacting User” refers to a user account that paid for transactions of products or services on our platform in a given period, regardless of whether the account is subsequently refunded.
- (3) “Active Merchant” refers to a merchant that meets any of the following conditions in a given period: (i) completed at least one transaction on our platform, (ii) purchased any online marketing services from us, (iii) processed offline payment at least once through our integrated payment systems, or (iv) generated any order through our restaurant management systems.

## **Our Competitive Strengths**

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

- leader in service e-commerce with tremendous scale and network effects;
- the “super app” with full-spectrum local services and strong brand awareness;
- leading intra-city on-demand delivery infrastructure;
- comprehensive infrastructure solutions for merchants’ daily operations;
- proprietary and innovative technologies;
- strong financial profile; and
- management with long-term vision and proven execution capabilities.

## **Our Strategies**

Our key strategies to further grow our business are to:

- serve more consumers more frequently;
- enable more merchants with more solutions;
- leverage our unparalleled delivery network to provide easy and timely access to all goods and services;
- strengthen our Meituan ecosystem through new initiatives; and
- continue to invest in technology innovations to improve operational efficiency and user experience.

## **Corporate Information**

Our principal executive offices are located at Blocks B&C, Hengjiweiye Building, No. 4 Wang Jing East Road, Chaoyang District, Beijing 100102, People’s Republic of China. Our registered office in the Cayman Islands is located at P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. Our website is [www.meituan.com](http://www.meituan.com). The information contained on our website is not a part of this offering memorandum.

## SUMMARY FINANCIAL INFORMATION

The following summary consolidated income statements and summary consolidated statements of cash flows for the years ended December 31, 2017, 2018, and 2019 and summary consolidated statements of financial position as of December 31, 2017, 2018, and 2019 have been derived from our audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 included elsewhere in the offering memorandum. The following summary consolidated income statements and summary consolidated statements of cash flows for the six months ended June 30, 2019 and 2020 and summary consolidated statements of financial position as of June 30, 2020 have been derived from our unaudited interim condensed consolidated financial information as of and for the six months ended June 30, 2019 and 2020 included elsewhere in this offering memorandum.

With respect to our unaudited interim condensed consolidated financial information as of and for the six months ended June 30, 2019 and 2020, PricewaterhouseCoopers, the Company's independent auditor, has applied limited procedures 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 for a review of such information. However, as stated in its reports, it did not audit or express an opinion on the interim financial information. Accordingly, the degree of reliance on its reports on such information should be restricted in light of the limited nature of the review procedures applied.

Our unaudited interim condensed consolidated financial information as of and for the six months ended June 30, 2019 and 2020 may not provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate our financial condition and results of operations. None of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers nor any of their directors, officers, employees, representatives, agents, advisers, or affiliates makes any representation or warranty, express or implied, regarding the sufficiency of such financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate our financial condition and results of operations. Our unaudited interim condensed consolidated financial information as of and for the six months ended June 30, 2019 and 2020 should not be taken as an indication of our expected financial condition or results of operations for the full financial year ending December 31, 2020 and they are not comparable to the financial information for the years ended December 31, 2017, 2018, and 2019.

You should read this section in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the notes to those audited consolidated financial statements and unaudited interim condensed consolidated financial information included elsewhere in this offering memorandum. The historical results are not necessarily indicative of the results of operations to be expected in the future.

### **Adoption of new accounting standards**

In preparing the audited consolidated financial statements as at and for the years ended December 31, 2018 and 2019 and the unaudited interim condensed consolidated financial information as of and for the six months ended June 30, 2019, the Company has adopted the new accounting standards, namely IFRS 9 *Financial Instruments* and IFRS 16 *Leases*, as and when they came into effect on January 1, 2018 and January 1, 2019, respectively, and has not restated the prior years' or periods' financial statements/information as permitted under IFRS. Therefore, the audited consolidated financial statements as at and for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020 may not be comparable. For the impact on the adoption of IFRS 9 *Financial Instruments* and IFRS 16 *Leases*, please refer to note 2.1.1(a) of the audited consolidated financial statements as at and for the years ended December 31, 2018 and 2019 beginning on pages F-18 and F-154, respectively, and note 4(a) of the unaudited interim condensed consolidated financial information as at and for the six months ended June 30, 2019 beginning on page F-279.

## Summary Consolidated Income Statements of the Company

	For the year ended December 31,						For the six months ended June 30,						
	2017		2018		2019		2019			2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	US\$	%	RMB	US\$	%
	(Unaudited)						(Unaudited)						
	(in thousands, except for percentages)												
Revenues .....	33,927,987	100.0	65,227,278	100.0	97,528,531	13,804,268	100.0	41,876,649	5,927,255	100.0	41,475,724	5,870,508	100.0
Cost of revenues .....	(21,708,483)	(64.0)	(50,122,320)	(76.8)	(65,208,143)	(9,229,614)	(66.9)	(28,866,674)	(4,085,813)	(68.9)	(27,704,300)	(3,921,289)	(66.8)
<b>Gross profit</b> .....	<b>12,219,504</b>	<b>36.0</b>	<b>15,104,958</b>	<b>23.2</b>	<b>32,320,388</b>	<b>4,574,654</b>	<b>33.1</b>	<b>13,009,975</b>	<b>1,841,442</b>	<b>31.1</b>	<b>13,771,424</b>	<b>1,949,219</b>	<b>33.2</b>
Selling and marketing expenses .....	(10,908,688)	(32.2)	(15,871,901)	(24.3)	(18,819,067)	(2,663,666)	(19.3)	(7,855,222)	(1,111,835)	(18.8)	(7,371,771)	(1,043,406)	(17.8)
Research and development expenses .....	(3,646,634)	(10.7)	(7,071,900)	(10.8)	(8,445,664)	(1,195,406)	(8.7)	(4,068,430)	(575,849)	(9.7)	(4,673,195)	(661,448)	(11.3)
General and administrative expenses .....	(2,171,408)	(6.4)	(5,546,037)	(8.5)	(4,338,954)	(614,139)	(4.4)	(2,050,511)	(290,231)	(4.9)	(2,227,833)	(315,329)	(5.4)
Net provision for impairment losses on financial assets .....	-	-	(285,655)	(0.4)	(645,685)	(91,391)	(0.7)	(201,691)	(28,548)	(0.5)	(283,218)	(40,087)	(0.7)
Fair value changes on other financial investments at fair value through profit or loss ..	472,874	1.4	1,836,382	2.8	77,699	10,998	0.1	(158,359)	(22,414)	(0.4)	(161,572)	(22,869)	(0.4)
Other gains, net .....	208,260	0.6	748,356	1.0	2,531,143	358,260	2.6	1,133,174	160,392	2.7	1,405,280	198,904	3.5
<b>Operating (loss)/profit</b> .....	<b>(3,826,092)</b>	<b>(11.3)</b>	<b>(11,085,797)</b>	<b>(17.0)</b>	<b>2,679,860</b>	<b>379,310</b>	<b>2.7</b>	<b>(191,064)</b>	<b>(27,043)</b>	<b>(0.5)</b>	<b>459,115</b>	<b>64,984</b>	<b>1.1</b>
Finance income .....	60,885	0.2	294,047	0.5	166,217	23,526	0.2	74,463	10,539	0.2	98,282	13,911	0.2
Finance costs .....	(19,214)	(0.1)	(44,732)	(0.1)	(191,042)	(27,040)	(0.2)	(96,936)	(13,720)	(0.2)	(108,775)	(15,396)	(0.3)
Fair value changes of convertible redeemable preferred shares .....	(15,138,824)	(44.6)	(104,606,058)	(160.4)	-	-	-	-	-	-	-	-	-
Share of (losses)/gains of investments accounted for using the equity method .....	(10,418)	(0.0)	(48,267)	(0.1)	107,353	15,195	0.1	25,378	3,592	0.1	54,009	7,644	0.1
<b>(Loss)/profit before income tax</b> .....	<b>(18,933,663)</b>	<b>(55.8)</b>	<b>(115,490,807)</b>	<b>(177.1)</b>	<b>2,762,388</b>	<b>390,991</b>	<b>2.8</b>	<b>(188,159)</b>	<b>(26,632)</b>	<b>(0.4)</b>	<b>502,631</b>	<b>71,143</b>	<b>1.2</b>
Income tax (expenses)/credits ..	(54,218)	(0.2)	(1,888)	(0.0)	(526,223)	(74,482)	(0.5)	(369,343)	(52,277)	(0.9)	128,272	18,156	0.3
<b>(Loss)/profit for the year/period</b> .....	<b>(18,987,881)</b>	<b>(56.0)</b>	<b>(115,492,695)</b>	<b>(177.1)</b>	<b>2,236,165</b>	<b>316,509</b>	<b>2.3</b>	<b>(557,502)</b>	<b>(78,909)</b>	<b>(1.3)</b>	<b>630,903</b>	<b>89,299</b>	<b>1.5</b>

## Summary Consolidated Statements of Financial Position of the Company

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB	RMB	RMB	US\$	RMB	US\$
						(Unaudited)
			(in thousands)			
Total non-current assets .....	29,196,028	47,512,119	49,877,870	7,059,754	54,400,658	7,699,913
Total current assets .....	54,438,135	73,149,392	82,135,045	11,625,461	79,183,627	11,207,715
<b>Total assets.....</b>	<b>83,634,163</b>	<b>120,661,511</b>	<b>132,012,915</b>	<b>18,685,215</b>	<b>133,584,285</b>	<b>18,907,628</b>
Total non-current liabilities.....	103,618,175	2,326,683	3,365,958	476,420	2,715,147	384,304
Total current liabilities.....	20,517,370	31,825,056	36,592,563	5,179,341	35,865,819	5,076,477
<b>Total liabilities.....</b>	<b>124,135,545</b>	<b>34,151,739</b>	<b>39,958,521</b>	<b>5,655,761</b>	<b>38,580,966</b>	<b>5,460,781</b>
Share capital.....	98	384	389	55	393	56
Share premium.....	9,338,529	258,284,687	260,359,929	36,851,556	262,367,560	37,135,718
Other reserves.....	466,103	(5,741,347)	(4,447,252)	(629,468)	(4,136,865)	(585,535)
Accumulated losses.....	(50,363,846)	(166,039,390)	(163,800,621)	(23,184,473)	(163,169,210)	(23,095,103)
<b>Equity attributable to equity holders of the Company .....</b>	<b>(40,559,116)</b>	<b>86,504,334</b>	<b>92,112,445</b>	<b>13,037,670</b>	<b>95,061,878</b>	<b>13,455,136</b>
<b>Non-controlling interests .....</b>	<b>57,734</b>	<b>5,438</b>	<b>(58,051)</b>	<b>(8,217)</b>	<b>(58,559)</b>	<b>(8,288)</b>
<b>Total equity and liabilities .....</b>	<b>83,634,163</b>	<b>120,661,511</b>	<b>132,012,915</b>	<b>18,685,215</b>	<b>133,584,285</b>	<b>18,907,629</b>
<b>Net current assets.....</b>	<b>33,920,765</b>	<b>41,324,336</b>	<b>45,542,482</b>	<b>6,446,120</b>	<b>43,317,808</b>	<b>6,131,238</b>

## Summary Consolidated Statements of Cash Flows of the Company

	For the year ended December 31,				For the six months ended June 30,			
	2017	2018	2019		2019		2020	
	RMB	RMB	RMB	US\$	RMB	US\$	RMB	US\$
	(Unaudited)							
	(in thousands)							
Net cash (used in)/generated from operating activities .....	(310,200)	(9,179,818)	5,574,220	788,980	(149,777)	(21,200)	545,338	77,188
Net cash (used in)/generated from investing activities .....	(15,157,090)	(23,438,686)	(10,174,018)	(1,440,039)	(7,785,824)	(1,102,012)	798,777	113,060
Net cash generated from/(used in) financing activities .....	25,507,781	29,295,294	1,114,267	157,714	1,299,230	183,894	(913,004)	(129,227)
Net increase/(decrease) in cash and cash equivalents .....	10,040,491	(3,323,210)	(3,485,531)	(493,345)	(6,636,371)	(939,318)	431,111	61,021
Cash and cash equivalents at the beginning of the year/period .....	9,376,575	19,408,839	17,043,692	2,412,378	17,043,692	2,412,378	13,396,185	1,896,107
Exchange (loss)/gain on cash and cash equivalents .....	(8,227)	1,009,587	(173,442)	(24,549)	(198,448)	(28,088)	107,760	15,251
Cash and cash equivalents reclassified from the assets classified as held for sale/(included in the assets classified as held for sale) .....	–	(51,524)	11,466	1,623	28,377	4,017	–	–
Cash and cash equivalents at the end of the year/period .....	19,408,839	17,043,692	13,396,185	1,896,107	10,237,250	1,448,989	13,935,056	1,972,379

## Non-IFRS Measures: Adjusted EBITDA and Adjusted Net (Loss)/Profit

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we also use adjusted EBITDA and adjusted net (loss)/profit as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and certain impact of investment transactions. The use of these non-IFRS measures have limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies. The following table sets forth our non-IFRS measures for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
								(Unaudited)		(Unaudited)		
	(in thousands, except for percentages)											
<b>Non-IFRS Measures:</b>												
<b>Adjusted net (loss)/profit</b>												
(unaudited).....	(2,852,716)	(8.4)	(8,345,621)	(12.8)	4,656,685	659,111	4.8	444,417	1.1	2,502,130	354,154	6.0
<b>Adjusted EBITDA</b>												
(Unaudited).....	(2,691,811)	(7.9)	(4,733,831)	(7.3)	7,253,634	1,026,685	7.4	2,789,683	6.7	2,651,566	375,305	6.4

We define adjusted net (loss)/profit as (loss)/profit for the year or period as adjusted by (i) share-based compensation expenses, (ii) fair value changes of convertible redeemable preferred shares, (iii) fair value (gains)/losses on investments, (iv) losses/(gains) on disposal of investments and subsidiaries, (v) (gains) from the remeasurement of investments, (vi) amortization of intangible assets resulting from acquisitions, (vii) impairment and expense provision for Mobike restructuring plan, (viii) impairment of intangible assets, (ix) net provision for impairment losses on financial assets, and (x) tax effects on non-IFRS adjustments.

We define adjusted EBITDA as adjusted net (loss)/profit for the year or period as further adjusted by (i) income tax expenses/(credits), except for tax effects on non-IFRS adjustments, (ii) share of (gains)/losses of investments accounted for using equity method, (iii) finance income, (iv) finance costs, (v) other (gains) except for (gains)/losses related to fair value change, disposal and remeasurement of investments and subsidiaries, (vi) amortization of software and others, and (vii) depreciation on property, plant and equipment.

The following table sets forth the reconciliations of our non-IFRS financial measures for the periods indicated to the nearest measures prepared in accordance with IFRS:

	For the year ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
					(Unaudited)	(Unaudited)	
				(in thousands)			
(Loss)/profit for the period.....	(18,987,881)	(115,492,695)	2,236,165	316,509	(557,502)	630,903	89,299
Adjusted for:							
Share-based compensation expenses .....	971,100	1,865,113	2,190,871	310,098	953,569	1,397,096	197,746
Fair value changes of convertible redeemable preferred shares .....	15,138,824	104,606,058	-	-	-	-	-
Fair value (gains)/losses on investments <sup>(1)</sup> ....	(541,731)	(1,834,296)	(169,059)	(23,929)	66,999	160,868	22,769
Losses/(gains) on disposal of investments and subsidiaries.....	241,097	(29,426)	(201,061)	(28,458)	(159,394)	-	-
(Gains) from the remeasurement of investments <sup>(2)</sup> .....	-	-	(176,880)	(25,036)	(176,880)	-	-
Amortization of intangible assets resulting from acquisitions .....	325,875	663,268	662,190	93,727	331,096	321,714	45,536
Impairment and expense provision for Mobike restructuring plan .....	-	358,790	88,612	12,542	(5,124)	(3,191)	(452)
Impairment of intangible assets <sup>(3)</sup> .....	-	1,346,000	-	-	-	-	-
Net provision for impairment losses on financial assets .....	-	-	57,333	8,115	-	-	-
Tax effects on non-IFRS adjustments .....	-	171,567	(31,486)	(4,457)	(8,347)	(5,260)	(744)
Adjusted net (loss)/profit.....	(2,852,716)	(8,345,621)	4,656,685	659,111	444,417	2,502,130	354,154
Adjusted for:							
Income tax (credits)/expenses, except for tax effects on non-IFRS adjustments .....	54,218	(169,679)	557,709	78,939	377,690	(123,012)	(17,411)
Share of (gains)/losses of investments accounted for using equity method .....	10,418	48,267	(107,353)	(15,195)	(25,378)	(54,009)	(7,644)
Finance income .....	(60,885)	(294,047)	(166,217)	(23,526)	(74,463)	(98,282)	(13,911)
Finance costs .....	19,214	44,732	191,042	27,040	96,936	108,775	15,396
Other (gains) except for (gains)/losses related to fair value change, disposal and remeasurement of investments and subsidiaries.....	(380,500)	(721,016)	(2,061,842)	(291,835)	(705,540)	(1,404,576)	(198,805)
Amortization of software and others.....	190,744	451,241	528,817	74,849	262,004	225,251	31,882
Depreciation on property, plant and equipment .....	327,696	4,252,292	3,654,793	517,302	2,414,017	1,495,289	211,644
Adjusted EBITDA .....	(2,691,811)	(4,733,831)	7,253,634	1,026,685	2,789,683	2,651,566	375,305

Notes:

- (1) Represents gains or losses from fair value changes on investments, including (i) fair value changes on other financial investments at fair value through profit or loss, (ii) dilution gain, (iii) change in fair value from contingent consideration, and (iv) change in fair value from put and call option for Maoyan.
- (2) Certain contractual rights attached to an investment previously classified as investment accounted for using equity method have been changed, so we remeasured the investment with RMB176.9 million gains and re-designated the investment to financial assets at fair value through profit or loss in 2019.
- (3) Represents impairment provision of intangible assets resulting from the change in the branding strategy for our bike-sharing services.



## THE OFFERING

*The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this offering memorandum. For a more complete description of the terms of the Notes, see “Description of the 2025 Notes” and “Description of the 2030 Notes” in this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the 2025 Notes” and “Description of the 2030 Notes.”*

<b>Issuer/The Company</b> .....	Meituan 美团, a company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability.
<b>Notes Offered</b> .....	US\$750,000,000 aggregate principal amount of 2.125% senior notes due 2025 (the “2025 Notes”).  US\$1,250,000,000 aggregate principal amount of 3.05% senior notes due 2030 (the “2030 Notes”).
<b>Issue Prices</b> .....	The issue price for the 2025 Notes shall equal to 99.877% of aggregate principal amount issued, <i>plus</i> accrued interest on such amount, if any, from October 28, 2020, to the issue date.  The issue price for the 2030 Notes shall equal to 99.863% of aggregate principal amount issued, <i>plus</i> accrued interest on such amount, if any, from October 28, 2020, to the issue date.
<b>Maturity Dates</b> .....	The 2025 Notes: October 28, 2025  The 2030 Notes: October 28, 2030
<b>Interest Payment Dates</b> .....	For all Notes, the interest payment dates will be April 28 and October 28 of each year, commencing April 28, 2021.
<b>Interest</b> .....	The 2025 Notes will bear interest at 2.125% per annum, payable semi-annually in arrears from October 28, 2021. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.  The 2030 Notes will bear interest at 3.05% per annum, payable semi-annually in arrears from October 28, 2021. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.
<b>Issues of Additional Notes</b> .....	The Issuer may, from time to time, without the consent of the holders of the Notes, issue additional Notes under the indentures having the same terms and conditions as the previously outstanding Notes in all respects, except for issue date, issue price, and the first payment of interest with respect thereto. Additional Notes issued may be consolidated with and form a single series with the previously outstanding Notes; provided, however, that such additional Notes will not have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Notes unless the additional Notes are fungible with the outstanding Notes for U.S. federal income tax purposes.

<b>Ranking</b> .....	The Notes will constitute senior unsecured obligations of the Issuer. The Notes will rank senior in right of payment to all of the Issuer’s existing and future obligations expressly subordinated in right of payment to the Notes and rank at least equal in right of payment with all of the Issuer’s existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Notes will be effectively subordinated to all of the Issuer’s existing and future secured obligations, to the extent of the value of the assets serving as security therefor.
<b>Certain Covenants</b> .....	The Issuer has covenanted in the indentures not to create or permit to subsist certain security interests or consolidate, merge or sell its assets substantially as an entirety unless certain conditions are satisfied. The Notes and the indentures do not otherwise restrict or limit the Issuer’s ability to incur additional indebtedness by itself or its subsidiaries or its ability to enter into transactions with, or to pay dividends or make other payments to, affiliates. See “Description of the 2025 Notes — Limitation on Liens,” “Description of the 2025 Notes — Consolidation, Merger, and Sale of Assets,” “Description of the 2030 Notes — Limitation on Liens” and “Description of the 2030 Notes — Consolidation, Merger, and Sale of Assets.”
<b>Payment of Additional Amounts</b> .....	In the event that the Issuer (or an applicable successor Person) is required to deduct or withhold from payments on the Notes taxes imposed by any jurisdiction in which the Issuer (or an applicable successor Person) is organized or resident for tax purposes or any jurisdiction through which payment is made by or on behalf of the Issuer (or an applicable successor Person) (including, without limitation, the jurisdiction of any paying agent) (in each case including any political subdivision or taxing authority thereof or therein), the Issuer (or such successor Person), as the case may be, will, subject to certain exceptions, pay such Additional Amounts as will result, after deduction or withholding of such taxes, in the receipt by the holders of the amounts that would have been received in respect of the Notes had no deduction or withholding been required. See “Description of the 2025 Notes — Payment of Additional Amounts” and “Description of the 2030 Notes — Payment of Additional Amounts.”
<b>Optional Redemption</b> .....	<p>At any time, the Issuer may redeem the 2025 Notes prior to September 28, 2025, in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the 2025 Notes to be redeemed and (ii) the make-whole amount (as defined elsewhere in this offering memorandum), <i>plus</i>, in each case, accrued and unpaid interest, if any, to (but not including) the redemption date. See “Description of the 2025 Notes — Optional Redemption.”</p> <p>At any time, the Issuer may redeem the 2025 Notes on or after September 28, 2025, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed, plus accrued and unpaid interest, if any, to (but not including) the date of redemption. See “Description of the 2025 Notes — Optional Redemption.”</p>

At any time, the Issuer may redeem the 2030 Notes prior to July 28, 2030, in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the 2030 Notes to be redeemed and (ii) the make-whole amount (as defined elsewhere in this offering memorandum), *plus*, in each case, accrued and unpaid interest, if any, to (but not including) the redemption date. See “Description of the 2030 Notes — Optional Redemption.”

At any time, the Issuer may redeem the 2030 Notes on or after July 28, 2030, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2030 Notes to be redeemed, *plus* accrued and unpaid interest, if any, to (but not including) the date of redemption. See “Description of the 2030 Notes — Optional Redemption.”

**Tax Redemption**..... The Notes may be redeemed at any time, at the Issuer’s option, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to (but not including) the redemption date in the event the Issuer (or an applicable successor Person) becomes obligated to pay Additional Amounts in respect of the Notes as a result of certain changes in tax law. See “Description of the 2025 Notes — Tax Redemption” and “Description of the 2030 Notes — Tax Redemption.”

**Repurchase upon Triggering Event**..... Upon the occurrence of a Triggering Event (as defined in “Description of the 2025 Notes — Repurchase Upon Triggering Event” and “Description of the 2030 Notes — Repurchase Upon Triggering Event”), the Issuer will be required to make an offer to repurchase all or, at the holder’s option, any part of the Notes outstanding at a purchase price in cash equal to 101% of their principal amount, *plus* accrued and unpaid interest, if any, on the Notes being repurchased to (but not including) the date of repurchase. See “Description of the 2025 Notes — Repurchase upon Triggering Event” and “Description of the 2030 Notes — Repurchase upon Triggering Event.”

**Transfer Restrictions** ..... The Notes have not been and will not be registered under the Securities Act, any state securities laws in the United States or the securities laws of any other jurisdiction. Accordingly, the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes may be offered and sold only to (1) persons who are Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act) purchasing for their own account or the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or (2) persons or addressees outside the United States in offshore transactions in reliance on Regulation S under the Securities Act, and in accordance with any other applicable law. See “Transfer Restrictions.”

**Use of Proceeds** ..... The net proceeds we expect to receive from this offering, after deducting the discounts of the initial purchasers and certain estimated offering expenses, will be approximately US\$1,987 million. We intend to use the net proceeds of this offering for general corporate purposes and refinancing. See “Use of Proceeds” for more information.

<b>Governing Law</b> .....	The Notes and the indentures will be governed by, and construed in accordance with, the laws of the State of New York.
<b>Denomination, Form, and Registration</b> .....	<p>The Notes will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.</p> <p>The Notes offered in the United States to Qualified Institutional Buyers in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede &amp; Co., as nominee of The Depository Trust Company (“DTC”).</p> <p>The Notes offered to persons or addresses outside the United States in reliance on Regulation S will be represented by one or more global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede &amp; Co., as nominee of DTC for the respective accounts of Euroclear Bank SA/NV, or Euroclear, and Clearstream Banking S.A., or Clearstream.</p> <p>DTC will credit the account of each of its participants, including Euroclear and Clearstream, with the principal amount of Notes being purchased by or through such participant. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.</p>
<b>Ratings</b> .....	The Notes are expected to be rated “BBB-” by S&P, “BBB” by Fitch and “Baa3” by Moody’s. Security ratings are not recommendations to buy, sell or hold the Notes. Ratings are subject to revision or withdrawal at any time by the rating agency.
<b>Risk Factors</b> .....	See “Risk Factors” and the other information in this offering memorandum for a discussion of factors that should be carefully considered before deciding to invest in the Notes.
<b>Listing</b> .....	A confirmation of the eligibility of the listing of the Notes has been received from the SEHK. Application will be made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum.
<b>Delivery of the Notes</b> .....	The Company expects to make delivery of the Notes, against payment in same-day funds on or about October 28, 2020, which will be the fourth business day following the date of this offering memorandum referred to as “T+4.” You should note that initial trading of the Notes may be affected by the T+4 settlement. See “Plan of Distribution.”
<b>Tax Considerations</b> .....	For certain Cayman Islands, Mainland China, Hong Kong, and U.S. federal income tax considerations of the ownership and disposition of the Notes, see “Taxation.”
<b>Trustee</b> .....	Citicorp International Limited.

**Paying Agent, Transfer Agent,  
and Registrar .....**

Citibank, N.A., London Branch.

**Clearing System and  
Settlement .....**

The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the Notes is set forth below:

**The 2025 Notes  
sold under**

CUSIP  
ISIN  
Common Code

**Rule 144A**

58533E AB9  
US58533EAB92  
225034656

**Regulation S**

G59669 AB0  
USG59669AB07  
225026963

**The 2030 Notes  
sold under**

CUSIP  
ISIN  
Common Code

**Rule 144A**

58533E AC7  
US58533EAC75  
225034745

**Regulation S**

G59669 AC8  
USG59669AC89  
225026874

Only Notes evidenced by a global note have been accepted for clearance through Euroclear, Clearstream, and DTC.

## RISK FACTORS

*You should carefully consider the risks described below and the other information contained in this offering memorandum before making an investment decision. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition, or results of operations. If any of the events described below should occur, our business, financial condition, or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.*

### **Risks Relating to Our Business and Industry**

*We may not be able to sustain our historical growth rates, and our historical performance may not be indicative of our future growth or financial results.*

We have achieved rapid growth since our inception. Our total number of transactions increased by 63.8% from 5.8 billion in 2017 to 9.5 billion in 2018 and further increased by 29.8% to 12.4 billion in 2019, while our total revenues increased by 92.3% from RMB33.9 billion in 2017 to RMB65.2 billion in 2018 and further increased by 49.5% to RMB97.5 billion (US\$13.8 billion) in 2019. Our total revenues were RMB41.5 billion (US\$5.9 billion) in the six months ended June 30, 2020. However, we cannot assure you that we will be able to maintain our historical growth rates in future periods. Our growth rates may decline for any number of possible reasons, including adverse general economic conditions, decreasing consumer spending, increasing competition, declining growth of the consumer service industry or consumer service e-commerce industry in China, emergence of alternative business models, or changes in government policies. If our growth rates decline, investors' perceptions of our business and business prospects may be adversely affected. In addition, as we have a limited operating history in the new service categories that we offer, such as Meituan Bike and car-hailing services, and we continue to expand our service offerings, it is difficult to evaluate our business and future prospects based on our historical performance.

*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. Since our inception ten years ago, we have evolved from a single-service category provider to a multi-category service e-commerce platform, offering a wide range of services including food delivery, in-store, hotel, and travel services, and new initiatives and other services. Almost all aspects of our business have experienced rapid growth in recent years. We expect continued growth in our business and revenues. On the consumer side, we plan to further grow our consumer base, expand service offerings, and increase consumer wallet share. On the merchant side, we expect to further expand our merchant base and provide more solutions to more merchants.

In addition, as we continue growing our business, we need to work with existing and an increasingly large number of new merchants and other participants in our network efficiently and establish and maintain mutually beneficial relationships with them. We also need to continue to expand, train, manage, and motivate our growing workforce. To support our expansion, we also expect to implement a variety of new and upgraded managerial, operating, financial, and human resource systems, procedures, and controls. All these efforts will require significant managerial, financial, and human resources.

We cannot assure you that our historical growth rate will be sustainable or achieved at all in the future, that our new business initiatives will be successful, or that we will be able to implement all these managerial, operating, financial, and human resource systems, procedures, and control measures successfully. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

***Our success depends on the continuing efforts of our key management and experienced and capable personnel generally as well as our ability to preserve our corporate culture and values. As our business expands, we need to continuously recruit talents to develop our online and offline capabilities. If we fail to hire, retain, and motivate our staff, our business may suffer.***

Our future success is significantly dependent upon the continued service of our key management as well as experienced and capable personnel generally. In particular, Wang Xing, our co-founder, executive director, chief executive officer, and chairman of the board, Mu Rongjun, our co-founder, executive director, and senior vice president, and Wang Huiwen, our co-founder, executive director, and senior vice president (expecting to be non-executive director in December 2020) have been crucial to the development of our culture and strategic direction. If we lose the services of any member of key management, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth. If any of our key management joins a competitor or forms a competing business, we may lose customers, know-how, and key professionals and staff members. Our management has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between any of our management member and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

We believe that a critical component of our success is our corporate culture and values, which have generated strong cohesiveness that has attracted and retained many talents. As we continue to expand and grow our business, we may find it difficult to maintain these valuable aspects of our corporate culture and values. Any failure to preserve our corporate culture and values could negatively impact our ability to attract and retain employees, which would in turn jeopardize our future success.

Our rapid growth also requires us to hire and retain a wide range of talents who can adapt to a dynamic, competitive, and challenging business environment and are capable of helping us develop online and offline capabilities. We need to continue to attract and retain experienced and capable personnel at all levels as we expand our business and operations. Competition for talent in China's internet industry is intense, and we may need to offer a more attractive compensation and other benefits package, including share-based compensation, to attract and retain them. Even if we were to offer higher compensation and other benefits, there is no assurance that these individuals will choose to join or continue to work for us. Any failure to attract, retain, or motivate key management and experienced and capable personnel could severely disrupt our business and growth.

***Our business, financial condition, and results of operations have been and may continue to be adversely affected by the COVID-19 pandemic.***

Since early 2020, COVID-19 has severely impacted China and the rest of the world. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic.

The COVID-19 pandemic has already adversely affected many aspects of our business. After the COVID-19 outbreak, strict pandemic prevention and control measures were adopted in China in order to prevent further spread of the disease. Commercial activities were restricted, tourism activities and public transportation were controlled, and public places were closed in affected regions. These restrictive measures and consumers' concerns about hygiene have reduced the consumers' demand for local lifestyle services, and a considerable amount of local lifestyle merchants have suspended their operations or postponed to resume operations. These situations had caused interference to our operations and adversely affected the demand of our services, which resulted a decline in the revenues of our food delivery and in-store, hotel, and travel segments in the first quarter of 2020.

In addition, as part of China's nationwide efforts to contain the spread of COVID-19, we made adjustments of operation hours and work-from-home arrangements when certain of our offices had been temporarily closed for a certain period of time. We had taken measures to facilitate our employees to work remotely, but we might still have experienced lower work efficiency and productivity in that period.

Although our business has been recovering after the spread of COVID-19 was generally contained in China, our business, financial condition, and results of operations depend on future developments of the COVID-19 pandemic, which remain highly uncertain and difficult to predict. At the same time, the continuing outbreak of the pandemic around the world may result in global economic distress, exacerbate



market volatility, and have negative economic impact on China and the global market. If the global spread of the COVID-19 pandemic cannot be eliminated or contained in the near future, or a similar outbreak were to occur again, the resulting disruption may materially and adversely affect our business, financial condition, and results of operations.

***If our expansion into new businesses is not successful, our business, prospects, and growth momentum may be materially and adversely affected.***

We have a track record of successfully expanding into and becoming a leader in new service categories, such as on-demand delivery services and in-store dining, hotel and travel services. We entered into the bike-sharing market in connection with our acquisition of Mobike in April 2018 and are currently developing service offerings that are relatively new to us, such as grocery retail services and additional merchant services including restaurant management systems and business-to-business food distribution service. We cannot assure you, however, that we will be able to maintain this momentum in the future. Expansion into new service categories involves new risks and challenges. Our lack of familiarity with, and relevant user data relating to, these services may make it more difficult for us to keep pace with the evolving consumer demands and preferences. We also face the risk that we may not be able to attract a sufficient number of merchants that provide quality services. In addition, there may be one or more existing market leaders in any service category that we decide to expand into. Such companies may be able to compete more effectively than us by leveraging their experience in doing business in that market as well as their deeper data insight and greater brand recognition among consumers and merchants. We may also be subject to new risks, such as personal injury risks with respect to bike-sharing services and inventory and supply chain risks with respect to grocery retail services, and may need to comply with new laws and regulations applicable to these businesses. Expansion into any new service category may place significant strain on our management and resources, and failure to expand successfully may also diminish investor confidence in our decision-making and execution capabilities, which could have a material adverse effect on our business and prospects.

***We had incurred significant losses in the past, and we may not be able to remain profitable or increase profitability in the future. Our operating philosophy of thinking long-term and seizing strategic business opportunities may also negatively affect our short-term financial performance.***

We had incurred losses in the past. In 2017 and 2018, we had losses of RMB19.0 billion and RMB115.5 billion, respectively, primarily due to significant fair value changes of convertible redeemable preferred shares and selling and marketing expenses that we incurred to promote our brands and our services. We began profit-making in 2019. In 2019 and for the six months ended June 30, 2020, we had a profit of RMB2.2 billion (US\$316.5 million) and RMB630.9 million (US\$89.3 million), and an adjusted net profit of RMB4.7 billion (US\$659.1 million) and RMB2.5 billion (US\$354.2 million), respectively.

Our ability to maintain profitability will depend in large part on our ability to increase the number and engagement of our Transacting Users, to increase the number of Active Merchants and monetization from them, to manage our service offering mix as gross margins vary across different business segments, and to take advantage of our operating leverage to realize cost savings. As we continue growing our business in an intensified competitive landscape, we intend to invest heavily for the foreseeable future in the expansion of our consumer and merchant bases, as well as technology innovations and research and development capabilities to support such expansion. As a result, we may not be able to remain profitable or increase our profitability in the future. In addition, any change in the macroeconomic and regulatory environment, competitive dynamics, and our inability to respond to these changes in a timely and effective manner may also cause us to incur losses again in the future.

Consistent with our operating philosophy of thinking long-term and seizing strategic business opportunities, we may take actions that fail to generate short-term profitability, and we cannot assure you that these actions will produce long-term benefits. Our efforts have emphasized on expanding our customer base, satisfying unmet customer needs, and enhancing our network, rather than prioritizing short-term monetization. We also make investments in and acquire new services and products that may not provide economic benefits to us in the short-term.

***We require a significant amount of capital to fund our operations, especially with respect to those new service categories. We used to record negative cash flows from operating activities in the past. If we cannot obtain sufficient capital on acceptable terms to fund our operations, our business, financial condition, and prospects may be materially and adversely affected.***

Building a service e-commerce platform with scale is costly and time-consuming. Significant and continuous investments in sales and marketing are required to attract consumers and merchants to visit, use, and stay on our platform, especially with respect to new service offerings, such as the bike-sharing and the grocery retail services. We also invest heavily in technology innovations and research and development, which are the foundation of our business and are essential to our growth. It will typically take a long period of time to realize returns on such investments, if at all.

We experienced significant operating cash outflow in the past. We had net cash used in operating activities of RMB310.2 million and RMB9.2 billion in 2017 and 2018, respectively. We had cash inflow from operating activities and recorded net cash generated from operating activities of RMB5.6 billion (US\$789.0 million) and RMB545.3 million (US\$77.2 million) in 2019 and for the six months ended June 30, 2020, respectively. The cost of continuing operations could reduce our cash position, and a potential net cash outflow from operating activities could adversely affect our operations by reducing the amount of cash available to meet the cash needs for operating our businesses and to fund our investments in our business expansion. We have historically funded our cash requirements principally with capital contribution from shareholders, financing through issuance and sale of the preferred shares in private placement transactions, and our initial public offering in September 2018. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in the dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

Our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry, and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition, and prospects may be materially and adversely affected. In addition, we may experience significant cash outflow to the extent we need to separately manage deposits made by consumers for bike sharing services or payables to merchants, which may have a significant impact on our liquidity, results of operations, and cash flows from period to period.

***We face intense competition in our businesses. Although we have a track record of competing effectively in major service categories, we may not be able to do so in the future, in which case we may lose market share and customers, and our business, financial condition, and results of operations may be materially and adversely affected.***

We face intense competition in our businesses, including on-demand delivery and in-store services business and hotel and travel and transportation ticketing services business. See “Business — Competition” for details on our competitive landscape. To obtain and maintain competitive advantage in any of these business segments would require us to divert significant managerial, financial, and human resources. In addition, each of our business segments is subject to rapid market changes and the potential development of new business models and the entry of new and well-funded competitors. Some of our current competitors have, and future competitors may have, greater financial, technical, or marketing resources, longer operating histories, greater brand recognition, or larger consumer bases than we do. Other companies also may enter into business combinations or alliances that strengthen their competitive positions. Increased competition has, in the past, negatively impacted our profitability and may reduce our market share and profitability and require us to increase our marketing and promotional efforts and capital commitment in the future, which could negatively affect our results of operations or force us to incur further losses. Although we have a track record of competing effectively against our competitors, there is no assurance that we will be able to continue to do so in the future against current or future competitors, and such competitive pressures may have a material adverse effect on our business, financial condition, and results of operations. Many of the

service categories which we currently provide or plan to provide may require large cash spending to subsidize consumers in order to maintain or increase our market share, which may create pressure on our cash flow and liquidity.

***If we fail to adopt new technologies or adapt our mobile apps, websites, and systems to changing user requirements or emerging industry standards, our business may be materially and adversely affected.***

Although we have been successful in capturing the market opportunities created by the mobile internet boom, to remain competitive, we must continue to stay abreast of the constantly evolving industry trends and to enhance and improve the responsiveness, functionality and features of our mobile apps, websites, and systems. Our competitors are constantly innovating and introducing new services and interface features to increase their user base and enhance user experience. As a result, in order to attract and retain users and compete against our competitors, we must continue to invest significant resources in research and development to enhance our information technology and improve our existing services. The consumer service industry and the consumer service e-commerce industry are characterized by rapid technological evolution, changes in user requirements and preferences, frequent introduction of new services and products embodying new technologies, and the emergence of new industry standards and practices, any of which could render our existing technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire, or license leading technologies useful in our business, and respond to technological advances and emerging industry standards and practices in a cost-effective and timely way. The development of mobile apps, websites, and other proprietary technology entails significant technical and business risks. We cannot assure you that we will be able to use new technologies effectively or adapt our mobile apps, websites, proprietary technologies, and systems to meet user requirements or emerging industry standards. If we are unable to adapt in a cost-effective and timely manner in response to changing market conditions or user preferences, whether for technical, legal, financial, or other reasons, our business may be materially and adversely affected.

***Growth of our business will depend on our strong brands, and any failure to maintain, protect, and enhance our brands would limit our ability to retain or expand our customer base, which would materially and adversely affect our business, financial condition, and results of operations.***

We believe that the strong recognition of our brands among consumers and merchants has reduced our user acquisition costs through word-of-mouth marketing and contributed significantly to the growth and success of our business. Accordingly, maintaining, protecting, and enhancing the recognition of our household brands is critical to our business and market position. Many factors, some of which are beyond our control, are important to maintaining, protecting, and enhancing our brands. These factors include our ability to:

- maintain the breadth, quality, and attractiveness of the services we offer;
- maintain the quality and integrity of the UGC, and other information available on our mobile apps and websites;
- increase brand awareness through marketing and brand promotion activities;
- maintain or improve satisfaction with our customer services;
- compete effectively against existing or future competitors;
- preserve our reputation and goodwill generally and in the event of any negative publicity on our services, consumer safety, internet security, or other issues affecting us or other service e-commerce companies in China; and
- maintain our cooperative relationships with other participants.

A public perception that we, merchants on our platform, or other participants do not provide satisfactory services to consumers, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brands, undermine the trust and credibility we have established, and have a negative impact on our ability to attract and retain consumers and merchants, which may materially and adversely affect our business, financial condition, and results of operations.

***If we fail to acquire new Transacting Users and Active Merchants in a cost-effective manner, to retain our existing Transacting Users and Active Merchants, or to maintain or increase their engagement, our business, financial condition, and results of operations may be materially and adversely affected.***

We must continue to attract new Transacting Users and Active Merchants, retain our existing Transacting Users and Active Merchants, and maintain and increase their engagement in order to increase the number of transactions on our platform, drive revenue growth and maintain profitability. To that end, we plan to continue to broaden and deepen our service offerings, deepen our service penetration, further enrich our content database, and provide superior consumer service. We also cross-sell low-frequency services on our platform by leveraging our market-leading position in those mass-market, high-frequency, essential service categories. Given that we operate in a rapidly evolving industry, we need to anticipate consumer needs and industry changes and respond to such changes in a timely and effective manner. In particular, as we derive a majority of our revenues from our food delivery services, if we fail to continue to provide innovative services that meet the evolving needs and preferences of consumers and retain our consumer base for our food delivery services, our business, financial condition, and results of operations may be materially and adversely affected. We must also continue to enable merchants to improve their service quality and operational efficiency, enable them to build online presence and recognition among consumers, and provide them with data insight and effective, targeted marketing tools to attract and retain consumers.

If consumers cannot find the services they are looking for on our platform, if our competitors offer more attractive prices, incentives, or better consumer services, or if consumers find the mobile apps or websites of our competitors to be more convenient to use or the content database to be more relevant or reliable, they may lose interest in us and visit our mobile apps or websites less frequently or even stop visiting our mobile apps or websites. Furthermore, as we rely on our platform's powerful network effects to grow, the decrease in our consumer base will affect our ability to attract merchants to and retain them on our platform, and the decrease in our merchant base will in turn attract fewer consumers. Merchants may choose our competitors if they charge lower commissions, marketing or other fees, or offer more attractive incentives, if merchants do not find our marketing and promotional services effective, or if our competitors provide more types of or more effective enabling services. We may also experience attrition in our merchants in the ordinary course of business resulting from reduction in marketing budgets, or closures or bankruptcies of merchants.

In addition, although we believe that many of our new Transacting Users and Active Merchants originate from word-of-mouth referrals and our broad service offerings and strong brands allow us to enjoy low user acquisition cost, we expect to continue to spend significant amount to acquire additional Transacting Users and Active Merchants. We cannot assure you that the revenue from them will ultimately exceed the cost of acquisition. If we are unable to retain our existing Transacting Users and Active Merchants or to acquire new Transacting Users and Active Merchants in a cost-effective manner, the revenue we generate may decrease and our results of operations will be adversely affected.

***If we are unable to continue to provide services to merchants or to implement our strategy to enable more merchants with more solutions, our business and prospects may be materially and adversely affected.***

We have been focusing on extending our platform from serving consumers to serving the supply end, driving internet penetration of the entire service industry value chain. Our wide range of services to merchants, such as targeted online marketing tools, cost-effective on-demand delivery infrastructure, restaurant management systems, business-to-business food distribution service, and financing solutions, help merchants attract and better serve more consumers more efficiently, increase sales, and enhance profitability. We believe that such services represent significant market potential and will further enhance consumer experience, thus solidifying our market-leading position. We cannot assure you, however, that we will be successful in implementing such business initiatives as a result of the development of new business models or increased competition in this field. If we are unable to continue to provide services to merchants or to implement our strategy to enable more merchants with more solutions, our business and prospects may be materially and adversely affected.

***We rely on merchants and other participants in our network to provide quality services to consumers. Their illegal actions or misconduct, or any failure by them to provide satisfactory services or maintain their service levels, could materially and adversely affect our business, reputation, financial condition, and results of operations.***

Merchants are the ultimate providers of services listed on our platform, and our brand and reputation may be harmed by actions taken by merchants that are outside our control. For example, with respect to our food delivery services, we rely upon restaurants to provide quality food to consumers on a timely basis, and to the extent they choose to deliver by themselves, we also rely on them to deliver the food securely and expeditiously. With respect to our in-store, hotel, and travel services, we rely on merchants to ensure that the consumers enjoy a positive in-store experience and to reach a satisfactory resolution with consumers in case of any disputes. Any shortcomings of our merchants, such as difficulty in servicing consumer demand, producing safe and quality food, providing timely delivery and good service, or failure to provide services as advertised or generally meeting consumer expectations, may be attributed by consumers to us, thus damaging our reputation and brand value and potentially affecting our results of operations. In addition, negative publicity and consumer sentiment generated as a result of fraudulent or deceptive conduct by our merchants could damage our reputation, disrupt our ability to attract new consumers, or retain our current consumers, and diminish the value of our brand.

In addition to the services provided by merchants on our platform, we also rely on a large number of other participants in our network, such as delivery riders to perform the on-demand delivery services, drivers to perform the car-hailing services, and online marketing service providers to provide various services to merchants. To the extent they are unable to provide satisfactory services to consumers or merchants, which may be due to events that are beyond our or their control, such as inclement weather or transportation disruptions, we may suffer reputational damage, and our business, financial condition, and results of operations may be materially and adversely affected. The delivery riders and drivers that we work with may also subject us to additional risks. For example, we may be exposed to claims for personal injury, death, or property damage resulting from traffic accidents caused by delivery riders and drivers in performing their services. Such incidents may cause negative publicity in the local community and may negatively affect our brand image and reputation. In addition, as delivery riders and drivers interact directly with our consumers, we may suffer substantial reputational harm from any misconduct, illegal actions, or crimes committed by them. Such incidents have occurred in the past, and as they are beyond our control, we cannot assure you that they will not occur in the future regardless of the measures we have taken, and will take, to screen and supervise the delivery riders and drivers on our platform. Further, labor disputes initiated by employees and personnel of our participants could also directly or indirectly prevent or hinder our normal operating activities, and, if not resolved in a timely manner, lead to decreases in our revenue. If we are unable to effectively address these risks, our brand image, reputation, and financial performance may be materially and adversely affected.

***Our strategic alliances, investments, or acquisitions may have a material adverse effect on our business, reputation, financial condition, and results of operations.***

We have acquired and invested in a significant number of businesses, technologies, services, and products in recent years, such as the strategic transaction between Meituan Corporation and Dianping Holdings in October 2015, our acquisition of Mobike in April 2018, and our strategic investment in Li Auto Inc. We expect to continue to evaluate and consider a wide array of strategic alliances, investments, and acquisitions that we believe can extend and solidify our market-leading position as part of our overall business strategy. At any given time we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. These transactions involve significant challenges and risks, including:

- difficulties in integrating into our operations the personnel, operations, products, services, technology, internal controls, and financial reporting of companies we acquire;
- disrupting our ongoing business, distracting our management and employees, and increasing our expenses;
- losing skilled professionals as well as established client relationships of the businesses we invest in or acquire;



- for investments over which we do not obtain management and operational control, we may lack influence over the controlling partners or shareholders, which may prevent us from achieving our strategic goals in such investment;
- new regulatory requirements and compliance risks that we become subject to as a result of acquisitions in new industries or otherwise;
- actual or alleged misconduct or non-compliance by any company we acquire or invest in (or by its affiliates) that occurred prior to our acquisition or investment, which may lead to negative publicity, government inquiry, or investigations against such company or against us;
- unforeseen or hidden liabilities or costs that may adversely affect us following our acquisition of such targets;
- regulatory hurdles including in relation to the anti-monopoly and competition laws, rules, and regulations of China and other countries in connection with any proposed investments and acquisitions;
- the risk that any of our pending or other future proposed acquisitions does not close;
- the costs of identifying and consummating investments and acquisitions;
- the use of substantial amounts of cash and potentially dilutive issuances of equity securities;
- the occurrence of significant goodwill impairment charges and amortization expenses for other intangible assets; and
- challenges in achieving the expected benefits of synergies and growth opportunities in connection with these acquisitions and investments.

Any such negative developments described above could disrupt our existing business and materially and adversely affect our business, reputation, financial condition, and results of operations.

***Change in business prospects of acquisitions may result in goodwill impairment and impairment of our other intangible assets acquired in a business combination, which could negatively affect our results of operations.***

As of June 30, 2020, we had intangible assets of RMB32.2 billion (US\$4.6 billion), including goodwill of RMB27.7 billion (US\$3.9 billion), which primarily arose from the strategic transaction between Meituan Corporation and Dianping Holdings in 2015 and our acquisitions of Qiandaibao in 2016 and Mobike in 2018. We assess the impairment of goodwill annually, or more frequently if certain events or changes in circumstances indicate that it might be impaired, by comparing the recoverable amounts of cash generating unit to the carrying amounts. For the year ended December 31, 2017, we recorded a net impairment loss of RMB12.0 million, which was not related to the strategic transaction between Meituan Corporation and Dianping Holdings in 2015 or our acquisitions of Qiandaibao in 2016 and Mobike in 2018. We recorded nil net impairment loss for 2018, 2019, and the six months ended June 30, 2020. In addition, adjustment of our business and branding strategy, technological changes and advancements may render our existing technologies less effective or even obsolete, or may cause our services to be less attractive to consumers and merchants, each of which may in turn result in impairment losses for goodwill and intangible assets associated with our cash generating units. Any significant impairment of goodwill or other intangible assets could materially and adversely affect our business, financial condition, and results of operations.

***We have invested significantly in a variety of sales and marketing efforts, including incurring significant selling and marketing expenses, in order to attract consumers and merchants, and some marketing campaigns and methods may turn out to be ineffective.***

We have invested significantly in sales and marketing activities to promote our brands and our services and to deepen our relationships with consumers and merchants, including incurring RMB10.9 billion, RMB15.9 billion, RMB18.8 billion (US\$2.7 billion), RMB7.9 billion and RMB7.4 billion (US\$1.0 billion) in selling and marketing expenses in 2017, 2018, 2019 and the six months ended June 30, 2019 and 2020, respectively. Such selling and marketing expenses represented 32.2%, 24.3%, 19.3%, 18.8%, and 17.8% of our total revenues in the corresponding periods. Our sales and marketing activities, however, may not be well received by consumers and merchants, and may not attract additional consumers and merchants as anticipated. The evolving marketing approaches and tools may require us to experiment with new marketing methods to keep pace with industry trends and consumer and merchant preferences. Failure to refine our existing marketing approaches or to introduce new effective marketing approaches in a cost-effective manner could reduce our market share and negatively impact our results of operations. In addition, we have a limited operating history in certain new service categories that we offer. We may be required to increase our selling and marketing expenses, including providing significant subsidies or discounts to consumers, in promoting our brand awareness as well as our new service categories. We cannot assure you that we will be able to recover costs of our sales and marketing activities or that these activities will be effective in generating new consumers and merchants for us.

***If our collaboration with any of our strategic partners is terminated or curtailed, or if we are no longer able to benefit from the synergies of our business collaborations with our strategic partners, our business may be adversely affected.***

Our business has benefited from our collaborations with our strategic partners. We cooperate with them in a number of areas, including joint marketing, payment, user traffic, and movie ticketing service. However, we cannot assure you that we will continue to maintain our cooperative relationships with our strategic partners and their respective affiliates in the future. If the services provided by these strategic partners become limited, compromised, restricted, curtailed, or less effective or become more expensive or unavailable to us for any reason, our business may be materially and adversely affected. To the extent we cannot maintain our cooperative relationships with these strategic partners, we may need to source other alternative partners to provide such services, which may divert significant management attention from existing business operations.

***The proper functioning of our technology infrastructure is essential to our business, and any failure to maintain the satisfactory performance, security, and integrity of our technology infrastructure would materially and adversely impair our ability to provide services and affect our business, reputation, financial condition, and results of operations.***

The proper functioning of our technology infrastructure is essential to the conduct of our business. Specifically, the satisfactory performance, reliability, and availability of our mobile apps and websites, our transaction-processing systems, and our network infrastructure are critical to our success and our ability to attract and retain users and provide adequate services. Our revenues depend on the user traffic on our mobile apps and websites and the volume of activities that traffic generates.

In addition, our ability to provide users with a high quality online experience depends on the continuing operation and scalability of our network infrastructure and information technology systems. The risks we face in this area include:

- our systems are potentially vulnerable to damage or interruption as a result of earthquakes, floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses, hacking, and similar events;
- we may encounter problems when upgrading our systems or services and undetected programming errors could adversely affect the performance of the software we use to provide our services. The development and implementation of software upgrades and other improvements to our internet services is a complex process, and issues not identified during pre-launch testing of new services may only become evident when such services are made available to our entire user base; and



- we rely on servers, data centers, and other network facilities provided by third parties, and the limited availability of third-party providers with sufficient capacity to house additional network facilities and broadband capacity in China may lead to higher costs or limit our ability to offer certain services or expand our business.

These and other events may lead to interruptions, decreases in connection speed, degradation of our services, or the permanent loss of user data and uploaded content. Any system interruptions caused by telecommunications failures, computer viruses, or hacking or other attempts to harm our systems that result in the unavailability of our mobile apps and websites or reduced performance would affect the attractiveness of the services offered on our platform. If we experience frequent or persistent service disruptions, whether caused by failures of our own systems or those of third-party service providers, our reputation or relationships with our users may be damaged and our users may switch to our competitors, which may have a material adverse effect on our business, financial condition, and results of operations.

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

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities. Together, these government authorities promulgate and enforce regulations that cover many aspects of our business operations, including but not limited to online and mobile commerce, food operations, online payment and other financial services, car hailing services, internet mapping services, audio-visual program operations, radio and television program services, online culture operations, travel agency operations, and cloud computing. In addition, governmental authorities are likely to continue to issue new laws, rules, and regulations governing these industries, enhance enforcement of existing laws, rules, and regulations, and require new and additional approvals, licenses or permits from us or participants on our platform. For detailed discussion of certain licenses and permits relevant to our business, see “Regulations.”

We have made great efforts to obtain all the applicable licenses and permits, but due to the large number of different service categories offered on our platform, we cannot assure you that we have obtained or applied for all the permits and licenses required and necessary for conducting our business or will be able to maintain our existing permits and licenses or obtain any new permits and licenses if required by any future laws or regulations. For example, if we fail to maintain the existing permits and licenses for our car-hailing services, we will have to cease our operation of the car-hailing business in respective cities according to the national and local regulations on online taxi booking. We may also not roll out the car-hailing services in new cities if we fail to obtain new permits and licenses in these cities. We had incidents in the past of failing to obtain licenses required for our internet audio-visual program services and internet mapping services.

In addition, we have in the past been subject to government inquiries, investigations and penalties for the lack of certain licenses required or necessary for operating our business. For example, in 2016, we were ordered by the People’s Bank of China to rectify our payment services for engaging in payment settlement and for collecting payments on behalf of merchants without having payment license. We have subsequently obtained the requisite payment license and have been in compliance with the relevant regulations applicable to our payment services in all material respects.

If we fail to obtain and maintain approvals, licenses, or permits required for our business, governmental authorities shall have the power to, among other things, 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 may have a material and adverse effect on our business, financial condition and results of operations.

***We are subject to regulations, and future regulations may impose additional requirements and other obligations on our business or could otherwise materially and adversely affect our business, reputation, financial condition, and results of operations.***

The industries in which we operate are highly regulated. As the consumer service e-commerce industry is evolving rapidly in China, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our current business. For example, in light of

the proliferation of bikes that are posing safety and social problems, the local authorities in certain Chinese cities have imposed more stringent measures to curb the bike-sharing companies' rapid pace of expansion. The PRC government has also issued the Guidance Opinion on Encouraging and Regulating the Development of Internet Rental Bicycle to offer guidance on the operation of the bike-sharing companies, particularly with respect to their management of consumer deposits, and may further adopt new regulations to require bike-sharing companies to manage the deposits made by consumers in a separate account and restrict the use of such deposits for other purposes. Also, we face increased regulation on reserve fund embezzlement with respect to funds received through Meituan Payment. Failure to comply with relevant PRC laws and regulations on a timely and adequate basis may subject us to liability, administrative actions, or penalties imposed by the relevant authorities. The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct our business and have a material and adverse impact on our business, financial condition, and results of operations.

Also, if the PRC government establishes stricter supervision requirements in the future in order for us to conduct our business, we may be required to incur significantly higher compliance costs, and we cannot assure you that we would be able to meet all the supervision requirements in a timely manner, or at all. For example, the PRC E-Commerce Law that regulates e-commerce platform operators was promulgated by the Standing Committee of the National People's Congress in August 2018 and came into effect on January 1, 2019. It provides that, with respect to products or services affecting consumers' life and health, if an e-commerce platform operator fails to examine and verify the qualifications of a merchant operating on such platform, or it fails to fulfill its obligation to assure the safety of consumers, which results in detriments to consumers, the e-commerce platform operator must take the corresponding liability. Such new legislation and enforcement may result in additional compliance obligations and increased costs or place restrictions upon our current or future operations, and may materially and adversely affect our business, financial condition, and results of operations.

In addition, we currently have operations in several overseas markets, primarily through Meituan Bike, and we may enter into new geographical markets in the future. In particular, although Meituan Bike's operations in the overseas markets have been in compliance with the local laws and regulations historically, these operations may be subject to potential disputes regarding tax reporting and operating permit with relevant local authorities in the future. The occurrence of any of these risks could negatively affect our international operations and consequently our business and operating results.

As we continue to grow in scale and significance, we expect to face increased scrutiny, which will, at a minimum, result in an increase in our investment in compliance and related capabilities and systems. The increasing sophistication and development of our customer base will also increase the need for higher standards of consumer protection, privacy protection, and dispute management. Any increased involvement in inquiries or investigations could result in significantly higher legal and other costs and diversion of management and other resources, as well as negative publicity, which could materially and adversely affect our business, reputation, financial condition, and results of operations.

***We face potential liabilities and legal claims based on the nature of our business, which could harm our business and results of operations.***

We face potential liability, expense for legal claims, and harm to our business relating to the nature of the service industry. For example, third parties could assert legal claims against us in connection with personal injuries related to food poisoning or tampering. Reports, whether true or not, of food-borne illnesses and injuries caused by food tampering at restaurants that are on our platform, could result in significant negative publicity, and severely diminish consumer confidence in us and the value of our brands. Even if such incidents are solely associated with restaurants that are not on our platform, the negative publicity and consumer sentiment about the restaurant industry in general resulting from such incidents could also materially and adversely affect our business, financial condition, and results of operations. Alternatively, we could be subject to legal claims relating to product liability, property damage, breach of contract, unfair competition, or other legal claims relating to the service offerings we make available on our platform.

In addition, we face potential liability and expense for claims relating to the information published on our mobile apps, smart mini programs, and websites, including claims for defamation, libel, negligence, copyright, patent or trademark infringement, fraud, other unlawful activity or other theories and claims based

on the nature and content of information to which we link or that may be posted on our mobile apps, smart mini programs, or websites, generated by our users, or delivered or shared hypertext links to third-party websites, or video or image services, if appropriate licenses and/or third-party consents have not been obtained. For example, we have from time to time been subject to claims for intellectual property infringement, and infringement of right to reputation.

We have been involved in litigation relating principally to third-party intellectual property infringement claims, contract disputes, civil tort disputes, employment-related cases, and other matters in the ordinary course of our business. We may also be held liable if other participants in our network, such as delivery riders or drivers, fail to comply with applicable rules and regulations, or for the personal injuries or property damages caused by them.

We have been and expect to continue to be subject to legal claims. The frequency of such claims could increase in proportion to the number of consumers and merchants that use our platform. These claims could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merits of the claims. In some instances, we may elect or be compelled to remove content or may be forced to pay substantial damages if we are unsuccessful in our efforts to defend against these claims, which could harm our business, financial condition and results of operations.

***Our business generates and processes a large amount of data, and any improper use or disclosure of such data could subject us to significant reputational, financial, legal, and operational consequences, and deter current and potential customers from using our services.***

Our business generates and processes a large quantity of personal, transaction, demographic, and behavioral data. We face risks inherent in handling large volumes of data and in protecting the security of such data. In particular, we face a number of challenges relating to data from transactions and other activities on our platform, including:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior by our employees;
- addressing concerns related to privacy and sharing, safety, security, and other factors; and
- complying with applicable laws, rules, and regulations relating to the collection, use, retention, disclosure, or security of personal information, including any requests from regulatory and government authorities relating to such data.

Any systems failure or security breach or lapse that results in the release of user data could harm our reputation and brand and, consequently, our business, in addition to exposing us to potential legal liability. We have encountered user data leakage incidents in the past. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or privacy protection-related laws, rules, and regulations could result in proceedings or actions against us by governmental entities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs, and severely disrupt our business.

We are subject to domestic and international laws relating to the collection, use, retention, security, and transfer of personally identifiable information, with respect to our customers and employees. In many cases, these laws not only apply to third-party transactions, but also may restrict transfers of personally identifiable information among us and our international subsidiaries. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. For example, recent legal developments in Europe have created compliance uncertainty regarding certain transfers of personal data. The General Data Protection Regulation, or the GDPR, which came into application in the European Union in May 2018, applies to all of our activities conducted from an establishment in the European Union or related to services that we offer to EU consumers, which primarily consist of activities conducted by Meituan Bike in the European Union. The GDPR created a range of new

compliance obligations, which could cause us to change our business practices, and significantly increased financial penalties for non-compliance. Failure to comply with the GDPR as well as other international data protection laws could subject us to significant penalties and negative publicity and severely disrupt our operations, particularly our international operations.

We also rely on contracts with our business partners and third-party service providers to ensure proper authorization and protection of private information transmitted from and to us. If we, our business partners, or third-party service providers inappropriately disclose any personally identifiable information, we could be subject to claims for identity theft or similar fraud claims or claims for other misuses of personally identifiable information, such as unauthorized marketing or unauthorized access to personally identifiable information. Our practices may become inconsistent with new laws or regulations of China and other jurisdictions concerning data protection, or the interpretation and application of existing consumer and data protection laws or regulations, which could, in addition to the possibility of fines, result in an order requiring that we change our practices, which in turn could adversely affect our business and results of operations.

***If our expansion into new geographical areas is not successful, our business and prospects may be materially and adversely affected.***

We have a track record of successfully expanding into new geographical areas. We cannot assure you, however, that we will be able to maintain this momentum in the future. We are expanding into more lower-tier cities and towns across China. Expansion into new geographical areas involves new risks and challenges. Our lack of familiarity with, and relevant user data relating to, these geographical areas may make it more difficult for us to keep pace with the evolving consumer demands and preferences. In addition, there may be one or more existing market leaders in any geographical area that we decide to expand into. Such companies may be able to compete more effectively than us by leveraging their experience in doing business in that market as well as their deeper data insight and greater brand recognition among consumers.

***If we fail to generate sufficient high-quality content and maintain their authenticity and transparency, we will be unable to provide users with the information they are searching for, which could negatively impact our business.***

Our success depends in part on our ability to provide users with the information they seek, which in turn depends on the quantity and quality of the content provided by our content contributors. For example, we may be unable to provide users with the information they seek if our users do not contribute content that is helpful and reliable, or if they remove content they previously submitted. Similarly, we may be unable to provide users with the information they seek if our users are unwilling to contribute content, or if the information on our mobile apps, smart mini programs, and websites is not up-to-date. If our mobile apps, smart mini programs, and websites do not provide current information about Listed POIs or if users perceive reviews on our mobile apps, smart mini programs, and websites as less relevant, our brand and our business could be harmed.

If we are unable to provide users with the information they seek, or if they can find equivalent content on other services, they may stop or reduce their use of our platform, and traffic to our mobile apps and websites may decline. If our user traffic declines, merchants may stop or reduce the amount of marketing activities on our platform and our business could be harmed.

***Security breaches and attacks against our platform, and any potentially resulting breach or failure to otherwise protect confidential and proprietary information, could damage our reputation, negatively impact our business, and materially and adversely affect our financial condition and results of operations.***

Although we have employed significant resources to develop our security measures against breaches, our cybersecurity measures may not detect or prevent all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches, or other attacks and similar disruptions that may jeopardize the security of information stored in and transmitted by our systems or that we otherwise maintain. Breaches of our cybersecurity measures could result in unauthorized access to our systems, misappropriation of information or data, deletion or modification of user information, or a denial of service or other interruption to our

business operations. As techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers, we may be unable to anticipate, or implement adequate measures to protect against, these attacks.

We have in the past been, and are likely again in the future to be, subject to these types of attacks, although to date no such attack has resulted in any material damages or remediation costs. If we are unable to avert these attacks and security breaches, we could be subject to significant legal and financial liability, our reputation would be harmed and we could sustain substantial revenue loss from lost sales and customer dissatisfaction. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Cyber-attacks may target us, our consumers, merchants or other participants, or the communication infrastructure on which we depend. Actual or anticipated attacks and risks may cause us to incur significantly higher costs, including costs to deploy additional personnel and network protection technologies, train employees, and engage third-party experts and consultants.

***The wide variety of payment methods that we accept subjects us to third-party payment processing-related risks.***

Our online payment options include, among others, our proprietary payment method, Meituan Payment, other third-party payment methods, such as Weixin Pay, Apple Pay, and Union Pay, and credit and debit cards or transfers from an online bank account. For third-party payment methods and credit and debit cards, we pay varying service fees, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud, security breaches, and other illegal activities in connection with the various payment methods we offer. In addition, we are subject to various rules, regulations, and requirements, regulatory or otherwise, governing payment processing, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business, financial condition and results of operations could be materially and adversely affected.

***We own loan receivables in connection with our micro loan business, and non-performance, or significant underperformance, of those loan receivables may adversely affect our business and results of operation.***

We hold loan receivables and have entered into certain financial guarantee contracts in connection with our micro loan business in 2017, 2018, and 2019. As of June 30, 2020, we had RMB5.1 billion (US\$720.6 million) in loan receivables. During the period that we own the loan receivables, we bear the credit risk in the event that the borrowers default. Additionally, the loan receivables also require us to commit or obtain corresponding funding. In the event that we experience non-performance or significant underperformance of the loan receivables, our business and results of operation may be materially and adversely affected.

***The determination of the fair value changes and impairment of certain of our assets and liabilities requires the use of estimates that are based on unobservable inputs, and therefore inherently involves a certain degree of uncertainty.***

We use significant unobservable inputs, such as expected volatility, discount for lack of marketability, risk-free interest rate, expected rate of return, and discount rate, in valuing certain of our assets and liabilities, including financial assets at fair value through profit or loss, short-term investments, and convertible redeemable preferred shares. The fair value change of financial assets at fair value through profit or loss, short-term investments, and convertible redeemable preferred shares may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such assets and liabilities. These factors include, but are not limited to, general economic condition, changes in market interest rates, and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operation and financial condition. In addition, the process for determining whether an impairment of financial asset is other-than-temporary usually requires complex and subjective judgments, which could subsequently prove to have been wrong.



***We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business.***

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights, or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual property that is infringed by services offered by our merchants and our services or other aspects of our business. We cannot assure you that holders of patents purportedly relating to some aspect of our technology infrastructure or business, if any such holders exist, would not seek to enforce such patents against us in China, the United States, or any other jurisdictions. Further, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. Such infringement or licensing allegations and claims have been and may be brought by our suppliers. Defending against these claims and proceedings is costly and time consuming and may divert management's time and other resources from our business and operations, and the outcome of many of these claims and proceedings cannot be predicted. If a judgment, a fine, or a settlement involving a large amount of payment were to occur, or injunctive relief were issued against us, it may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position, and results of operations could be materially and adversely affected.

In addition, we allow our users to upload content to our mobile apps and websites. In particular, our Dianping mobile app features a vast amount of detailed, authentic, and engaging content on merchants and services. However, content posted on our mobile apps and websites may expose us to allegations by third parties of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation, and other violations of third-party rights. We have been involved in litigations based on allegations of infringement of third-party copyrights due to the content available on our mobile apps and websites, although to date none of such litigation has resulted in any material adverse impact on us. Our failure to identify unauthorized content posted on our mobile apps and websites may subject us to claims of infringement of third-party intellectual property rights or other rights, defending of which may impose a significant burden on our management and employees, and there can be no assurance that we will obtain final outcomes that are favorable to us. In addition, we may be subject to administrative actions brought by the National Copyright Administration of China or its local branches for alleged copyright infringement.

We use open source software in connection with our products and services. Companies that incorporate open source software into their products and services have, from time to time, faced claims challenging the ownership of open source software and compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our source code or pay damages for breach of contract could be harmful to our business, financial condition and results of operations.

***Failure to deal effectively with any fraud perpetrated and fictitious transactions conducted on our platform could harm our business.***

We face risks with respect to fraudulent activities engaged by merchants on our platform. Merchants on our platform may engage in fictitious transactions with themselves or collaborate with third parties in order to artificially inflate their sales records, popularity and search results rankings.

Such activity may frustrate other merchants by enabling the perpetrating merchants to be favored over legitimate merchants, and may harm consumers by misleading them to believe that a merchant is more reliable or trustworthy than the merchant actually is. Although we have implemented strict measures to detect and penalize merchants who engaged in fraudulent activities on our platform, there can be no assurance that such measures will be effective in preventing fraudulent transactions.

Moreover, illegal, fraudulent, or collusive activities by our employees could also subject us to liability or negative publicity. We have discovered cases in which certain of our employees accepted payments from merchants or other service providers in order to receive preferential treatment on our platform. Although the employees who have been found to be responsible for these incidents have either resigned or have been terminated by us and we have implemented internal controls and policies with regard to the review and approval of merchant accounts, sales activities and other relevant matters, we cannot assure you that our controls and policies will prevent fraud or illegal activity by our employees or that similar incidents will not occur in the future. Any illegal, fraudulent, or collusive activity could severely damage our brand and reputation, which could drive consumers away from our platform, and materially and adversely affect our business, financial condition and results of operations.

***We face risks relating to natural disasters, health epidemics, and other outbreaks, which could significantly disrupt our business, financial condition, and results of operations.***

In addition to the COVID-19 pandemic, we and our merchants are vulnerable to natural disasters, health epidemics, and other calamities. Our business could be adversely affected if our employees, merchants, or delivery riders are affected by health epidemics or fear of spread of contagious diseases, such as the outbreak of Ebola virus disease (EVD), coronavirus disease 2019 (COVID-19), Middle East respiratory syndrome (MERS), severe acute respiratory syndrome (SARS), H1N1 flu, H7N9 flu, and avian flu. If any of our employees, merchants, or delivery riders is suspected of having contracted a contagious disease, we may be required to apply quarantines or suspend our operations.

Moreover, occurrences of natural disasters or other calamities could cause severe disruption to the daily operations of us and our merchants, and may even require a temporary closure of facilities, which may disrupt our business operations and adversely affect our results of operations. In addition, our results of operations could be adversely affected to the extent that any of these catastrophic events harms China's economy in general.

***We may increasingly become a target for public scrutiny, including complaints to regulatory agencies, negative media coverage, and malicious allegations, all of which could severely damage our reputation and materially and adversely affect our business and prospects.***

We process an extremely large number of transactions on a daily basis on our platform, and the high volume of transactions taking place on our platform as well as publicity about our business create the possibility of heightened attention from the public, regulators, and the media. Heightened regulatory and public concerns over consumer protection and consumer safety issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues, due to the large number of transactions that take place on our platform and the increasing scope of our overall business operations. In addition, changes in our services or policies have resulted and could result in objections by members of the public, the traditional, new and social media, social network operators, merchants on our platform, or others. From time to time, these objections or allegations, regardless of their veracity, may result in consumer dissatisfaction or negative publicity, which could result in government inquiry or substantial harm to our brand, reputation, and operations. Moreover, as our business expands and grows, both organically and through acquisitions of and investments in other businesses, domestically and internationally, we may be exposed to heightened public scrutiny in jurisdictions where we already operate as well as in new jurisdictions where we may operate. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects.

***If other companies copy information from our mobile apps and websites, and publish or aggregate it with other information for their own benefit, traffic to our mobile apps and websites may decline, and our business and prospects may be materially and adversely affected.***

We cannot assure you that other companies would not copy information from our mobile apps and websites, through website scraping, robots, or other means, and publish or aggregate it with other information for their own benefit. For example, we have in the past filed lawsuits against third parties for copying and publishing consumer comments and other content from our website without our consent. When third parties copy, publish, or aggregate content from our mobile apps and websites, it makes them more competitive, and decreases the likelihood that consumers will use our mobile apps and websites to find the information they seek, which could materially and adversely affect our business and results of operations. We may not be able to detect such third-party conduct in a timely manner and, even if we could, we may not be able to remove it. In addition, we may be required to expend significant financial or other resources to successfully enforce our rights.

***Our online marketing services may constitute internet advertisement, which subjects us to laws, rules, and regulations applicable to advertising.***

We derive a significant portion of our revenues from online marketing services. In July 2016, the PRC State Administration for Market Regulation, formerly known as the State Administration for Industry and Commerce, promulgated the Interim Administrative Measures on Internet Advertising, or the Internet Advertising Measures, effective September 2016, pursuant to which internet advertisements are defined as any commercial advertising that directly or indirectly promotes goods or services through internet media in any form including paid-for search results. See “Regulations — Regulations on Internet Advertising.” Under the Internet Advertising Measures, our online marketing services may constitute internet advertisement.

PRC advertising laws, rules, and regulations require advertisers, advertising operators, and advertising distributors to ensure that the content of the advertisements they prepare or distribute is fair and accurate and is in full compliance with applicable law. Violation of these laws, rules, or regulations may result in penalties, including fines, confiscation of advertising fees, orders to cease dissemination of the advertisements, and orders to publish corrective information. In circumstances involving serious violations, the PRC government may order a violator to terminate its advertising operation or even suspend or revoke its business license or license for operating advertising business. In addition, the Internet Advertising Measures require paid-for search results to be distinguished from natural search results so that consumers will not be misled as to the nature of these search results. As such, we are obligated to distinguish from others the merchants who purchase online marketing services from us or the relevant listings by these merchants. Pursuant to the PRC Advertising Law, as amended in October 2018, the release or distribution of advertisements via internet cannot affect users’ normal use of the internet. Advertisements released on webpages, such as pop-up advertisements, must display a conspicuous “close” button to ensure that the users may easily close such advertisements by one click. Complying with these requirements and any penalties or fines for any failure to comply may significantly reduce the attractiveness of our platform and increase our costs and could materially and adversely affect our business, financial condition, and results of operations.

In addition, for advertising content related to specific types of products and services, advertisers, advertising operators, and advertising distributors must confirm that the advertisers have obtained the requisite government approvals, including the advertiser’s operating qualifications, proof, of quality inspection of the advertised products and services, and, with respect to certain industries, government approval of the content of the advertisement and filing with the local authorities. Pursuant to the Internet Advertising Measures, we are required to take steps to monitor the content of advertisements displayed on our mobile apps, smart mini programs, and websites. This requires considerable resources and time, and could significantly affect the operation of our business, while at the same time also exposing us to increased liability under the relevant laws, rules, and regulations. The costs associated with complying with these laws, rules, and regulations, including any penalties or fines for our failure to so comply if required, could have a material adverse effect on our business, financial condition and results of operations. Any further change in the classification of our online marketing services by the PRC government may also significantly disrupt our operations and materially and adversely affect our business and prospects.

***We have granted and may continue to grant options, restricted share units, and other types of awards under our share option plan, which may result in increased share-based compensation expenses.***

We adopted our Post-IPO Share Option Scheme, or the Post-IPO ESOP, for the purpose of granting share-based compensation awards to various participants with the opportunity to acquire proprietary interests in our Company and to encourage them to work towards enhancing the value of us. We recognize expenses in our consolidated financial statements in accordance with IFRS. Under the Post-IPO ESOP, we are authorized to grant options to purchase our Class B Shares. As of the date of this offering memorandum, the maximum aggregate number of Class B Shares that may be issued pursuant to options under our Post-IPO ESOP was 475,568,628, subject to adjustment and amendment. We believe that the granting of share-based compensation is important to attract and retain key personnel and employees, and we will continue to grant share-based compensation to the participants 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.



***Certain of our leasehold interests in leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines.***

Certain of our leasehold interests in leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines if we fail to remediate after receiving any notice from the relevant PRC government authorities. In case of failure to register or file a lease, the parties to the unregistered lease may be ordered to make rectifications (which would involve registering such leases with the relevant authority) before being subject to penalties. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. Although we have proactively requested that the applicable lessors complete or cooperate with us to complete the registration in a timely manner, we are unable to control whether and when such lessors will do so. In the event that a fine is imposed on both the lessor and lessee, and if we are unable to recover from the lessor any fine paid by us, such fine will be borne by us.

***Our operations depend on the performance of the internet infrastructure and fixed telecommunications networks in China.***

Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the PRC Ministry of Industry and Information Technology. Moreover, we primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures, or other problems with China's internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our website. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in internet usage.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, our user traffic may decline and our business may be harmed.

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

COVID-19 had a severe and negative impact on the Chinese and the global economy in the first half of 2020. The PRC National Bureau of Statistics reported a negative GDP growth of 6.8% for the first quarter in 2020 and a GDP growth of 3.2% for the second quarter in 2020. Other economies around the globe have also experienced stagnant or negative GDP growth in the first half of 2020. Whether this will lead to a prolonged downturn in the global economy is still unknown.

Even before the outbreak of COVID-19, the global macroeconomic environment was facing challenges, including the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014, uncertainties over the impact of Brexit, and the ongoing global trade disputes and tariffs. The growth of the Chinese economy has slowed down since 2012 compared to the previous decade and the trend may continue. According to the PRC National Bureau of Statistics, China's GDP growth was 6.6% in 2018 and 6.1% in 2019. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. In addition, there have also been concerns about the relationship between China and the United States that resulted from the current trade tension between the two countries. There have been further uncertainties related to the drastic drop in oil prices and the U.S. Federal Reserve's progressive policies to strengthen the market in early 2020. It is unclear whether these challenges and uncertainties will be contained or resolved and what effects they may have on the global political and economic conditions in the long term. 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 prolonged slowdown in the global or Chinese

economy may have a negative impact on our business, results of operations, and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

***Recent developments due to political tensions between the United States and China may materially and adversely affect our business and results of operations.***

The recent political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 pandemic, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the PRC central government, and the executive orders issued by U.S. President Donald J. Trump in August 2020 that prohibit certain transactions with certain Chinese companies in the internet industry and their mobile applications. Although we do not have significant operations or users in the United States, rising political tensions between the United States and China could reduce levels of trades, investments, technological exchanges, and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition and results of operations.

***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, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment, and non-compete agreements with our employees and others, to protect our proprietary rights. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented, or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, we cannot assure you that (i) our application for the registration of trademarks, patents, and other intellectual property rights will be approved, (ii) any intellectual property rights will be adequately protected, or (iii) such intellectual property rights will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Further, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

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 the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment, and non-compete 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 take may be inadequate to prevent the infringement or 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 management and financial resources, and could put our intellectual property at risk of being invalidated or narrowed in scope. We cannot assure you that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting, or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition, and results of operations.

***Overall tightening of the labor market or any possible labor unrest may affect our business.***

Our business requires a substantial number of personnel. Any failure to retain stable and dedicated labor by us and our delivery partners may lead to disruption to or delay in our services provided to customers. Although we or our delivery partners have not experienced any labor shortage to date, we have observed an overall tightening and increasingly competitive labor market. We have experienced, and expect to continue to experience, increases in labor costs due to increases in salary, social benefits, and employee headcount. We and our delivery partners compete with other companies in our industry and other labor-intensive industries for labor, and we and our delivery partners may not be able to offer competitive

remuneration and benefits compared to them. If we or our delivery partners are unable to manage and control our labor costs, our business, financial condition, and results of operations may be materially and adversely affected.

Our delivery partners have been subject to labor disputes initiated by their employees and personnel from time to time, although none of them, individually or in the aggregate, have had a material adverse impact on us. Our delivery partners may continue to be subject to various legal or administrative proceedings relating to labor disputes in the ordinary course of business, which may have a material effect on us due to the magnitude of the labor force involved in our delivery network. Any labor unrest directed against our delivery partners could directly or indirectly prevent or hinder our normal operating activities, and, if not resolved in a timely manner, lead to decreases in our revenue. For example, a delivery rider strike that took place in May 2018 caused a prolonged service suspension in Chongqing, China, and we cannot assure you that similar incidents would not happen in the future. We and our delivery partners are not able to predict or control any labor unrest. Further, labor unrest may affect 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 have limited insurance coverage.***

Risks associated with our business and operations include, but are not limited to, business interruption due to power shortages or network failure, product liability claims, and losses of key personnel, any of which may result in significant costs or business disruption. The insurance industry in China is still at an early stage of development, and insurance companies in China currently offer limited business-related insurance products. In line with general market practice, we do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. In addition, we also do not maintain insurance policies covering damages to our IT infrastructure. Any disruption in our IT infrastructure or natural disasters may cause us to incur substantial costs and divert our resources, and we have no insurance to cover such losses. With respect to our employees, we provide pension insurance, maternity insurance, unemployment insurance, work-related injury insurance and medical insurance, as well as supplemental commercial medical insurance and accident insurance. We maintain various insurance policies with respect to our car-hailing business, including property and casualty insurance for the drivers and passengers in our network. We also require personal accident, third party personal injury, and property damage insurance to be purchased for each delivery rider by our delivery partners. Any uninsured risks may result in substantial costs and the diversion of resources, which could adversely affect our results of operations and financial condition.

**Risks Relating to Doing Business in China**

***Adverse changes in economic and political policies of the PRC government could have a material adverse effect on overall economic growth in China, which could materially and adversely affect our business and results of operation.***

A significant portion of our operations are conducted in China and the majority of our revenue is sourced from China. Accordingly, our financial condition, results of operations, and prospects are influenced by economic, political, and legal developments in China. Economic reforms have resulted in significant economic growth in China in the past few decades. However, any economic reform policies or measures in China may from time to time be modified or revised. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources. While China's economy has experienced significant growth in the past few decades, the rate of growth has slowed down since 2012, and growth has been uneven across different regions and among various economic sectors.

The PRC government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Although China's economy has grown significantly in the past decade, that growth may not continue and any slowdown may have a negative effect on our business. Any adverse changes in economic conditions in

China, in the policies of the PRC 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 businesses, lead to reduction in demand for our services and adversely affect our competitive position.

***The legal system in China embodies uncertainties, which could limit the legal protections available to us.***

We conduct our business primarily through our PRC subsidiaries and Consolidated Affiliated Entities in China. Our operations in China are governed by PRC laws and regulations. The legal system in China is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The legal system in China evolves rapidly, and the interpretations of many laws, regulations, and rules may contain inconsistencies. However, these laws, regulations, and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to internet-related industries, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property), and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***Regulation and censorship of information disseminated over the internet in China may adversely affect our business and subject us to liability for content posted on our mobile apps and websites.***

Internet companies in China are subject to a variety of existing and new rules, regulations, policies, and license and permit requirements. The PRC government prohibits information that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, contains terrorism or extremism content, or is reactionary, obscene, superstitious, fraudulent, or defamatory, from being distributed through the internet. PRC laws also prohibit the use of the internet in ways which, among other things, result in leakage of state secrets or distribution of socially destabilizing content. In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licenses of, any internet or mobile content service provider that is deemed to provide illicit content online or on mobile devices. In particular, the PRC Cyberspace Administration has issued rules from time to time to increase mobile app and website operators' obligations to monitor the information displayed on the information platform and prevent dissemination of illegal contents.

We endeavor to eliminate illicit content from our mobile apps and websites. However, government standards and interpretations may change in a manner that could render our current monitoring efforts insufficient. We cannot assure you that our business and operations will be immune from government actions or sanctions in the future. If government actions or sanctions are brought against us, or if there are widespread rumors that government actions or sanctions have been brought against us, our reputation and brand image could be harmed, we may lose users and business partners, our revenue and results of operation may be materially and adversely affected.

***We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our noteholders and have a material adverse effect on our results of operations and the value of your investment.***

Under the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008 and was amended on December 29, 2018, an enterprise established outside China whose "de facto management body" is located in China is considered a "PRC resident enterprise" and will generally be subject to the uniform 25% enterprise income tax rate on its global income. Under the implementation rules of the EIT Law, "de facto management body" is defined as the organization body that effectively exercises management and control over such aspects as the business operations, personnel, accounting and properties of the enterprise.

On April 22, 2009, SAT released the Notice Regarding the Determination of PRC-Controlled Offshore Incorporated Enterprises as People's Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies, which was amended on December 29, 2017, or SAT Circular 82, that sets out the

standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of China and controlled by PRC enterprises or PRC enterprise groups is located within China. Further to SAT Circular 82, on July 27, 2011, SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), or SAT Bulletin 45, to provide more guidance on the implementation of SAT Circular 82; the bulletin became effective on September 1, 2011 and was amended on June 15, 2018. SAT Bulletin 45 clarified certain issues in the areas of resident status determination, post-determination administration, and competent tax authorities’ procedures.

Under SAT Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within China. SAT Bulletin 45 specifies that when provided with a copy of Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the China-sourced dividends, interest, and royalties to the PRC-controlled offshore incorporated enterprise.

Although SAT Circular 82 and SAT Bulletin 45 explicitly provide that the above standards only apply to enterprises that are registered outside of China and controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals, SAT Circular 82 and SAT Bulletin 45 may reflect SAT’s criteria for how the “de facto management body” test should be applied in determining the tax residence of foreign enterprises in general, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups or by the PRC or foreign individuals. If the PRC tax authorities determine that we are to be treated as a PRC resident enterprise for PRC enterprise income tax purposes, the 25% PRC enterprise income tax on our global taxable income could materially and adversely affect our ability to satisfy any cash requirements we may have.

***PRC laws and regulations establish more complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

A number of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors adopted by six PRC regulatory authorities in 2006 and amended in 2009, or the M&A Rules, the Anti-monopoly Law promulgated by the Standing Committee of the National People’s Congress in August 2007, and the Rules of the Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the PRC Ministry of Commerce in August 2011, have established procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex. These include requirements in some instances that the approval from the Ministry of Commerce be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review. After the PRC Foreign Investment Law and its Implementation Regulations became effective on January 1, 2020, the provisions of the M&A Rules remain effective to the extent they are not inconsistent with the PRC Foreign Investment Law and its Implementation Regulations.

We have grown and may continue to grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the competent PRC government agencies, may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the PRC government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in China, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.



***The heightened scrutiny over acquisition transactions by PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.***

Pursuant to the Notice of State Administration for Taxation on Strengthening Administration of Enterprise Income Tax for Share Transfers by Resident Enterprises outside of China, or SAT Circular 698, issued by SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on the foreign income of its residents, the non-resident enterprise, being the transferor, must report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. 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 established for the purpose of reducing, avoiding, or deferring PRC tax.

On February 3, 2015, SAT issued the Announcement of SAT on Several Issues concerning the Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises, or SAT Circular 7, which abolished certain provisions in SAT Circular 698, as well as certain other rules providing clarification on SAT Circular 698. SAT Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of PRC taxable assets. Under SAT Circular 7, the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC taxable assets, when a non-resident enterprise transfers PRC taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC taxable assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC enterprise income taxes and without any other reasonable commercial purpose. However, SAT Circular 7 contains certain exemptions, including (i) where a non-resident enterprise derives income from the indirect transfer of PRC taxable assets by acquiring and selling shares of an overseas listed company which holds such PRC taxable assets on a public market; and (ii) where there is an indirect transfer of PRC taxable assets, but if the non-resident enterprise had directly held and disposed of such PRC taxable assets, the income from the transfer would have been exempted from PRC enterprise income tax under an applicable tax treaty or arrangement.

On October 17, 2017, SAT issued the Circular on the Source of Deduction of Income Tax for Non-resident Enterprises, or SAT Circular 37, which became effective on December 1, 2017, was amended on June 15, 2018, and abolished SAT Circular 698 and certain provisions in SAT Circular 7. SAT Circular 37 further clarifies the practice and procedure of withholding non-resident enterprise income tax. Pursuant to SAT Circular 37, where the party responsible for deducting such income tax did not or was unable to make such deduction, or the non-resident enterprise receiving such income failed to declare and pay the taxes that should have been deducted to the relevant tax authority, both parties may be subject to penalties. The taxable gain is calculated as balance of the total income from such transfer net deducting the net book value of equity interest.

We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

***Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional compliance obligations and costs.***

Operating in the high-technology industry, a number of our PRC operating entities enjoy various types of preferential tax treatment according to the prevailing PRC tax laws. Our PRC subsidiaries and Consolidated Affiliated Entities may, if they meet the relevant requirements, qualify for certain preferential tax treatment.

For a qualified high and new technology enterprise, the applicable enterprise income tax rate is 15%. The high and new technology enterprise qualification is re-assessed by the relevant authorities every three years. Moreover, a qualified software enterprise is entitled to a tax holiday consisting of a two-year tax exemption beginning with the first profit-making calendar year and a 50% tax reduction for the subsequent three years. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Description of Major Components of Our Results of Operations — Taxation — Mainland China.” If such PRC subsidiaries or VIEs fail to maintain their respective qualification under the relevant PRC laws and regulations, their applicable enterprise income tax rates may increase to up to 25%, which could materially and adversely affect our results of operations.

***PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of shareholders’ loans or capital contributions after completion of this offering. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, or FIEs, cannot exceed a statutory limit, and must be filed with SAFE or its local counterparts through the online filing system of SAFE after the loan agreement is signed and at least three business days before the borrower withdraws any amount from the foreign loan. In addition, any such loans with a term of at least one year are also subject to filing requirement with the NDRC or its local branches.

Furthermore, if we provide our PRC subsidiaries with capital contributions, such PRC subsidiaries are required to apply for registrations with the State Administration for Market Regulation or its local branches, submit a change report to the Ministry of Commerce or its local counterpart through the online enterprise registration system, and complete the exchange registration with qualified banks. We may not be able to obtain these government registrations or approvals, or complete these government filings on a timely basis, if at all. If we fail to receive such registrations or approvals or complete such filings, our ability to provide loans or capital contributions to our PRC subsidiaries in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, or SAFE Circular 19. SAFE Circular 19, however, allows FIEs in China to use their registered capital settled in Renminbi converted from foreign currencies to make equity investments, but the registered capital of an FIE settled in Renminbi converted from foreign currencies is still not allowed to be used for investment in the security markets, offering entrustment loans, or purchase of any investment properties, unless otherwise regulated by other laws and regulations. On June 9, 2016, SAFE further issued the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which, among other things, amended certain provisions of SAFE Circular 19. According to SAFE Circular 19 and SAFE Circular 16, the flow and use of the Renminbi capital converted from foreign currency-denominated registered capital of an FIE is regulated such that Renminbi capital may not be used for business beyond its business scope, securities investment or other financial investment except for guaranteed financial products issued by banks, providing loans to non-affiliated enterprises unless otherwise permitted under its business scope, or constructing or purchasing real estate not for self-use. On October 23, 2019, SAFE issued the Circular on Further Promoting Cross-Border Trade and Investment Facilitation, or SAFE Circular 28, which expressly allows FIEs that do not have equity investments in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investments as long as the investments are real and in compliance with the foreign investment-related laws and regulations. If our Consolidated Affiliated Entities require financial support from us or our PRC subsidiaries in the future, and we find it necessary to use foreign currency-denominated capital to provide such financial support, our ability to fund our Consolidated Affiliated Entities’ operations will be subject to statutory limits and restrictions, including those described above. The applicable foreign exchange circulars and rules may limit our ability to transfer the net proceeds from this offering to our PRC subsidiaries and convert the net proceeds into Renminbi, which may adversely affect our business, financial condition, and results of operations.



***We may be subject to penalties, including restrictions on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries' ability to distribute profits to us, if our resident shareholders or beneficial owners in China fail to comply with relevant PRC foreign exchange regulations.***

SAFE issued the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular 37, effective on July 4, 2014. SAFE Circular 37 requires PRC residents, including PRC individuals and entities, to register with SAFE or its local branches in connection with their direct establishment or indirect control of an offshore special purpose vehicle, 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. In addition, such PRC residents must update their foreign exchange registrations with SAFE or its local branches when the offshore special purpose vehicle in which such residents directly hold the equity interests undergoes material events relating to any change of basic information (including change of such PRC individual shareholder, name, and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder holding interest in an offshore special purpose vehicle, who is a PRC resident as determined by SAFE Circular 37, fails to fulfill the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

On February 13, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, effective June 1, 2015. In accordance with SAFE Notice 13, entities and individuals are required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under SAFE Circular 37, with qualified banks, instead of SAFE. The qualified banks, under the supervision of SAFE, directly examine the applications and conduct the registration.

We may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC residents, and therefore, we may not be able to identify all our shareholders or beneficial owners who are PRC residents to ensure their compliance with SAFE Circular 37 or other related rules. In addition, we cannot provide any assurance that all of our shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain, or update any applicable registrations or comply with other requirements required by SAFE Circular 37 or other related rules in a timely manner. Even if our shareholders and beneficial owners who are PRC residents comply with such request, we cannot assure you that they will successfully obtain or update any registration required by SAFE Circular 37 or other related rules in a timely manner due to many factors, including those beyond our and their control. If any of our shareholders who is a PRC resident as determined by SAFE Circular 37 fails to fulfill the required foreign exchange registration, our PRC subsidiaries may be prohibited from distributing their profits and dividends to us or from carrying out other subsequent cross-border foreign exchange activities, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries, which may adversely affect our business.

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

We are a holding company, and we principally rely on dividends and other distributions on equity that may be paid by our PRC subsidiaries and remittances from our Consolidated Affiliated Entities, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our ordinary shares and service any debt we may incur. If our PRC subsidiaries or our Consolidated Affiliated Entities incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, wholly foreign-owned enterprises in China may pay dividends only out of their retained earnings as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to other reserve funds. These reserve funds are not distributable as cash dividends. Any limitation on the ability of our Consolidated Affiliated Entities to make remittance to our wholly-owned PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

***Restrictions on the remittance of Renminbi into and out of China and governmental control of currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your investment.***

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and the remittance of currency out of China. We receive substantially all of our revenue in Renminbi. Under our current corporate structure, our income will be primarily derived from dividend payments from our PRC subsidiaries. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

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 SAFE approval by complying with certain procedural requirements. However, approval from or registration or filings with competent government 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. The PRC government may at its discretion further restrict access to foreign currencies for current account transactions or capital account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency needs, we may not be able to pay dividends in foreign currencies to our shareholders. Further, we cannot assure you that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of China.

***Fluctuations in exchange rates could result in foreign currency exchange losses.***

The value of Renminbi against the Hong Kong dollar, the U.S. dollar, and other currencies fluctuates, is subject to changes resulting from the PRC government's policies, and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of 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. With the development of the foreign exchange market and progress toward interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar or the U.S. dollar in the future.

During the years ended December 31, 2017, 2018, and 2019, and the six months ended June 30, 2019 and 2020, we incurred net foreign exchange (losses)/gains, recognized as other net (losses)/gains, in the amount of RMB(7.8) million, RMB(1.5) million, RMB(81.9) million (US\$(11.6) million), RMB(84.1) million, and RMB13.2 million (US\$1.9 million), respectively. During the same period, we had currency translation (losses)/gains of RMB3.4 billion, RMB(7.6) billion, RMB679.0 million (US\$96.1 million), RMB47.9 million, and RMB647.4 million (US\$91.6 million), respectively, recognized as other comprehensive (loss)/income in our consolidated income statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Risk Disclosure — Foreign Exchange Risk" for more details on our foreign currency translation losses/gains.

The proceeds from the offering will be received in U.S. dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our proceeds from this offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to complete filings with and obtain approvals from SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations, and prospects, and could reduce the value of, and dividends payable on, our shares in foreign currency terms.

***It may be difficult to effect service of process upon us or our directors or officers named in this offering memorandum who reside in China or to enforce foreign court judgments against them in China.***

Most of our assets are situated in China and most of our directors and officers named in this offering memorandum reside in, and most of their respective assets are located in, China. As a result, it may be difficult to effect service of process outside China upon most of our directors and officers, including with respect to matters arising under applicable securities laws. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States and many other countries. Consequently, it may be difficult for you to enforce against us or our directors or officers in China any judgments obtained from courts outside of China.

On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned, or the 2006 Arrangement, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the 2006 Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the 2006 Arrangement may still be uncertain. In addition, the recognition and enforcement of a final judgment of a Hong Kong court under an exclusive jurisdiction clause may be rejected by a PRC court if such court determines that the enforcement of such judgment is contrary to the basic principles of PRC Laws or violates state sovereignty, security, or the social and public interest or other circumstances specified by the 2006 Arrangement.

On January 18, 2019, Hong Kong and China signed the new Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region, or the 2019 Arrangement. Following the promulgation of a judicial interpretation by the PRC Supreme People's Court and the completion of the relevant procedures in Hong Kong, both sides would announce a date on which the 2019 Arrangement becomes effective. Upon effectiveness of the 2019 Arrangement, the 2006 Arrangement will be terminated. The 2019 Arrangement seeks to establish a mechanism for recognition and enforcement of judgments in a wider range of civil and commercial matters, but it will only apply to judgments made after its effectiveness date, which is not yet known. There are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

While it is expected that the PRC courts will recognize and enforce a judgment rendered by a Hong Kong court on a matter governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Notes will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holders of the Notes' ability to initiate a claim outside of Hong Kong will be limited.

***Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to 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 applicable municipal and provincial government from time to time. The requirement of employee benefit plans has not been implemented consistently by the municipal and provincial governments in China given the different levels of economic development in different locations. As a result, we cannot assure you that the relevant local government authorities will not impose penalty for failing to make adequate contributions to such employee benefit plans.

### **Risks Relating to Our Corporate Structure**

***If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.***

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in certain categories of value-added telecommunications services and other related businesses, including but not limited to, the provision of internet information services, radio and television program services, and internet cultural services. In particular, under the Special Administrative Measures (Negative List) for Foreign Investment Access issued in 2020, the operation of certain value-added telecommunications services are considered “restricted,” and the provision of radio and television program services and the internet cultural services are considered “prohibited.” We are a company incorporated under the laws of the Cayman Islands. To comply with PRC laws and regulations, we conduct our internet-related business in China through a number of VIEs incorporated in China. The VIEs are owned by PRC citizens who are our co-founders or key employees, with whom we have contractual arrangements. The contractual arrangements give us effective control over each of the VIEs and enable us to obtain substantially all of the economic benefits arising from the VIEs as well as to consolidate the financial results of the VIEs in our results of operations. Although the structure we have adopted is consistent with longstanding industry practice, and is commonly adopted by comparable companies in China, the PRC government may not agree that these arrangements comply with PRC licensing, registration, or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. These VIEs hold the licenses, approvals, and key assets that are essential for the operations of our relevant businesses.

Han Kun Law Offices, our PRC legal counsel, has advised us that (i) the ownership structures of our material WFOEs and our material VIEs in China, both currently and immediately after giving effect to this offering, do not and will not violate any applicable PRC law, regulations, or rules currently in effect, and (ii) subject to the risks as disclosed in “— Risks Relating to Our Corporate Structure” and “Corporate Structure,” each agreement of the contractual arrangements between our material WFOEs, our material VIEs, and their respective equity holders governed by PRC law is valid, binding, and enforceable in accordance with its terms and applicable PRC laws and regulations currently in effect and does not violate any applicable PRC law currently in effect. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Pursuant to the PRC Foreign Investment Law, “foreign investment” is defined to include any foreign investor’s direct and indirect investment in China, in particular, including making investment through other means provided by laws, administrative regulations, or State Council provisions. However, it remains unclear whether our contractual arrangements will cause our VIEs to be interpreted and deemed as foreign investment under the PRC Foreign Investment Law. In addition, on December 26, 2019, the Supreme People’s Court issued the Interpretations on Certain Issues Regarding the Applicable of Foreign Investment Law, or FIL Interpretations, which came into effect on January 1, 2020. In accordance with the FIL Interpretations, where a party claims an investment agreement to be invalid based on that it is for investment in prohibited industries under the negative list or it is for investment in restricted industries under the negative list and violates the restrictions set out therein, the courts should support such claim. There remains

uncertainty as to whether our contractual arrangements will be deemed as investment agreements under the FIL Interpretations. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of Han Kun Law Offices. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among our material WFOEs, our material VIEs, and their respective equity holders are determined as illegal or invalid by any PRC court, arbitral tribunal, or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke the agreements constituting the contractual arrangements;
- revoke our business and operating licenses;
- require us to discontinue or restrict operations;
- restrict our right to collect revenue;
- restrict or prohibit our use of the proceeds from our public offering to fund our business and operations in China;
- shut down all or part of our websites or services;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;
- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses, or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions that could be harmful to our business.

Furthermore, any of the assets under the name of any record holder of equity interest in material VIEs, including such equity interest, may be put under court custody in connection with litigation, arbitration, or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the contractual arrangements. In addition, new PRC laws, rules, and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and contractual arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct internet-related businesses. In addition, if the imposition of any of these penalties causes us to be unable to direct the activities of such VIEs and their respective subsidiaries or the right to receive their economic benefits, we would no longer be able to consolidate such VIEs into our consolidated financial statements, which could materially and adversely affect our financial condition and results of operations.

***Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and its Implementation Rules and how they may impact the viability of our current corporate structure, corporate governance, and operations.***

On March 15, 2019, the PRC National People's Congress approved the PRC Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law, and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. On December 26, 2019, the PRC State Council approved the Implementation Rules of Foreign Investment Law, which came into effect on January 1, 2020. The PRC Foreign Investment Law and its Implementation Rules embody an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since the PRC Foreign Investment Law and its Implementation Rules are relatively new, substantial uncertainties exist with respect to its interpretation and implementation.



The VIE structure has been adopted by many China-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “— Risks Relating to Our Corporate Structure” and “Corporate Structure.” Under the PRC Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises, or other entities in China. Although it does not explicitly classify contractual arrangements as a form of foreign investment, we cannot assure you that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities in the future. In addition, the definition contains a catch-all provision providing that investments made by foreign investors through other methods specified in laws or administrative regulations or other methods prescribed by the State Council, which leaves leeway for future laws, administrative regulations, or provisions promulgated by the State Council to provide for contractual arrangements as a method of foreign investment. Moreover, in accordance with the FIL Interpretations, where a party claims an investment agreement to be invalid based on that it is for investment in prohibited industries under the negative list or it is for investment in restricted industries under the negative list and violates the restrictions set out therein, the courts should support such claim. There remains uncertainty as to whether our contractual arrangements will be deemed as investment agreements under the FIL Interpretations. Given the foregoing, it is uncertain whether our contractual arrangements will be deemed to be in violation of the market entry clearance requirements for foreign investment under the PRC laws and regulations. There are uncertainties as to how the PRC Foreign Investment Law would be further interpreted and implemented. We cannot assure you that the interpretation and implementation of the PRC Foreign Investment Law made by the relevant governmental authorities in the future will not materially impact the viability of our current corporate structure, corporate governance, and business operations in any aspect.

***Our contractual arrangements may not be as effective in providing operational control as direct ownership, and our VIE shareholders may fail to perform their obligations under our contractual arrangements.***

Since PRC laws limit foreign equity ownership in certain businesses in China, we operate our relevant businesses in China through our VIEs, in which we have no ownership interest and rely on a series of contractual arrangements with our VIEs and their respective equity holders to control and operate these businesses. Our revenue and cash flow from our relevant businesses are attributed to our VIEs. The contractual arrangements may not be as effective as direct ownership in providing us with control over our VIEs. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our VIEs, which, in turn, could effect changes, subject to any applicable fiduciary obligations at the management level. However, under the contractual arrangements, as a legal matter, if our VIEs or their respective equity holders fail to perform their respective obligations under the contractual arrangements, we may have to (i) incur substantial costs, (ii) expend significant resources to enforce those arrangements, and (iii) resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our VIEs and may lose control over the assets owned by our VIEs. As a result, we may be unable to consolidate our VIEs in our consolidated financial statements, which could materially and adversely affect our financial condition and results of operations.

***We may lose the ability to use, or otherwise benefit from, the licenses, approvals, and assets held by our VIEs, which could render us unable to conduct some or all of our business operations and constrain our growth.***

Although the significant majority of our revenues are generated, and the significant majority of our operational assets are held, by our offshore subsidiaries and WFOEs, our VIEs hold licenses, approvals, and assets that are necessary for the operation of our relevant businesses, as well as equity interests in a series of our portfolio companies, to which foreign investments are typically restricted or prohibited under applicable PRC law. The Contractual Arrangements contain terms that specifically obligate the equity holders of the VIEs to ensure the valid existence of the VIEs and restrict the disposition of material assets or any equity interest of the VIEs. However, in the event the equity holders of the VIEs breach the terms of these contractual arrangements and voluntarily liquidate our VIEs, or any of our VIEs declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to operate some or all of our relevant businesses or otherwise benefit

from the assets held by the VIEs, which could materially and adversely affect our business, financial condition, and results of operations. Furthermore, if any of our VIEs undergoes a voluntary or involuntary liquidation proceeding, its equity holders or unrelated third-party creditors may claim rights to some or all of the assets of such VIEs, thereby hindering our ability to operate our business as well as constraining our growth.

***The contractual arrangements with our VIEs may be subject to scrutiny by the tax authorities in China. Any adjustment of related party transaction pricing could lead to additional taxes, and therefore could substantially reduce our consolidated profit and the value of your investment.***

The tax regime in China is rapidly evolving, and there is significant uncertainty for taxpayers in China as PRC tax laws may be interpreted in significantly different ways. The PRC tax authorities may assert that we or our subsidiaries or VIEs or their equity holders owe or are required to pay additional taxes on previous or future revenue or income. In particular, under applicable PRC laws, rules, and regulations, arrangements, and transactions among related parties, such as the contractual arrangements with our VIEs, may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities determine that any contractual arrangements were not entered into on an arm's length basis and therefore constitute a favorable transfer pricing, the PRC tax liabilities of the relevant subsidiaries or VIEs or equity holders of the VIEs could be increased, which could increase our overall tax liabilities. In addition, the PRC tax authorities may impose late payment interest. Our profit may be materially reduced if our tax liabilities increase.

***The equity holders, directors, and executive officers of the VIEs may have potential conflicts of interest with us.***

The PRC laws provide that a director or an executive officer owes a fiduciary duty to the company he or she directs or manages. The directors and executive officers of the VIEs, including Mr. Wang Xing, Mr. Mu Rongjun, and Mr. Wang Huiwen, must act in good faith and in the best interests of the VIEs and must not use their respective positions for personal gain. On the other hand, as our directors, each of Mr. Wang Xing, Mr. Mu Rongjun, and Mr. Wang Huiwen has a duty of care and loyalty to us and to our shareholders as a whole under Cayman Islands law. We control our VIEs through contractual arrangements, and the business and operations of our VIEs are closely integrated with the business and operations of our subsidiaries. Nonetheless, conflicts of interests for these individuals may arise due to dual roles both as directors and executive officers of the VIEs and as directors or employees of our Company, and may also arise due to dual roles both as equity holders of the VIEs and as directors or employees of our Company.

We cannot assure you that these individuals will always act in the best interests of our Company should any conflicts of interest arise, or that any conflicts of interest will always be resolved in our favor. We also cannot assure you that these individuals will ensure that the VIEs will not breach the existing contractual arrangements. If we cannot resolve any such conflicts of interest or any related disputes, we would have to rely on legal proceedings to resolve these disputes or take enforcement action under the contractual arrangements. There is substantial uncertainty as to the outcome of any such legal proceedings. See “— We may lose the ability to use, or otherwise benefit from, the licenses, approvals, and assets held by our VIEs, which could render us unable to conduct some or all of our business operations and constrain our growth.”

***We conduct our business operations in China through our VIEs by way of contractual arrangements, but certain of the terms of the contractual arrangements may be unenforceable or difficult and costly to enforce under PRC laws.***

All the agreements which constitute the contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in China may not be as developed as in certain other jurisdictions and uncertainties in the PRC legal system could limit our ability to enforce the contractual arrangements. In the event that we are unable to enforce the contractual arrangements, or if we experience significant time delays or other obstacles in enforcing them, it would be difficult to exert effective control over our VIEs, and our ability to conduct the relevant businesses and our financial condition and results of operations may be materially and adversely affected.



The contractual arrangements contain provisions to the effect that the arbitral body may award remedies over the shares or assets of our VIEs, or grant injunctive relief or winding up of our VIEs. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in our VIEs in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in our VIEs in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the contractual arrangements by our VIEs or their respective equity holders, and if we are unable to enforce the contractual arrangements, we may not be able to exert effective control over our VIEs, which could negatively affect our ability to conduct our business.

***If we exercise the option to acquire equity ownership of our VIEs, the ownership transfer may subject us to certain limitations and substantial costs.***

Pursuant to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises promulgated by the PRC State Council, foreign investors are not allowed to hold more than 50% of the equity interests of any company providing value-added telecommunications services, including internet content provider services, with the exception of those engaged in e-commerce business, domestic multi-party communications services business, store-and-forward business, and call center business, which may be 100% owned by foreign investors. In addition, the main foreign investor who invests in a value-added telecommunications business in China must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas, or the Qualification Requirements. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. Although we have taken many measures to meet the Qualification Requirements, we still face the risk of not satisfying the requirement promptly. If the PRC laws are revised to allow foreign investors to invest in value-added telecommunications enterprises in China, we may be unable to unwind the contractual arrangements before we are able to comply with the Qualification Requirements, or if we attempt to unwind the contractual arrangements before we are able to comply with the Qualification Requirements we may become ineligible to operate our value-added telecommunication enterprises and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition, and results of operations.

Pursuant to the contractual arrangements, we have the exclusive right to purchase all or any part of the equity interests in our VIEs from the respective equity holders for a nominal price, unless the relevant government authorities or PRC laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request. Subject to relevant laws and regulations, the respective equity holders shall return any amount of purchase price they have received to our WFOEs. If such a return of purchase price takes place, the competent tax authority may require our WFOEs to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

## **Risks Relating to the Notes**

***Notes may not be a suitable investment for all investors.***

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes, and the information contained in this offering memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, and other factors that may affect its investment and its ability to bear the applicable risks.

***Developments in other markets may adversely affect the market price of the Notes.***

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for China-based companies' securities is, to varying degrees, influenced by economic and market conditions in other markets, especially those in other regions in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

***An active trading market may not develop for the Notes and the trading price of the Notes could be materially and adversely affected.***

The Notes are a new issue of securities with no established trading market. We will apply to the SEHK for listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. However, we cannot assure you that the Notes will be or remain listed. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for quotation through an automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the Notes as permitted by applicable laws. However, the Initial Purchasers are not obligated to make a market in the Notes and may discontinue their market-making activities at any time at their discretion without notice. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for securities and by changes in our financial performance or prospects of companies in our industry in general. As a result, we cannot assure you that an active trading market will develop or be maintained for the Notes. If a market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, the Notes may trade at prices that are higher or lower than the price at which the Notes have been issued. The price at which the Notes trade depends on many factors, including:

- prevailing market interest rates and interest rate volatility;
- our results of operations, financial condition, and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and
- general economic conditions such as the recent downgrade of the long-term sovereign credit rating of the U.S. and the ongoing European debt crisis, almost all of which are beyond our control.

As a result, we cannot assure you that you will be able to resell the Notes at attractive prices or at all.

***Changes in market interest rates may have an adverse effect on the price of the Notes.***

Holders of the Notes may suffer unforeseen losses due to fluctuations in market interest rates. Generally, a rise in market interest rates may cause a fall in the trading prices of the Notes, resulting in a capital loss for holders of the Notes. However, holders of the Notes may reinvest the interest payments at higher prevailing interest rates. Conversely, when market interest rates fall, the trading prices of the Notes may rise. Holders of the Notes may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates. As the Notes will carry a fixed interest rate, the trading price of the Notes will consequently vary with the fluctuations in the U.S. dollar interest rates. If holders of the Notes propose to sell their Notes before their maturity, they may receive an offer lower than the amount they have invested.

***If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research about our business, the market price for the Notes and trading volume could decline.***

The trading market for our Notes will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades the Notes or our Company generally or publishes inaccurate or unfavorable research about our business, the market price for the Notes would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the Notes to decline significantly.

***The terms of the Notes and the indentures provide only limited protection against significant corporate events that could materially and adversely impact your investment in the Notes.***

While the Notes and the indentures under which the Notes will be issued contain terms intended to provide protection to holders of the Notes upon the occurrence of certain events involving significant corporate transactions and our creditworthiness, these terms are limited and may not be sufficient to protect your investment in the Notes. For example, the indentures that will govern the Notes will not prohibit some important corporate events, such as leveraged recapitalizations, even though those corporate events could significantly increase the level of our indebtedness or otherwise materially and adversely affect our capital structure, credit ratings, or the value of the Notes.

The indentures for the Notes also do not:

- require us to maintain any financial ratios or specific levels of net worth, revenue, income, cash flows, or liquidity;
- limit our ability to incur indebtedness that is equal in right of payment to the Notes;
- restrict the ability of our subsidiaries or Consolidated Affiliated Entities to issue unsecured debt securities or otherwise incur unsecured indebtedness that would be senior to our equity interests in our subsidiaries or Consolidated Affiliated Entities and therefore rank effectively senior to the Notes;
- limit the ability of our subsidiaries or Consolidated Affiliated Entities to service other indebtedness;
- restrict our ability to repurchase or prepay any other of our securities or other indebtedness;
- restrict our ability to make investments or to repurchase or pay dividends or make other payments in respect of our shares or other securities ranking junior to the Notes;
- limit our ability to sell, merge or consolidate any of our subsidiaries or Consolidated Affiliated Entities; or
- limit our ability or that of our subsidiaries or Consolidated Affiliated Entities to secure or guarantee any bank debt, bank loans, or securitizations.

As a result of the foregoing, when evaluating the terms of the Notes, you should be aware that the terms of the indentures and the Notes do not restrict our ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances, and events that could have a material adverse impact on your investment in the Notes.

***The Notes are unsecured obligations.***

As the Notes are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization, or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

Although we do not expect any of these events to occur, since it is not permitted under the terms of the indentures to carry on any business activities other than in connection with the issuance of the Notes and advance of the proceeds therefrom to us or our subsidiaries, if any of these events occur, our assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

***The Notes will be effectively subordinated to any of our secured indebtedness to the extent of the value of the assets securing that indebtedness.***

The Notes will not be secured by any of our assets. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness with respect to the assets that secure that indebtedness. The effect of this subordination is that upon a default in payment on, or the acceleration of, any of our secured indebtedness, or in the event of bankruptcy, insolvency, liquidation, dissolution or reorganization of us, the proceeds from the sale of assets securing our secured indebtedness will be available to pay obligations on the Notes only after all such secured indebtedness has been paid in full. As a result, holders of the Notes may receive less ratably than the holders of secured debt in the event of our bankruptcy, insolvency, liquidation, dissolution, or reorganization.

***The Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of our existing and future subsidiaries and effectively subordinated to their secured debt to the extent of the value of the collateral securing such indebtedness.***

The Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of our existing and future subsidiaries, whether or not secured. We may not have direct access to the assets of their respective subsidiaries unless these assets are transferred by dividend or otherwise to us. The ability of such subsidiaries to pay dividends or otherwise transfer assets to us is subject to various restrictions under applicable laws and contracts to which they are party. Each of such subsidiaries is a separate legal entity that has no obligation to pay any amounts due under the Notes or make any funds available therefor, whether by dividend, loans, or other payments. Our right to receive assets of any of their respective subsidiaries upon such subsidiary's liquidation or reorganization will be effectively subordinated to the claim of such subsidiary's creditors (except to the extent that we are the creditors of that subsidiary). Consequently, the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of such subsidiary and any subsidiary that we may in the future acquire or establish.

***The indentures do not restrict the amount of additional debt that we may incur and have limited restrictions on our ability to incur secured or guaranteed debt.***

The Notes and the indentures under which the Notes will be issued do not limit the amount of unsecured debt that may be incurred by us or our subsidiaries or Consolidated Affiliated Entities, and permit us and our subsidiaries and Consolidated Affiliated Entities to incur or guarantee an unlimited amount of bank debt, bank loans, and securitizations as well as other types of indebtedness in certain circumstances,

including Renminbi-denominated notes, bonds, and debentures initially offered, marketed, or issued primarily to persons residing in China, without securing or guaranteeing the Notes equally and ratably therewith. In addition, we (including our controlled entities) are permitted to secure capital markets indebtedness in certain circumstances. Our and our subsidiaries' and Consolidated Affiliated Entities' incurrence of additional debt may have important consequences for you as a holder of the Notes, including making it difficult for us to satisfy our obligations with respect to the Notes, a loss in the market value of your Notes, and a risk that the credit rating of the Notes is lowered or withdrawn.

***We may not be able to repurchase the Notes upon a Triggering Event.***

Upon the occurrence of a Triggering Event described in “Description of the 2025 Notes — Repurchase Upon Triggering Event” and “Description of the 2030 Notes — Repurchase Upon Triggering Event,” we will be required to offer to repurchase all outstanding Notes at 101% of their principal amount, *plus* accrued and unpaid interest, if any, to, but not including, the date of repurchase. The source of funds for any purchase of the Notes would be our available cash or cash generated from our subsidiaries' or Consolidated Affiliated Entities' operations or other sources, including borrowings, sales of assets, or sales of equity. We may not be able to repurchase the Notes upon a Triggering Event because we may not have sufficient financial resources to purchase all of the debt securities that are tendered upon a Triggering Event and repay our other indebtedness that may become due. We may require additional financing from third parties to fund any such purchases, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase the Notes may be limited by law.

***Holders of the Notes may not be able to determine when a Triggering Event giving rise to their right to have the Notes repurchased has occurred.***

The definition of Triggering Event in the indentures that will govern the Notes includes a phrase relating to operating “substantially all” or deriving “substantially all” of the economic benefits from, the business operations that we conduct. There is no precise established definition of the phrase “substantially all” under New York law. Accordingly, the ability of a holder of the Notes to require us to repurchase its Notes as a result of a Triggering Event may be uncertain.

***Holders of the Notes will not be entitled to registration rights, and we do not currently intend to register the Notes under applicable securities laws. There are restrictions on your ability to transfer or resell the Notes.***

The Notes are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable securities laws, and we do not currently intend to register the Notes in any jurisdiction. The holders of the Notes will not be entitled to require us to register the Notes for resale or otherwise. Therefore, you may transfer or resell the Notes only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable securities laws of your jurisdiction or state, and you may be required to bear the risk of your investment for an indefinite period of time. See “Transfer Restrictions.”

***The ratings of the Notes and our corporate ratings may be lowered, suspended, or withdrawn; changes in such credit ratings may adversely affect the value of the Notes.***

The Notes are expected to be assigned a rating of BBB- by S&P, BBB by Fitch, and Baa3 by Moody's. In addition, we have been assigned a long-term corporate credit rating of “BBB-” with a stable outlook by S&P, “BBB” with a stable outlook by Fitch, and “Baa3” with a stable outlook by Moody's. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell, or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended, or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value of the Notes and increase our corporate borrowing costs.



***We may be deemed a “resident enterprise” under PRC tax laws, which could subject interest on the Notes to PRC withholding tax and gains on the transfer of the Notes to PRC income tax and could, under certain circumstances, permit us to redeem the Notes.***

If we are considered a PRC resident enterprise under the EIT Law, holders of the Notes who are non-resident enterprises may be subject to PRC withholding tax on interest paid or PRC income tax on any gains realized from the transfer or redemption of Notes, if such income is considered to be derived from sources within China, at a rate of 10%, provided that such non-resident enterprise investor (i) has no establishment or premises in China, or (ii) has an establishment or premises in China but its income derived from China has no real connection with such establishment or premises. Furthermore, if we are considered a PRC resident enterprise and relevant PRC tax authorities consider interest we pay with respect to the Notes or any gains realized from the transfer or redemption of Notes to be income derived from sources within China, such interest earned by non-resident individuals may be subject to PRC withholding tax and such gain realized by non-resident individuals may be subject to PRC individual income tax. Any PRC income tax liability may be reduced under applicable income tax treaties. However, if we are considered a PRC resident enterprise, it is unclear whether in practice non-resident investors would be able to obtain the benefits of income tax treaties between China and their countries. In addition, if we are considered a PRC resident enterprise, interest payable to non-resident holders of the Notes may be subject to PRC value-added tax at a rate of 6% and related local levies, including educational surtax and urban maintenance and construction tax at a rate of up to 0.72%. As described under “Description of the 2025 Notes — Tax Redemption” and “Description of the 2030 Notes — Tax Redemption,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest if we are required to pay additional amounts with respect to certain withholding taxes as a result of a change in law (or a change in the official application or interpretation of law or the standing of an official position).

***If we are unable to comply with the restrictions and covenants in our various debt agreements or the indentures, there could be a default under the terms of these agreements or the indentures, which could cause the repayment of our debt to be accelerated.***

We are subject to certain restrictions and covenants in our various debt agreements. From time to time we may have to seek amendments, waivers, and consents in connection with covenants and breaches under our debt facilities and we cannot assure you that such amendments, waivers or consents, as the case may be, will be granted by corresponding creditors.

If we are unable to comply with the restrictions and covenants in the indentures or our current or future financing and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the relevant debt could terminate their commitments to lend to us, accelerate the debt obligation, and declare all amounts borrowed due and payable, or terminate the agreements, as the case may be. Furthermore, certain debt agreements, including the indentures, contain cross-acceleration or cross-default provisions. As a result, default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under other debt agreements. If any of these events should occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all indebtedness, or that alternative financing could be found. Even if alternative financing can be obtained, we cannot assure you that it would be on terms that are favorable or acceptable to us.

***We will follow the applicable corporate disclosure standards for debt securities listed on the SEHK, whose standards may be different from those applicable to companies in certain other countries.***

We will apply to the SEHK for listing of and permission to deal in the Notes by way of debt issues to Professional Investors only. Upon the granting of the approvals by the SEHK, we will be subject to the applicable corporate disclosure standards for debt securities listed on the SEHK. The disclosure standards imposed by the SEHK may be different from those imposed by securities exchanges in other countries or regions such as the United States or Singapore. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.



***We may elect to redeem the Notes prior to their maturity.***

Pursuant to terms of the Notes and the indentures, we may elect to redeem the Notes prior to their maturity in whole or in part at the price specified in the section entitled “Description of the 2025 Notes — Optional Redemption” and “Description of the 2030 Notes — Optional Redemption.” The date on which we elect to redeem the Notes may not accord with the preference of particular noteholders. In addition, a noteholder may not be able to reinvest the redemption proceeds in comparable securities at the same rate of return of the Notes.

In addition, as described under “Description of the 2025 Notes — Tax Redemption” and “Description of the 2030 Notes — Tax Redemption,” in the event we are required to pay Additional Amounts (as defined therein) with respect to any payment due or to become due under the Notes as a result of (i) any change in or amendment to the laws of a Relevant Jurisdiction (as defined therein) or any regulations or rulings promulgated thereunder affecting taxation, or (ii) any change in the official interpretation or official application of such laws, regulations, or rulings, which change or amendment and such requirement cannot be avoided by the taking of reasonable measures by us, then subject to certain conditions, we may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest (including any Additional Amounts).

***We may make amendments or modifications to certain provisions of the indentures.***

Under certain circumstances as described under “Description of the 2025 Notes — Modification and Waiver” and “Description of the 2030 Notes — Modification and Waiver,” we may, from time to time and without the consent of any holder of the Notes, make certain amendments to the indentures. Further, under certain circumstances as described under “Description of the 2025 Notes — Modification and Waiver” and “Description of the 2030 Notes — Modification and Waiver,” we may, from time to time and with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding Notes, make certain amendments to the indentures, or change or modify the rights of the holders of the Notes. If the requisite consents are obtained (if required) or the relevant conditions are satisfied (or waived) and such amendments or modifications become operative, all holders of the outstanding Notes will be bound by the terms of the indentures as amended, whether or not a holder of the Notes delivered a consent. Such amendments or modifications could materially increase the credit risks faced by holders of the Notes or could otherwise be materially adverse to the interests of holders of the Notes.

***The Trustee may request holders of the Notes to provide an indemnity, security, or pre-funding to its satisfaction.***

Under certain circumstances, including without limitation giving notice to us upon an event of default and taking enforcement steps pursuant to the terms of the indentures, the trustee may, at its sole and absolute discretion, request holders of the Notes to provide an indemnity, security, or pre-funding to its satisfaction before it takes actions on behalf of holders of the Notes. The trustee will not be obliged to take any such actions if not indemnified, secured, or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security, or pre-funding can be a lengthy process and may impact on when such actions can be taken. The trustee may not be able to take actions, notwithstanding the provision of an indemnity, security or pre-funding to it, in breach of the terms of the indentures and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the noteholders to take such actions directly.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated indebtedness and capitalization as of June 30, 2020 on an actual basis and as adjusted to give effect to the net proceeds from the issuance of the Notes being issued, after deducting the discounts of the initial purchasers and other estimated expenses of this offering. The following table should be read in conjunction with the summary financial information and audited consolidated financial statements, unaudited interim condensed consolidated financial information, and related notes included elsewhere in this offering memorandum.

The as adjusted information below is illustrative only and, except as described above, does not take into account any other changes in our capitalization after June 30, 2020.

	As of June 30, 2020			
	Actual		Adjusted	
	RMB	US\$ <sup>(3)</sup>	RMB	US\$ <sup>(3)</sup>
	(in thousands)			
<b>Short-term debt:</b>				
Borrowings under current liabilities.....	3,323,694	470,438	3,323,694	470,438
<b>Total short-term debt</b> .....	3,323,694	470,438	3,323,694	470,438
<b>Long-term debt:</b>				
Notes to be issued in this offering.....	–	–	14,038,417	1,987,009
<b>Total long-term debt</b> .....	–	–	14,038,417	1,987,009
<b>Total indebtedness</b> <sup>(1)</sup> .....	3,323,694	470,438	17,362,111	2,457,447
<b>Total equity</b> .....	95,003,319	13,446,847	95,003,319	13,446,847
<b>Total capitalization</b> <sup>(2)</sup> .....	98,327,013	13,917,285	112,365,430	15,904,294

*Notes:*

- (1) Total indebtedness equals total short-term debt plus total long-term debt of the Company. For a summary of our material indebtedness, see “Description of Other Material Indebtedness.”
- (2) Total capitalization equals total indebtedness plus total equity of the Company.
- (3) Amounts in RMB have been translated into U.S. dollars at the rate of RMB7.0651 to US\$1.00. No representation is made that the RMB amounts should have been, could have been or may be converted to U.S. dollars, or vice versa, at that rate.

We have incurred and will continue to incur additional indebtedness since June 30, 2020 in our ordinary course of business. Except as disclosed herein, there have been no material changes in the Company’s total capitalization since June 30, 2020.

## **USE OF PROCEEDS**

The net proceeds we expect to receive from this offering, after deducting the discounts of the initial purchasers and certain estimated offering expenses, will be approximately US\$1,987 million. We intend to use the net proceeds of this offering primarily for general corporate purposes and refinancing.

The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering subject to the applicable mainland China laws and regulations. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this offering memorandum subject to the applicable PRC laws and regulations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in connection with “Summary Financial Information” and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. Certain statements in this section are forward-looking statements. See “Forward-Looking Statements.” Our historical consolidated financial statements have been prepared in accordance with IFRS.*

### Overview

We are China's leading e-commerce platform for services. Our platform uses technology to connect consumers and merchants. Service offerings on our platform address people's daily needs for food, and extend further to broader local services. In the twelve months ended June 30, 2020, we served 457.3 million Transacting Users and 6.3 million Active Merchants in over 2,800 cities and counties across China.

Through our flagship Meituan app and an array of other specialized apps, we focus on a “food + platform” strategy to drive value propositions for both our consumers and merchants. Food is our primary service offering category as we believe it is a massive market and presents significant opportunities, fueling our growth. Our food-related service offerings include food delivery, restaurant booking, review and promotion, grocery retail, restaurant management systems, and business-to-business food distribution service. Extending our food-related service offerings, we have established a platform of services, including hotel and travel, other local services, and new initiatives to satisfy consumers' daily needs. Our platform also provides merchants with a trustworthy on-demand delivery network and an attractive marketplace with rich user content, location-based local search system, and diversified digital marketing tools.

Our total revenues increased from RMB33.9 billion in 2017 to RMB65.2 billion in 2018 and further increased to RMB97.5 billion (US\$13.8 billion) in 2019. Our total revenues slightly decreased from RMB41.9 billion in the six months ended June 30, 2019 to RMB41.5 billion (US\$5.9 billion) in the same period of 2020. We had loss of RMB19.0 billion and RMB115.5 billion in 2017 and 2018, respectively, while we recorded a profit of RMB2.2 billion (US\$316.5 million) in 2019. We had a profit of RMB630.9 million (US\$89.3 million) in the six months ended June 30, 2020, compared to a loss of RMB557.5 million in the six months ended June 30, 2019. Excluding the impacts of (i) share-based compensation expenses, (ii) fair value changes of convertible redeemable preferred shares, (iii) fair value (gains)/losses on investments, (iv) losses/(gains) on disposal of investments and subsidiaries, (v) (gains) from the remeasurement of investments, (vi) amortization of intangible assets resulting from acquisitions, (vii) impairment and expense provision for Mobike restructuring plan, (viii) impairment of intangible assets, (ix) net provision for impairment losses on financial assets, and (x) tax effects on non-IFRS adjustments, we had adjusted net loss of RMB2.9 billion and RMB8.3 billion in 2017 and 2018, respectively, and adjusted net profit of RMB4.7 billion (US\$659.1 million) in 2019. We had adjusted net profit of RMB444.4 million and RMB2.5 billion (US\$354.2 million) in the six months ended June 30, 2019 and 2020, respectively.

Our adjusted EBITDA, which further excludes (i) income tax (credits)/expenses, except for tax effects on non-IFRS adjustments, (ii) share of (gains)/losses of investments accounted for using equity method, (iii) finance income, (iv) finance costs, (v) other (gains) except for (gains)/losses related to fair value change, disposal and remeasurement of investments and subsidiaries, (vi) amortization of software and others, and (vii) depreciation on property, plant and equipment, was negative RMB2.7 billion, negative RMB4.7 billion, RMB7.3 billion (US\$1.0 billion), RMB2.8 billion, and RMB2.7 billion (US\$375.3 million) in 2017, 2018, 2019, and the six months ended June 30, 2019 and 2020, respectively. See “Summary Financial Information — Non-IFRS Measures: Adjusted EBITDA and Adjusted Net (Loss)/Profit” for details.

### Major Factors Affecting Our Results of Operations

Our business and results of operations are affected by general factors affecting the broad consumer service industry in China, including China's overall economic growth, the increase in per capita disposable income and the growth in consumer spending in China. In addition, they are also affected by factors driving the consumer service e-commerce industry, such as the growth of mobile internet usage and penetration rate and increasing adoption of mobile payment. Unfavorable changes in any of these general factors could materially and adversely affect our results of operations.

Our results of operations are also affected by certain company-specific factors, including the following major factors:

### ***Number and Engagement of Transacting Users on Our Platform***

Growth in the number of transactions on our platform is the key driver of our revenue growth, which is in turn driven by the number and engagement of Transacting Users on our platform. The number of Transacting Users increased from 309.5 million in 2017 to 457.3 million in the twelve months ended June 30, 2020. On average, the annual number of transactions per Transacting User made on our platform increased from 18.8 transactions in 2017 to 25.7 transactions in the twelve months ended June 30, 2020.

Our ability to increase the number and engagement of Transacting Users mainly depends on our ability to broaden and deepen the service offerings on our platform. Consumers are attracted to our platform by the breadth and depth of the service offerings on our platform, as well as the convenience and value provided to them. We focus on mass-market, essential and high-frequency service categories, particularly food delivery and in-store dining services, and have expanded to a broad range of additional service categories, such as hotel and travel bookings, grocery retail, mobility services, financial services, and many other local services. Aligning our “food + platform” strategy, we plan to cover a wider spectrum of consumption scenarios and service categories in consumers’ daily lives, and further enrich the selections within each service category.

### ***Active Merchant Base on Our Platform***

In addition to the number and engagement of Transacting Users, growth in the number of transactions is also driven by the Active Merchant base on our platform. The number of Active Merchants increased from 4.4 million in 2017 to 6.3 million in the twelve months ended June 30, 2020. Merchants are attracted to our platform by our strong user traffic, cost-effective on-demand delivery infrastructure, and a comprehensive set of digitization solutions that help them succeed. We will grow our user base, enhance our delivery network, and optimize these digitization solutions, including targeted online marketing solutions, production and operation digitization solutions, restaurant management systems, business-to-business food distribution solutions, financing solutions and other value-added services to help merchants acquire consumers, grow their business beyond the physical boundaries of their stores, improve operational efficiency, and provide high-quality services.

Generally, our revenues from merchants may be viewed as the fees merchants are willing to pay to establish online presence, acquire more consumers, build their brands, promote their services, and improve their operational efficiency through our platform. The willingness of a merchant to pay these fees is a function of the sales and profit the merchant expects to generate through our platform. As a result, our ability to generate revenues from merchants is mainly driven by our ability to provide more effective services to merchants, and to broaden and deepen the service offerings on our platform to capture more monetization opportunities.

### ***Our Ability to Increase Monetization***

Our ability to increase monetization also contributes to our revenue growth. We monetize the transactions on our platform mainly through commissions, online marketing fees, and fees from other services and sales. We currently have three business segments, consisting of (i) food delivery, (ii) in-store, hotel, and travel, and (iii) new initiatives and others. For our food delivery segment, which accounted for 57.9% of our total revenues in the six months ended June 30, 2020, we generate revenues primarily from platform service to merchants for displaying food information and connecting Transacting Users, food delivery service, and online marketing service. For our in-store, hotel, and travel segment, we generate revenues primarily from online marketing services to merchants and commissions from merchants for vouchers, coupons, tickets, and reservation sold on our platform. For our new initiative and other services, such as grocery retail services, business-to-business food distribution service, mobility services through bike-sharing and car-hailing, and loan facilitation and related post-origination services, we generate revenues through service fees from merchants and/or consumers for the various services we provide.

In addition to our ability to provide more effective services to merchants and consumers, our ability to increase monetization is also affected by various other factors such as our business strategies, intensity of market competition, market conditions, and the impact of the COVID-19 pandemic.

### ***Mix of Service offerings***

The mix of service offerings on our platform affects our results of operations, including in particular the operating margin. Meituan started business operations as a group-buy company in 2010, and we have since then further expanded such business into our current in-store, hotel, and travel segment. Since 2013, we have adjusted our business strategy to focus on transaction fulfilment and extended our service offerings to food delivery. More recently, we started to provide bike-sharing services in 2018, further strengthen our advertising services, and are exploring new business initiatives and opportunities, such as grocery retail, business-to-business food distribution service, car-hailing services, restaurant management systems, and financial services.

Our operating margins vary across different business segments. Food delivery is our largest business segment in terms of revenue contribution with an operating margin of 4.9% in the six months ended June 30, 2020, as we incur significant cost of revenues for the delivery services provided and our revenues were negatively impacted during the COVID-19 outbreak. Our second largest business segment, in-store, hotel, and travel, is the most established segment among the three with an operating margin of 33.7% in the six months ended June 30, 2020. We had an overall operating margin of 1.1% in the six months ended June 30, 2020.

We believe the fundamental measure of our success will be the value we create over the long-term rather than short-term profitability. Thinking long-term, we focus on establishing and solidifying market leadership in mass-market, essential and high-frequency service categories, such as on-demand delivery and in-store dining. Our market leadership in these categories also allows us to expand into lower-frequency service categories quickly and efficiently. With a focus on “food + platform,” we continue to consolidate our strong presence in the high-frequency service categories and expand into the lower-frequency service categories, which will drive the increase of the transaction volume on our platform and thus our revenue, and lay a solid foundation for our further growth and long-term value.

### ***Operating Leverage of Our Platform***

Our platform has significant operating leverage which enables us to realize structural cost savings. We have been focusing on mass-market, essential, and high-frequency service categories, and established many touch points with consumers’ lives, which allow us to launch and cross-sell a broad range of additional service categories, such as hotel and travel bookings, and many other local services. More service categories offered and more merchants on our platform increase the choices available to consumers, and more consumers on our platform increase the potential transactions for merchants through a mutually beneficial virtuous cycle. As we operate in intensely competitive markets, we need to provide incentives to attract consumers, merchants, and other platform participants, and conduct promotion and advertising activities to enhance our brand awareness. The self-reinforcing network effects of our platform and associated operating leverage allow us to compete effectively by enjoying low user acquisition cost and growing user lifetime value. Although our selling and marketing expenses in absolute amount increased from RMB10.9 billion in 2017 to RMB15.9 billion in 2018 and further to RMB18.8 billion (US\$2.7 billion) in 2019 and slightly decreased from RMB7.9 billion in the six months ended June 30, 2019 to RMB7.4 billion (US\$1.0 billion) in the six months ended June 30, 2020, the selling and marketing expenses as a percentage of our total revenues decreased from 32.2% in 2017 to 24.3% in 2018 and further to 19.3% in 2019 and decreased from 18.8% in the six months ended June 30, 2019 to 17.8% in the same period of 2020. As our business further grows, we believe our massive scale, coupled with the network effects, will allow us to acquire consumers and merchants more cost-effectively and benefit from substantial economies of scale.



## ***Our Investment in Research and Development and Technology***

We have made, and will continue to make, significant investments in research and development and technology, to solidify our market leadership. As our business grows, and as we continue to expand and enhance our platform, research and development talent attraction and retention are critical for our business, operations, and growth prospects. We intend to continue to invest in our people, particularly engineers, personnel with specific technology expertise, and other research and development personnel. In addition, we have dedicated and will continue to dedicate significant resources to research and development efforts, focusing on developing innovative applications, products, and services aimed at providing more convenience to consumers and enabling merchants to improve their service quality and operational efficiency, as well as advancing our technologies such as big data and AI capabilities. In 2017, 2018, and 2019 and the six months ended June 30, 2019 and 2020, we incurred research and development expenses of RMB3.6 billion, RMB7.1 billion, RMB8.4 billion (US\$1.2 billion), RMB4.1 billion and RMB4.7 billion (US\$661.5 million), respectively. Moreover, we will also continue to invest significant resources in the expansion and enhancement of our technology infrastructure to support the growth of our business.

## **Critical Accounting Policies and Estimates**

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experiences and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the periods presented. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our consolidated financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in notes 2 and 4 of the audited consolidated financial statements for the years ended December 31, 2018 and 2019 included in this offering memorandum.

### ***Revenue Recognition***

Our revenue principally comprises commissions, online marketing services, and other services and sales. Revenue is recognized when or as the control of the promised goods or services is transferred to a customer, netting of value-added taxes.

The following is a description of the accounting policy for our principal revenue streams:

#### ***Commission***

We are a service e-commerce company that enables merchants to sell their services or products to Transacting Users on our platform. These consist of on-demand delivery services (including food and non-food delivery services), in-store, hotel, and travel services, and other services. For each of these services where we act as an agent, we generate revenues from commission fees, which are generally charged as a percentage of the value of transactions placed by Transacting Users on our platform. Under certain circumstances, we provide delivery service mainly to Transacting Users as a principal, and earn the delivery service fees from Transacting Users as revenue on a gross basis.

### On-demand delivery services (including food and non-food delivery)

Our on-demand delivery services facilitate food and non-food ordering and offer delivery service mainly to Transacting Users through our platform. Meanwhile, we provide platform service to merchants and certain business partners in certain regions in China, displaying the food or other goods information to Transacting Users. Upon the completion of a transaction, both the delivery service and the platform service are rendered. We recognize the delivery service fees collected from Transacting Users and the commissions as revenue at the same time. The amounts to be remitted to third-party merchants, after netting the delivery service fee and commission revenue from the cash payments by Transacting Users, are recorded as payables to merchants. In instances where we are not responsible for delivery, only commission revenue is recognized once a transaction is completed.

### In-store, hotel, and travel services

Our in-store, hotel, and travel services provide merchants with a platform to display their own services or goods. Transacting Users can purchase the vouchers or make reservations of the services or goods offered by the merchants via our platform. When the vouchers are redeemed at merchants' site, upon room check-in for hotel reservations, or on the departure date of the packaged tours, commission revenues are recognized.

Under all circumstances, cash payments received from Transacting Users are initially recorded as advances from Transacting Users, as unredeemed vouchers can be returned by users at any time. We recognize the revenues at the point in time, and recognize the amounts to be remitted to third-party merchants as payables to merchants.

### *Online marketing services*

We provide online marketing services to merchants or marketers. Some of the merchants or marketers pay us for performance-based marketing only when a user clicks on marketer's link on our websites or/and mobile applications, or when the advertisement is viewed by a pre-determined number of users. We recognize revenue each time a user clicks on the marketer's link or when its information is viewed by pre-determined number of users.

We also offer display-based marketing services in the form of key words search, banners, and textual or graphical marketer's link. The marketers pay us based on the period their advertisements are displayed on our websites and/or mobile applications. The revenue is recognized on a pro-rata basis over the contractual service period, which is normally less than 1 year, starting on the date when the advertisement is first displayed on our websites and/or mobile applications.

For certain merchants, we provided value-added marketing services under an annual plan, and charges an annual fee for such plan. We recognize revenue ratably as the value-added marketing services are provided over the plan period.

### *Interest revenue*

We generate interest revenues from directly offering loans, including joint loans together with other financial institutions, through our online platform to merchants or individual users via qualified subsidiaries. We fund the loan principal entirely or partially, and the loan receivables due from such loan facilitation are recorded on the consolidated statement of financial position. Interest revenue is calculated by applying the effective interest rate to the gross carrying amount of a loan receivable except for loan receivables that subsequently become credit-impaired. For credit-impaired loan receivables, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### *Other services and sales*

Our other services and sales comprise primarily revenues generated from business-to-business food distribution service, car-hailing services, bike-sharing services, loan facilitation and related post-origination services, and other products or services. We recognize revenues when the respective services are rendered, or when the control of the products are transferred to the customers.

Our business-to-business food distribution service provides supply chain solution to merchants in the catering industry mainly through sales of food ingredients. We recognize goods sold revenue on a gross basis when the control of inventories is transferred.

Our mobility services mainly provide bike-sharing and car-hailing services to our Transacting Users. Currently, for bike-sharing services and car-hailing services other than aggregated model, we recognize revenues substantially for the fees collected from Transacting Users. Revenues from car-hailing services of aggregated model are immaterial to us. As to mobility services relating to taxi services, we act as an agent by connecting Transacting Users with taxi drivers, and does not earn any fee from either party, and therefore do not recognize revenue.

In certain cases, we also provide loan facilitation services to borrowers and lenders, and provide post-origination services such as cash process, collection, and SMS services to lenders. We regard facilitation services and post origination services as two distinctive performance obligations. The borrowers are commonly merchants or individual users who utilize our online platform. For loan facilitation services, we determine that we are not the legal lender or borrower in the loan origination and repayment process, but acting as an intermediary to bring both parties together. Therefore, we do not record the loans receivable or payable arising from the loan facilitation activities. We recognize revenues from loan facilitation services are recognized at point of time when the loan contract is established between borrowers and lenders, and recognize revenues from post-origination services over the loan contract period.

We also generate other revenues from a long-term business cooperation agreement with Maoyan, which provides that Maoyan shall be our exclusive business partner for the movie ticketing business. Through this cooperation agreement, we provide Maoyan with user traffic and other sources over the cooperation period and recognize revenue on a straight line basis.

### ***Contract Balances***

When either party to a contract has performed, we present the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is our right to consideration in exchange for goods and services that we have transferred to a customer. A receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional only if the passage of time is required before payment of that consideration is due. Our contract assets are other receivables due from loan facilitation services.

If a customer pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. Our contract liabilities are mainly resulted from the business cooperation agreement with Maoyan and online marketing services, which are recorded as deferred revenues.

We expense contract acquisition cost when incurred because the amortization period would have been 1 year or less.

## *Incentives*

We provide various types of incentives to Transacting Users, delivery riders, borrowers, drivers, and merchants under online marketing services or business-to-business food distribution service, including discounted coupons (with a minimum value to use), direct payment deduction, red packet, interest reduction/exemption coupons, and discounts on goods or services. The major accounting policy for incentives is described as follows.

### *Incentives to customers*

We record such incentives as deduction of revenues to the extent of the revenue collected from the customers. The exceeded amount is recorded as selling and marketing expenses. The incentives on delivery service or mobility service to Transacting Users, the incentives to crowdsourced delivery riders on behalf of merchants or individual users, the interest favorable offered to borrowers, and discounts on online marketing services or business-to-business food distribution service to merchants are classified as such.

### *Incentives to Transacting Users*

If the substantial services to Transacting Users are provided by third parties, the incentives at our discretion in order to stimulate transaction volume on our online platform are recorded as selling and marketing expenses. The incentives to Transacting Users where we are not responsible for delivery and substantially all of the incentives for in-store, hotel, and travel services are classified as such.

### *Incentives to vendors*

In circumstance where we are responsible for the delivery service, the incentive to delivery riders is recognized as cost of revenue as it is part of our fulfilment costs for completion of the delivery performance obligation. In connection with car-hailing services, the incentives to drivers are recorded as cost of revenue.

### *Incentives on behalf of third parties*

For certain business partners in certain regions within China in food delivery business, they setup the incentive plans via our system to maintain local market and manage the daily operation. We receive and pay the incentives on behalf of such business partners to Transacting Users, which are not treated as our incentives.

For all the business lines, we may facilitate cash refunds or incentives to Transacting Users for unsatisfactory goods or services rendered by merchants, but merchants are contractually responsible and liable for the quality of the goods or services. We also have the contractual right to claim reimbursements from merchants. For those which are not refunded by merchants, the refunds or incentives from us to Transacting Users are recorded as a reduction of revenue unless there are objective evidence that they are not paid on behalf of merchants.

## Consolidated Income Statements

The following table sets forth a summary of our consolidated income statements with line items in absolute amounts and as percentages of our revenues for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB		US\$
	(in thousands, except for percentages)						(Unaudited)		(Unaudited)			
<b>Revenues</b> .....	33,927,987	100.0	65,227,278	100.0	97,528,531	13,804,268	100.0	41,876,649	100.0	41,475,724	5,870,508	100.0
Cost of revenues.....	(21,708,483)	(64.0)	(50,122,320)	(76.8)	(65,208,143)	(9,229,614)	(66.9)	(28,866,674)	(68.9)	(27,704,300)	(3,921,289)	(66.8)
<b>Gross profit</b> .....	12,219,504	36.0	15,104,958	23.2	32,320,388	4,574,654	33.1	13,009,975	31.1	13,771,424	1,949,219	33.2
Selling and marketing expenses.....	(10,908,688)	(32.2)	(15,871,901)	(24.3)	(18,819,067)	(2,663,666)	(19.3)	(7,855,222)	(18.8)	(7,371,771)	(1,043,406)	(17.8)
Research and development expenses.....	(3,646,634)	(10.7)	(7,071,900)	(10.8)	(8,445,664)	(1,195,406)	(8.7)	(4,068,430)	(9.7)	(4,673,195)	(661,448)	(11.3)
General and administrative expenses.....	(2,171,408)	(6.4)	(5,546,037)	(8.5)	(4,338,954)	(614,139)	(4.4)	(2,050,511)	(4.9)	(2,227,833)	(315,329)	(5.4)
Net provision for impairment losses on financial assets ..	-	-	(285,655)	(0.4)	(645,685)	(91,391)	(0.7)	(201,691)	(0.5)	(283,218)	(40,087)	(0.7)
Fair value changes on other financial investments at fair value through profit or loss .....	472,874	1.4	1,836,382	2.8	77,699	10,998	0.1	(158,359)	(0.4)	(161,572)	(22,869)	(0.4)
Other gains, net .....	208,260	0.6	748,356	1.0	2,531,143	358,260	2.6	1,133,174	2.7	1,405,280	198,904	3.5
<b>Operating (loss)/profit</b> .....	(3,826,092)	(11.3)	(11,085,797)	(17.0)	2,679,860	379,310	2.7	(191,064)	(0.5)	459,115	64,984	1.1
Finance income.....	60,885	0.2	294,047	0.5	166,217	23,526	0.2	74,463	0.2	98,282	13,911	0.2
Finance costs.....	(19,214)	(0.1)	(44,732)	(0.1)	(191,042)	(27,040)	(0.2)	(96,936)	(0.2)	(108,775)	(15,396)	(0.3)
Fair value changes of convertible redeemable preferred shares .....	(15,138,824)	(44.6)	(104,606,058)	(160.4)	-	-	-	-	-	-	-	-
Share of (losses)/gains of investments accounted for using the equity method ...	(10,418)	(0.0)	(48,267)	(0.1)	107,353	15,195	0.1	25,378	0.1	54,009	7,644	0.1
<b>(Loss)/profit before income tax</b> .....	(18,933,663)	(55.8)	(115,490,807)	(177.1)	2,762,388	390,991	2.8	(188,159)	(0.4)	502,631	71,143	1.2
Income tax (expenses)/credits.....	(54,218)	(0.2)	(1,888)	(0.0)	(526,223)	(74,482)	(0.5)	(369,343)	(0.9)	128,272	18,156	0.3
<b>(Loss)/profit for the year/period</b> .....	<u>(18,987,881)</u>	<u>(56.0)</u>	<u>(115,492,695)</u>	<u>(177.1)</u>	<u>2,236,165</u>	<u>316,509</u>	<u>2.3</u>	<u>(557,502)</u>	<u>(1.3)</u>	<u>630,903</u>	<u>89,299</u>	<u>1.5</u>

## Description of Major Components of Our Results of Operations

Our business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision-maker, who is responsible for allocating resources and assessing performance of our operating segments. Our chief operating decision-maker has been identified as our executive directors who make strategic decisions. As a result of this evaluation, we determined that we have three operating segments.

### Revenues

#### Revenues by Segment

We generate revenues from three operating segments: (i) food delivery, (ii) in-store, hotel, and travel, and (iii) new initiatives and others. The following table sets forth segment revenues both in absolute amount and as a percentage of our revenues for the periods presented:

	For the year ended December 31,						For the six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							(Unaudited)		(Unaudited)			
	(in thousands, except for percentages)											
<b>Revenues:</b>												
Food delivery.....	21,031,933	62.0	38,143,083	58.5	54,843,205	7,762,552	56.2	23,550,523	56.2	24,034,518	3,401,865	57.9
In-store, hotel, and travel .....	10,852,810	32.0	15,840,361	24.3	22,275,472	3,152,888	22.8	9,737,410	23.3	7,638,960	1,081,225	18.4
New initiatives and others.....	2,043,244	6.0	11,243,834	17.2	20,409,854	2,888,828	21.0	8,588,716	20.5	9,802,246	1,387,418	23.7
<b>Total:</b> .....	<b>33,927,987</b>	<b>100.0</b>	<b>65,227,278</b>	<b>100.0</b>	<b>97,528,531</b>	<b>13,804,268</b>	<b>100.0</b>	<b>41,876,649</b>	<b>100.0</b>	<b>41,475,724</b>	<b>5,870,508</b>	<b>100.0</b>

#### Food delivery

The food delivery segment was the major contributor to our revenue increases in 2017, 2018, 2019, and the six months ended June 30, 2020. Revenues from the food delivery segment are primarily derived from (i) commission from merchants for orders placed on our platform, which are generally determined as a percentage of the value of the transactions completed, (ii) online marketing services in various advertising formats provided to merchants, and (iii) delivery fees from transacting users and merchants for delivery services provided by us.

Our revenues from the food delivery segment are primarily driven by the segment's GTV, which is in turn determined by the number of transacting users, the average number of transactions per transacting user in this segment, and average order value, as well as the number of active merchants and our ability to increase monetization from them.

#### In-store, hotel, and travel

Revenues from the in-store, hotel, and travel segment are primarily derived from (i) online marketing services to merchants, including performance-based and display-based marketing services, as well as marketing services provided under annual plans, and (ii) commission from merchants for vouchers, coupons, tickets, and reservations sold on our platform, which are generally determined as a percentage of the value of the transaction completed. Revenues from the in-store, hotel, and travel segment are driven by increases in the number of Active Merchants as well as the average revenue contributed by each merchant.

#### New initiatives and others

Revenues from the new initiatives and others segment are primarily derived from (i) grocery retail services, (ii) business-to-business food distribution service, (iii) mobility services including bike-sharing services and car-hailing services, and (iv) financial services.



## Revenues by Type

The following table sets forth our revenues by type both in absolute amount and as a percentage of our revenues for the periods presented:

	For the year ended December 31,						For the six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							(Unaudited)		(Unaudited)			
	(in thousands, except for percentages)											
<b>Revenues:</b>												
Commission .....	28,009,130	82.6	47,012,249	72.1	65,525,997	9,274,603	67.2	28,594,292	68.3	26,711,465	3,780,762	64.4
Online marketing services .....	4,701,675	13.9	9,391,406	14.4	15,840,078	2,242,018	16.2	6,493,037	15.5	7,187,420	1,017,313	17.3
Other services and sales (including interest revenue) ..	1,217,182	3.5	8,823,623	13.5	16,162,456	2,287,647	16.6	6,789,320	16.2	7,576,839	1,072,433	18.3
<b>Total:</b> .....	<u>33,927,987</u>	<u>100.0</u>	<u>65,227,278</u>	<u>100.0</u>	<u>97,528,531</u>	<u>13,804,268</u>	<u>100.0</u>	<u>41,876,649</u>	<u>100.0</u>	<u>41,475,724</u>	<u>5,870,508</u>	<u>100.0</u>

## Cost of Revenues

Our cost of revenues for the food delivery segment primarily consists of (i) food delivery rider costs, (ii) payment processing costs, (iii) employee benefit expenses, (iv) depreciation of property, plant and equipment, and (v) bandwidth and server custody fees.

Our cost of revenues for the in-store, hotel, and travel segment primarily consists of (i) depreciation of property, plant and equipment, (ii) bandwidth and server custody fees, (iii) payment processing costs, (iv) online traffic costs, and (v) employee benefits expenses.

Our cost of revenues for the new initiatives and others segment primarily consist of (i) cost of goods sold, (ii) car-hailing driver related costs, (iii) depreciation of property, plant and equipment, (iv) other outsourcing labor costs, and (v) payment processing costs.

The following table sets forth our cost of revenues as a percentage of total revenues for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							(Unaudited)		(Unaudited)			
	(in thousands, except for percentages)											
Cost of revenues: .....	<u>(21,708,483)</u>	<u>(64.0)</u>	<u>(50,122,320)</u>	<u>(76.8)</u>	<u>(65,208,143)</u>	<u>(9,229,614)</u>	<u>(66.9)</u>	<u>(28,866,674)</u>	<u>(68.9)</u>	<u>(27,704,300)</u>	<u>(3,921,289)</u>	<u>(66.8)</u>

## Gross Profit

The following table sets forth our gross profit in absolute amounts and as a percentage of revenues for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							(Unaudited)		(Unaudited)			
	(in thousands, except for percentages)											
Gross profit .....	<u>12,219,504</u>	<u>36.0</u>	<u>15,104,958</u>	<u>23.2</u>	<u>32,320,388</u>	<u>4,574,654</u>	<u>33.1</u>	<u>13,009,975</u>	<u>31.1</u>	<u>13,771,424</u>	<u>1,949,219</u>	<u>33.2</u>



### *Fair Value Changes of Convertible Redeemable Preferred Shares*

Fair value changes of convertible redeemable preferred shares represent changes in fair value of the preferred shares issued by us. We designated the preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statements. Subsequent to initial recognition, the preferred shares are carried at fair value with changes in fair value recognized in the consolidated income statements. The fair value changes of convertible redeemable preferred shares were nil in 2019 and in the six months ended June 30, 2020 as a result of the completion of our initial public offering in September 2018, when all the convertible redeemable preferred shares were converted into ordinary shares.

### *Taxation*

We had income tax expenses of RMB54.2 million, RMB1.9 million, RMB526.2 million (US\$74.5 million), and RMB369.3 million (US\$52.3 million) in 2017, 2018, 2019, and the six months ended June 30, 2019, respectively, and income tax credits of RMB128.3 million (US\$18.2 million) in the six months ended June 30, 2020. We are subject to various rates of income tax under different jurisdictions. The following summarizes the major factors affecting our applicable tax rates in the Cayman Islands, the British Virgin Islands, Hong Kong, and China.

#### *Cayman Islands and the British Virgin Islands*

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Companies Law and are 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.

Entities incorporated in the British Virgin Islands and all dividends, interest, rents, royalties, compensation, and other amounts paid by entities incorporated in the British Virgin Islands to persons who are not resident in the British Virgin Islands and any capital gains realized with respect to any shares, debt obligations, or other securities of entities incorporated in the British Virgin Islands by persons who are not resident in the British Virgin Islands are exempt from all provisions of the Income Tax Ordinance in the British Virgin Islands.

#### *Hong Kong*

Hong Kong profits tax is 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate for the qualified corporations is 8.25% for assessable profits in the first HK\$2 million and 16.5% for any assessable profits in excess. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits.

#### *Mainland China*

Under the amended EIT Law effective from December 29, 2018, our PRC subsidiaries, and controlled affiliated entities and their subsidiaries are subject to the statutory rate of 25%, subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy.

Enterprises that qualify as “high and new technology enterprises” under the EIT Law are entitled to a preferential enterprise income tax rate of 15%. Certain of our PRC subsidiaries and controlled affiliated entities and their subsidiaries were certified as “high and new technology enterprises” in 2017, 2018, 2019, or the six months ended June 30, 2020. In addition, certain of our PRC subsidiaries and controlled affiliated entities and their subsidiaries were certified as “small and thin-profit enterprises” under the EIT Law and were subject to a preferential income tax rate of 20% in 2017, 2018, 2019, or the six months ended June 30, 2020.

Our remaining PRC entities were subject to enterprise income tax at a rate of 25% in 2017, 2018, 2019 and the six months ended June 30, 2020. Pursuant to the EIT Law, a 10% withholding tax is levied on dividends paid to foreign investors (non-resident enterprises that does not have an establishment or place of

business in mainland China or that has an establishment or place of business in mainland China but the relevant income is not effectively connected therewith) from China effective from January 1, 2008. The withholding tax rate for dividend payment from mainland China may be lowered to a treaty-preferential treatment (e.g. 5% for the qualified Hong Kong investors) if there is a tax arrangement between China and the jurisdiction of the foreign investors. However, the above-mentioned treaty-preferential treatment does not automatically apply and certain requirements must be satisfied. In 2017, 2018, 2019, and the six months ended June 30, 2020, we incurred net accumulated operating losses and did not have any profit distribution plan.

***(Loss)/Profit for the year/period***

The following table sets forth our (loss)/profit in absolute amounts and as a percentage of our revenues for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,					
	2017		2018		2019		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
							(Unaudited)		(Unaudited)			
	(in thousands, except for percentages)											
(Loss)/profit for the year/period .....	(18,987,881)	(56.0)	(115,492,695)	(177.1)	2,236,165	316,509	2.3	(557,502)	(1.3)	630,903	89,299	1.5

**Period-to-Period Comparison of Results of Operations**

***Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019***

*Revenues*

Our revenues decreased by 1.0% from RMB41.9 billion in the six months ended June 30, 2019 to RMB41.5 billion (US\$5.9 billion) in the six months ended June 30, 2020.

The following table sets forth our revenues by segment and type in absolute amount for the first half of 2019 and 2020.

	Unaudited For the six Months Ended June 30, 2020			
	Food delivery	In-store, hotel, and travel	New initiatives and others	Total
	(RMB in thousands)			
<b>Revenues</b>				
Commission .....	21,282,638	3,289,856	2,138,971	26,711,465
Online marketing services .....	2,715,259	4,332,136	140,025	7,187,420
Other services and sales (including interest revenue).....	36,621	16,968	7,523,250	7,576,839
<b>Total</b> .....	<b>24,034,518</b>	<b>7,638,960</b>	<b>9,802,246</b>	<b>41,475,724</b>

**Unaudited**  
**For the six Months Ended June 30, 2019**

	<b>Food delivery</b>	<b>In-store, hotel, and travel</b>	<b>New initiatives and others</b>	<b>Total</b>
	(RMB in thousands)			
<b>Revenues</b>				
Commission .....	21,632,175	5,168,087	1,794,030	28,594,292
Online marketing services .....	1,867,796	4,534,423	90,818	6,493,037
Other services and sales (including interest revenue).....	50,552	34,900	6,703,868	6,789,320
<b>Total</b> .....	<b>23,550,523</b>	<b>9,737,410</b>	<b>8,588,716</b>	<b>41,876,649</b>

**Food delivery.** Our revenues from food delivery segment increased by 2.1% from RMB23.6 billion for the six months ended June 30, 2019 to RMB24.0 billion (US\$3.4 billion) for the six months ended June 30, 2020. Commission revenues decreased by 1.6% to RMB21.3 billion (US\$3.0 billion) primarily as a result of the decrease in monetization rate by 0.6 percentage points due to the increased subsidies to Transacting Users and higher portion of orders from branded merchants on our platform, partially offset by the increase of GTV by 6.9% on a year-over-year basis, which was mainly driven by the 11.2% increase in average order value as more Transacting Users ordered with higher ticket size or from branded restaurants. Online marketing services revenues increased by 45.4% to RMB2.7 billion (US\$384.3 million) in the six months ended June 30, 2020, primarily due to the increase in the number of Active Merchants and the increase in the average revenue contributed by each merchant in the second quarter of 2020, driven by the increasing demand from merchants for online traffic during the recovery of the food delivery business.

**In-store, hotel, and travel.** Our revenues from the in-store, hotel, and travel segment decreased by 21.6% from RMB9.7 billion in the six months ended June 30, 2019 to RMB7.6 billion (US\$1.1 billion) in the six months ended June 30, 2020, primarily due to the decline of commission revenues as consumers limited their out-door dining, travel, and other consumption activities during the pandemic, which were heavily impacted during the first quarter of 2020 while recovered to a large extent from the pandemic in the second quarter of 2020.

**New initiatives and others.** Our revenues from the new initiatives and others segment increased by 14.1% from RMB8.6 billion in the six months ended June 30, 2019 to RMB9.8 billion (US\$1.4 billion) in the six months ended June 30, 2020, mainly due to the increases in the revenues from Meituan Instashopping, Meituan Grocery, business-to-business food distribution service, and micro loan business, partially offset by the decrease in revenues from car-hailing services, restaurant management systems, and bike-sharing services, all of which were negatively affected by the pandemic.

*Costs and Expenses*

The following table sets forth a breakdown of our cost and expenses by function and as percentages of our revenues for the periods indicated:

	<b>Unaudited For the six months ended June 30,</b>				
	<b>2019</b>		<b>2020</b>		
	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>US\$</b>	<b>%</b>
	(in thousands, except for percentages)				
<b>Costs and Expenses</b>					
Cost of revenues.....	28,866,674	68.9	27,704,300	3,921,289	66.8
Selling and marketing expenses .....	7,855,222	18.8	7,371,771	1,043,406	17.8
Research and development expenses ....	4,068,430	9.7	4,673,195	661,448	11.3
General and administrative expenses ....	2,050,511	4.9	2,227,833	315,329	5.4
Net provision for impairment losses on financial assets.....	201,691	0.5	283,218	40,087	0.7
<b>Total</b> .....	<b>43,042,528</b>	<b>102.8</b>	<b>42,260,317</b>	<b>5,981,559</b>	<b>102.0</b>

### Cost of Revenues

Our cost of revenues decreased by 4.0% from RMB28.9 billion in the six months ended June 30, 2019 to RMB27.7 billion (US\$3.9 billion) in the six months ended June 30, 2020 and decreased from 68.9% to 66.8% as a percentage of total revenues during the same period. The decrease in amount was primarily due to (i) a RMB758.0 million (US\$107.3 million) decrease in food delivery rider costs and a RMB831.4 million (US\$117.7 million) decrease in car-hailing driver-related costs as a result of the decrease in business volume during the pandemic and (ii) a decrease of RMB813.4 million (US\$115.1 million) in our depreciation of property, plant and equipment as we replaced old bikes with Meituan bikes that have a longer life span for our bike-sharing services, partially offset by an increase of RMB413.7 million (US\$58.5 million) in cost of goods sold due to the growth of our Meituan Grocery and business-to-business food distribution service.

### Selling and Marketing Expenses

Our selling and marketing expenses decreased by 6.2% from RMB7.9 billion in the six months ended June 30, 2019 to RMB7.4 billion (US\$1.0 billion) in the same period in 2020 and decreased from 18.8% to 17.8% as a percentage of total revenues during the same period. The decrease in amount was primarily attributable to a decrease of RMB452.4 million (US\$64.0 million) in Transacting User incentives across various businesses, partially offset by an increase of RMB145.6 million (US\$20.6 million) in promotion and advertising expenses, mainly driven by our enlarged promotional campaigns. We adjusted our marketing strategy in response to the pandemic so that our selling and marketing expenses as a percentage of revenues decreased.

### Research and Development Expenses

Our research and development expenses increased by 14.9% from RMB4.1 billion in the six months ended June 30, 2019 to RMB4.7 billion (US\$661.4 million) in the same period in 2020 and increased from 9.7% to 11.3% as a percentage of total revenues during the same period. This increase was primarily attributable to an increase of RMB518.4 million (US\$73.4 million) in employee benefits expenses due to the increase in the number of our employees and their salaries.

### General and Administrative Expenses

Our general and administrative expenses increased by 8.6% from RMB2.1 billion in the six months ended June 30, 2019 to RMB2.2 billion (US\$315.3 million) in the same period in 2020 and increased from 4.9% to 5.4% as a percentage of total revenues during the same period. The increase was mainly driven by the increase in the number of our employees and their salaries.

### Net Provision for Impairment Losses on Financial Assets

Our net provision for impairment losses on financial assets was RMB283.2 million (US\$40.1 million) in the six months ended June 30, 2020, compared to RMB201.7 million in the same period in 2019, primarily due to the increase in loan loss provision as our micro loan business grew.

### *Fair Value Changes on Other Financial Investments at Fair Value Through Profit or Loss*

Our fair value loss on other financial investments at fair value through profit or loss was RMB161.6 million (US\$22.9 million) in the six months ended June 30, 2020, compared to loss of RMB158.4 million in the same period in 2019, primarily due to more fair value loss from our investee companies.

### *Other Gains, Net*

Our other gains, net increased by 24.0% from RMB1.1 billion (US\$160.4 million) in the six months ended June 30, 2019 to RMB1.4 billion (US\$198.9 million) in the same period in 2020, primarily attributable to the increase in tax return and preference, partially offset by the decline in gains from treasury investments, disposal, and remeasurement of equity investments, and a donation made during the first quarter of 2020.



### *Operating Profit/(Loss)*

As a result of the foregoing, our operating profit in the six months ended June 30, 2020 was RMB459.1 million (US\$65.0 million), representing an operating margin of 1.1%, compared to an operating loss of RMB191.1 million (US\$27.0 million) in the same period in 2019, representing an operating margin of negative 0.5%.

### *Profit/(Loss) Before Income Tax*

Primarily as a result of the foregoing, our profit before income tax in the six months ended June 30, 2020 was RMB502.6 million (US\$71.1 million), compared to a loss of RMB188.2 million (US\$26.6 million) in the same period in 2019.

### *Income Tax Credits/(Expenses)*

We had income tax credits of RMB128.3 million (US\$18.2 million) in the six months ended June 30, 2020, compared to income tax expenses of RMB369.3 million (US\$52.3 million) in the same period in 2019, primarily due to the decrease in profits from certain entities in the period.

### *Profit/(Loss) for the Period*

As a result of the foregoing, we had a profit of RMB630.9 million (US\$89.3 million) in the six months ended June 30, 2020, compared to a loss of RMB557.5 million (US\$78.9 million) in the six months ended June 30, 2019.

## ***Year Ended December 31, 2019 Compared to Year Ended December 31, 2018***

### *Revenues*

Our revenues increased by 49.5% from RMB65.2 billion in 2018 to RMB97.5 billion (US\$13.8 billion) in 2019. The increase was primarily driven by (i) the increase in the number of transactions from 9.5 billion in 2018 to 12.4 billion in 2019, which was in turn driven by the increase in the number of Transacting Users and their purchase frequency, (ii) our increased ability to monetize from the transactions, and (iii) our exploration of new initiatives.

Food delivery. Our revenues from the food delivery segment increased by 43.8% from RMB38.1 billion in 2018 to RMB54.8 billion (US\$7.8 billion) in 2019, primarily due to (i) the increase in GTV of food delivery, which was driven by the increase in the number of food delivery transactions as a result of the increase in food delivery user base and their purchase frequency, and the increase in average order value, and (ii) the increase in the monetization rate.

In-store, hotel, and travel. Our revenues from the in-store, hotel, and travel segment increased by 40.6% from RMB15.8 billion in 2018 to RMB22.3 billion (US\$3.2 billion) in 2019, primarily due to (i) the increase in the average revenue per Active Merchant of our in-store and travel businesses, and (ii) the increase in the number of domestic room nights consumed on our platform.

New initiatives and others. Our revenues from the new initiatives and others segment increased by 81.5% from RMB11.2 billion in 2018 to RMB20.4 billion (US\$2.9 billion) in 2019, primarily due to the increases in the revenues from the business-to-business food distribution service, micro loan business, Meituan Instashopping, and integrated payment services.

### *Cost of Revenues*

Our cost of revenues increased by 30.1% from RMB50.1 billion in 2018 to RMB65.2 billion (US\$9.2 billion) in 2019. This increase was attributable to our revenues growth in 2019, especially the strong growth of our food delivery segment and our new initiatives and others segment.

The following table sets forth our cost of revenues by segment in absolute amounts and as a percentage of our total cost of revenues in 2018 and 2019:

	For the year ended December 31,				
	2018		2019		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
<b>Cost of revenues</b>					
Food delivery .....	32,874,886	65.6	44,610,017	6,314,138	68.4
In-store, hotel, and travel .....	1,745,006	3.5	2,529,117	357,973	3.9
New initiatives and others .....	15,502,428	30.9	18,069,009	2,557,503	27.7
<b>Total</b> .....	<u>50,122,320</u>	<u>100.0</u>	<u>65,208,143</u>	<u>9,229,614</u>	<u>100.0</u>

Food delivery. Cost of revenues for our food delivery business increased by 35.7% from RMB32.9 billion in 2018 to RMB44.6 billion (US\$6.3 billion) in 2019, primarily attributable to the increase in food delivery rider costs as a result of the increase in the volume of orders delivered.

In-store, hotel, and travel. Cost of revenues for our in-store, hotel, and travel businesses increased by 44.9% from RMB1.7 billion in 2018 to RMB2.5 billion (US\$358.0 million) in 2019. This increase was primarily attributable to the increases in online traffic costs, which was in line with the growth of our online marketing revenues, depreciation of property, plant and equipment, bandwidth and server custody fees relating to our data storage improvement project, and payment processing costs.

New initiatives and others. Cost of revenues for our new initiatives and others businesses increase by 16.6% from RMB15.5 billion in 2018 to RMB18.1 billion (US\$2.6 billion) in 2019, mainly attributable to the increases in cost of goods sold, resulting from the growth of our business-to-business food distribution service and Meituan Grocery business, delivery rider costs relating to the growth of Meituan Instashopping, and payment processing costs from our integrated payment services, partially offset by the decrease in depreciation expenses in our bike-sharing services and car-hailing driver-related costs.

#### *Gross Profit and Gross Margin*

The following table sets forth our gross profit both in absolute amount and as a percentage of revenues, or gross margin, by segment in 2018 and 2019:

	For the year ended December 31,				
	2018		2019		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
<b>Gross profit/(loss)</b>					
Food delivery .....	5,268,197	13.8	10,233,188	1,448,414	18.7
In-store, hotel, and travel .....	14,095,355	89.0	19,746,355	2,794,915	88.6
New initiatives and others .....	(4,258,594)	(37.9)	2,340,845	331,325	11.5
<b>Total</b> .....	<u>15,104,958</u>	<u>23.2</u>	<u>32,320,388</u>	<u>4,574,654</u>	<u>33.1</u>

As a result of the foregoing, our gross profit in 2018 and 2019 was RMB15.1 billion and RMB32.3 billion (US\$4.6 billion), respectively. The gross margin of our food delivery business improved by 4.9 percentage points on a year-over-year basis as we enhanced our delivery network efficiency through economy of scale and expanded our service offering to merchants, including online marketing services. The gross margin of our in-store, hotel, and travel businesses remained relatively stable on a year-over-year basis. The gross margin of our new initiatives and others businesses turned to positive 11.5% in 2019, representing an improvement of 49.4 percentage points on a year-over-year basis, mainly due to (i) improved gross margin of our bike-sharing services as we phased out the old bikes and replaced them with new Meituan Bikes with longer useful lives, (ii) narrowed losses of our car-hailing services as we reduced the incentives

paid to drivers, (iii) positive gross margin of Meituan Instashopping benefiting from the improvement of our delivery network efficiency, and (iv) change in product and service mix.

#### *Selling and Marketing Expenses*

Our selling and marketing expenses increased from RMB15.9 billion in 2018 to RMB18.8 billion (US\$2.7 billion) in 2019, and decreased from 24.3% to 19.3% as a percentage of total revenues during the same period. This increase in amount was primarily attributable to (i) an increase of RMB2.7 billion in Transacting User incentives, as we extended more subsidies to support business growth, especially for hotel booking and food delivery businesses, (ii) an increase of RMB755.1 million in employee benefits expenses, due to the increase in both average salaries and benefits and share-based compensation expenses of our selling and marketing personnel, and (iii) an increase of RMB240.4 million in depreciation and rental expenses, mainly driven by the growth of our grocery retail and business-to-business food distribution businesses. Promotion and advertising expenses decreased by RMB1.1 billion on a year-over-year basis, mainly resulting from our efforts on exploring more effective marketing channels. The decrease in percentage of total revenues was attributable to our improved sales productivity and marketing efficiency.

#### *Research and Development Expenses*

Our research and development expenses increased from RMB7.1 billion in 2018 to RMB8.4 billion (US\$1.2 billion) in 2019, and decreased from 10.8% to 8.7% as a percentage of revenues during the same period. This increase in amount was primarily attributable to an increase of RMB1.2 billion in employee benefits expenses.

#### *General and Administrative Expenses*

Our general and administrative expenses decreased from RMB5.5 billion in 2018 to RMB4.3 billion (US\$614.1 million) in 2019 and decreased from 8.5% to 4.4% as a percentage of revenues during the same period. Excluding the effect of RMB1.3 billion of impairment provision of intangible assets, which resulted from the change in our branding strategy for the bike-sharing services, and RMB132.0 million and RMB14.9 million of impairment provision for Mobike's overseas restructuring in 2018 and 2019, respectively, our general and administrative expenses increased by RMB256.0 million on a year-over-year basis, primarily attributable to an increase of RMB398.2 million in employee benefits expenses.

#### *Net Provision for Impairment Losses on Financial Assets*

Our net provision for impairment losses on financial assets was RMB645.7 million in 2019 (US\$91.4 million), compared to RMB285.7 million in 2018, primarily due to the increase in loan loss provision as our micro loan business grew.

#### *Fair Value Changes on Other Financial Investments at Fair Value Through Profit or Loss*

Our fair value changes on other financial investments at fair value through profit or loss in 2019 decreased by RMB1.8 billion (US\$248.9 million) compared to 2018, primarily due to less fair value gain from our investee companies.

#### *Other Gains, Net*

Our other gains, net in 2019 increased by RMB1.8 billion (US\$252.3 million) compared to 2018, primarily attributable to (i) an increase of RMB980.8 million in gains from investments in term deposits with initial terms of over three months and wealth management products, (ii) an increase of RMB391.2 million in subsidies and tax preference, (iii) gains of RMB176.9 million from the remeasurement of investments, and (iv) an increase of RMB131.5 million in gains from the disposal of investments.

#### *Operating Profit/(Loss)*

As a result of the foregoing, our operating profit in 2019 was RMB2.7 billion (US\$379.3 million), compared to an operating loss of RMB11.1 billion in 2018.

### *Fair Value Changes of Convertible Redeemable Preferred Shares*

Fair value changes of convertible redeemable preferred shares were nil in 2019 as a result of the completion of our initial public offering in September 2018, compared to a loss of RMB104.6 billion in 2018.

### *Profit/(Loss) Before Income Tax*

Primarily as a result of the foregoing, our profit before income tax in 2019 was RMB2.8 billion (US\$391.0 million), compared to a loss before income tax of RMB115.5 billion in 2018.

### *Income Tax Expenses*

We had income tax expenses of RMB526.2 million (US\$74.5 million) in 2019, compared to income tax expenses of RMB1.9 million in 2018, primarily due to the increase in net profits from some of our taxable entities.

### *Profit/(Loss) for the Year*

As a result of the foregoing, we had a profit of RMB2.2 billion (US\$316.5 million) in 2019, compared to a loss of RMB115.5 billion in 2018.

## ***Year Ended December 31, 2018 Compared to Year Ended December 31, 2017***

### *Revenues*

Our revenues increased by 92.3% from RMB33.9 billion in 2017 to RMB65.2 billion in 2018. The increase was primarily driven by (i) the increase in the number of transactions on our platform from 5.8 billion in 2017 to 9.5 billion in 2018, which was in turn driven by the increase in the number of Transacting Users and their purchase frequency, and (ii) our increased ability to monetize from the transactions.

Food delivery. Our revenues from the food delivery segment increased by 81.4% from RMB21.0 billion in 2017 to RMB38.1 billion in 2018, primarily due to (i) the increase in GTV of food delivery, which was driven by the increase in the number of food delivery transactions, as a result of the increase in food delivery user base and higher average purchase frequency per user, and (ii) the increase in monetization rate from 12.3% to 13.5%.

In-store, hotel, and travel. Our revenues from the in-store, hotel, and travel segment increased by 46.0% from RMB10.9 billion in 2017 to RMB15.8 billion in 2018, primarily due to (i) the increase in the number of Active Merchants as well as the average revenue per Active Merchant of our in-store, hotel, and travel businesses, and (ii) the increase in the number and the average daily rate of domestic room nights consumed on our platform.

New initiatives and others. Our revenues from the new initiatives and others segment increased by 450.3% from RMB2.0 billion in 2017 to RMB11.2 billion in 2018, primarily due to the increase in revenues from sales of products and services to merchants, such as restaurant management systems and business-to-business food distribution service, and services to consumers, such as Meituan Instashopping, car-hailing service, and bike-sharing service.

### *Cost of Revenues*

Our cost of revenues increased by 130.9% from RMB21.7 billion in 2017 to RMB50.1 billion in 2018. The increase was caused by our revenue growth in 2018, especially the strong growth of our food delivery segment, as well as our new initiatives and others segment.

The following table sets forth our cost of revenues by segment in absolute amounts and as a percentage of our total cost of revenues in 2017 and 2018:

	<b>For the year ended December 31,</b>			
	<b>2017</b>		<b>2018</b>	
	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>%</b>
	<b>(in thousands, except for percentages)</b>			
<b>Cost of revenues</b>				
Food delivery .....	19,332,514	89.1	32,874,886	65.6
In-store, hotel, and travel .....	1,273,331	5.9	1,745,006	3.5
New initiatives and others .....	1,102,638	5.0	15,502,428	30.9
<b>Total</b> .....	<b>21,708,483</b>	<b>100.0</b>	<b>50,122,320</b>	<b>100.0</b>

Food delivery. Cost of revenues for our food delivery business increased by 70.0% from RMB19.3 billion in 2017 to RMB32.9 billion in 2018, primarily attributable to the increase in food delivery rider costs as a result of the increase in the number of food deliveries completed.

In-store, hotel, and travel. Cost of revenues for our in-store, hotel, and travel businesses increased by 37.0% from RMB1.3 billion in 2017 to RMB1.7 billion in 2018. The increase was primarily attributable to the increase in payment processing costs and bandwidth and server custody fees, which was generally in line with our revenue growth, and the increase in depreciation of property, plant and equipment and other outsourcing labor costs.

New initiatives and others. Cost of revenues for our new initiatives and others businesses increased from RMB1.1 billion in 2017 to RMB15.5 billion in 2018, mainly attributable to the increase in car-hailing driver related costs, depreciation of property, plant and equipment primarily as a result of our acquisition of Mobike, cost of goods sold as we expanded our business-to-business food distribution service, and other outsourcing labor costs due to expansion of our Meituan Instashopping.

#### *Gross Profit and Gross Margin*

The following table sets forth our gross profit both in absolute amount and as a percentage of revenues, or gross margin, by segment in 2017 and 2018:

	<b>For the year ended December 31,</b>			
	<b>2017</b>		<b>2018</b>	
	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>%</b>
	<b>(in thousands, except for percentages)</b>			
<b>Gross profit/(loss)</b>				
Food delivery .....	1,699,419	8.1	5,268,197	13.8
In-store, hotel, and travel .....	9,579,479	88.3	14,095,355	89.0
New initiatives and others .....	940,606	46.0	(4,258,594)	(37.9)
<b>Total</b> .....	<b>12,219,504</b>	<b>36.0</b>	<b>15,104,958</b>	<b>23.2</b>

As a result of the foregoing, our gross profit in 2017 and 2018 was RMB12.2 billion and RMB15.1 billion, respectively.

#### *Selling and Marketing Expenses*

Our selling and marketing expenses increased from RMB10.9 billion in 2017 to RMB15.9 billion in 2018, and decreased from 32.2% to 24.3% as a percentage of revenues during the same periods. The increase in selling and marketing expenses was primarily due to the increase in employee benefits expenses, Transaction User incentives, promotion and advertising expenses and amortization of intangible assets. Employee benefits expenses increased from RMB3.5 billion in 2017 to RMB5.1 billion in 2018 due to our

expansion of the selling and marketing teams to support the expansion of our food delivery business and new initiatives and other services. Transacting User incentives increased from RMB4.2 billion in 2017 to RMB5.4 billion in 2018, as we continued to drive the rapid growth of the food delivery segment and to expand our service offerings to consumers in the new initiatives and others segment. Promotion and advertising expenses increased from RMB2.3 billion in 2017 to RMB3.3 billion in 2018, primarily due to our increased spending in marketing and branding campaigns to drive growth in active users.

#### *Research and Development Expenses*

Our research and development expenses increased from RMB3.6 billion, or 10.7% of revenues in 2017, to RMB7.1 billion, or 10.8% of revenues in 2018, primarily due to the increase in employee benefits expenses, including share-based payments, from RMB3.4 billion in 2017 to RMB6.6 billion in 2018, which resulted from the increase in both headcount and average salaries and benefits of our research and development personnel to support our business growth.

#### *General and Administrative Expenses*

Our general and administrative expenses increased from RMB2.2 billion, or 6.4% of revenues in 2017, to RMB5.8 billion, or 8.9% of revenues in 2018. Excluding the effect of RMB1.3 billion impairment provision of intangible assets resulting from the change in our branding strategy for the bike-sharing services, and RMB132.0 million of the total RMB358.8 million impairment provision for Mobike's overseas restructuring, our general and administrative expenses as a percentage of revenues would have increased to 6.7% in 2018. Besides the impairment provision, the increase in general and administrative expenses was mainly attributable to (i) the increase in employee benefits expenses from RMB1.3 billion in 2017 to RMB2.5 billion in 2018, as a result of the increase in headcount and the average salaries and benefits, including share-based payments, of our administrative personnel, (ii) the increase in provision of doubtful accounts due to the adoption of IFRS 9 and expansion of our micro loan business, and (iii) the increase in rental, facilities and utilities to support the expansion in employee headcount and business operations.

#### *Fair Value Changes on Other Financial Investments at Fair Value Through Profit or Loss*

Our fair value changes on other financial investments at fair value through profit or loss in 2018 increased by RMB1.4 billion compared to 2017, primarily due to fair value gain from our investee companies.

#### *Other Gains, Net*

Our other gains, net were a gain of RMB748.4 million in 2018 compared to a gain of RMB208.3 million in 2017, primarily due to the increase in interest income from short-term investments as well as government subsidies. In 2017, a loss of RMB366.7 million was recognized for the disposal of certain investments in other gains, net.

#### *Operating Loss*

As a result of the foregoing, our operating loss in 2018 was RMB11.1 billion, compared to an operating loss of RMB3.8 billion in 2017.

#### *Fair Value Changes of Convertible Redeemable Preferred Shares*

Fair value changes of convertible redeemable preferred shares increased from a loss of RMB15.1 billion in 2017 to a loss of RMB104.6 billion in 2018, resulting from significant increase in the valuation of our Company, which was determined by the offering price of the Shares in our initial public offering in September 2018.

#### *Loss Before Income Tax*

Primarily as a result of the foregoing, our loss before income tax in 2018 was RMB115.5 billion, compared to a loss of RMB18.9 billion in 2017.

#### *Income Tax Expenses*

We had income tax expenses of RMB1.9 million in 2018, compared to income tax expenses of RMB54.2 million in 2017, primarily due to the increase in the recognition of deferred tax assets as we expected certain subsidiaries to make profit and therefore utilize the accumulated losses carried forward.



## Loss for the Year

As a result of the foregoing, we had losses of RMB115.5 billion and RMB19.0 billion in 2018 and 2017, respectively.

## Liquidity and Capital Resources

We have historically funded our cash requirements principally from capital contribution from shareholders and financing through issuance and sale of equity securities. We had cash and cash equivalents of RMB13.9 billion and short-term treasury investments of RMB44.5 billion as of June 30, 2020, compared to cash and cash equivalents of RMB10.2 billion and short-term treasury investments of RMB48.4 billion as of June 30, 2019.

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

	For the year ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
					(Unaudited)	(Unaudited)	
				(in thousands)			
Net cash (used in)/generated from operating activities .....	(310,200)	(9,179,818)	5,574,220	788,980	(149,777)	545,338	77,188
Net cash (used in)/generated from investing activities .....	(15,157,090)	(23,438,686)	(10,174,018)	(1,440,039)	(7,785,824)	798,777	113,060
Net cash generated from/(used in) financing activities .....	25,507,781	29,295,294	1,114,267	157,714	1,299,230	(913,004)	(129,227)
Net increase/(decrease) in cash and cash equivalents .....	10,040,491	(3,323,210)	(3,485,531)	(493,345)	(6,636,371)	431,111	61,021
Cash and cash equivalents at the beginning of the year/period .....	9,376,575	19,408,839	17,043,692	2,412,378	17,043,692	13,396,185	1,896,107
Exchange (loss)/gain on cash and cash equivalents .....	(8,227)	1,009,587	(173,442)	(24,549)	(198,448)	107,760	15,251
Cash and cash equivalents reclassified from the assets classified as held for sale/(included in the assets classified as held for sale) .....	-	(51,524)	11,466	1,623	28,377	-	-
Cash and cash equivalents at the end of the year/period .....	19,408,839	17,043,692	13,396,185	1,896,107	10,237,250	13,935,056	1,972,379

## Operating Activities

Net cash generated from operating activities represents the cash generated from our operations minus the income tax paid. Cash generated from our operations primarily consisted of our profit/(loss) for the period, as adjusted by non-cash items, such as depreciation and amortization, and changes in working capital.

For the six months ended June 30, 2020, our cash generated from operating activities was RMB545.3 million (US\$77.2 million), which was primarily attributable to our profit before income tax of RMB502.6 million (US\$71.1 million), as adjusted by (i) non-cash items, which primarily comprised depreciation and amortization of RMB2.0 billion (US\$0.3 billion) and share-based payments of RMB1.4 billion (US\$0.2 billion), and (ii) changes in working capital, which primarily comprised an increase in prepayments, deposits and other assets of RMB1.1 billion (US\$0.2 billion), a decrease in payables to merchants of RMB1.1 billion (US\$0.2 billion), a decrease in trade payables of RMB1.1 billion (US\$0.1 billion), and a decrease in advances from Transacting Users of RMB673.6 million (US\$95.3 million), partially offset by an increase in other payables and accruals of RMB1.4 billion (US\$0.2 billion).

For 2019, our net cash generated from operating activities was RMB5.6 billion (US\$0.8 billion), which was primarily attributable to our profit before income tax of RMB2.8 billion (US\$0.4 billion), as adjusted by (i) non-cash items, which primarily comprised depreciation and amortization of RMB4.8 billion (US\$0.7 billion) and share-based payments of RMB2.2 billion (US\$0.3 billion), partially offset by dividend income and interest classified as investing cash flows of RMB1.5 billion (US\$0.2 billion), and (ii) changes in working capital, which primarily comprised an increase in restricted cash of RMB4.5 billion (US\$0.6 billion), an increase in prepayments, deposits and other assets of RMB1.7 billion (US\$0.2 billion), a decrease in deposit from Transacting Users of RMB866.0 million (US\$122.6 million), and an increase in trade receivables of RMB273.0 million (US\$38.6 million), partially offset by an increase in other payables and accruals of RMB1.5 billion (US\$0.2 billion), an increase in trade payables of RMB1.3 billion (US\$0.2 billion), an increase in deferred revenues of RMB1.2 billion (US\$0.2 billion), and an increase in advance from Transacting Users of RMB640.9 million (US\$90.7 million).

For 2018, our net cash used in operating activities was RMB9.2 billion, which was primarily attributable to our loss before income tax of RMB115.5 billion, as adjusted by (i) non-cash items, which primarily comprised fair value changes of convertible redeemable preferred shares of RMB104.6 billion and depreciation and amortization of RMB5.4 billion, and (ii) changes in working capital, which primarily comprised a decrease in deposit from Transacting Users of RMB4.8 billion, an increase in prepayments, deposits and other assets of RMB3.7 billion, an increase in trade payables of RMB2.1 billion, a decrease in payables to merchants of RMB1.8 billion, and a decrease in restricted cash of RMB0.6 billion.

For 2017, our net cash used in operating activities was RMB310.2 million, which was primarily attributable to our loss before income tax from continuing operations of RMB18.9 billion, as adjusted by (i) non-cash items, which primarily comprised fair value changes of convertible redeemable preferred shares of RMB15.1 billion; and (ii) changes in working capital, which primarily comprised an increase in restricted cash of RMB4.1 billion, an increase in prepayments, deposits and other assets of RMB2.5 billion, an increase in trade payables of RMB1.4 billion, and an increase in payables to merchants of RMB5.1 billion.

### ***Investing Activities***

For the six months ended June 30, 2020, our net cash generated from investing activities was RMB798.8 million (US\$113.1 million), which was mainly attributable to proceeds from disposals of treasury investments of RMB93.4 billion (US\$13.2 billion), partially offset by purchase of treasury investments of RMB89.6 billion (US\$12.7 billion), purchase of property, plant and equipment of RMB3.0 billion (US\$0.4 billion), and acquisition of other financial investments at fair value through profit or loss of RMB1.2 billion (US\$0.2 billion).

For 2019, our net cash used in investing activities was RMB10.2 billion (US\$1.4 billion), which was mainly attributable to purchase of treasury investments of RMB177.2 billion (US\$25.1 billion), purchase of property, plant and equipment of RMB3.0 billion (US\$0.4 billion) and payments for business combinations, net of cash acquired of RMB1.4 billion (US\$0.2 billion), partially offset by proceeds from disposals of treasury investments of RMB170.2 billion (US\$24.1 billion), and interest income received of RMB1.3 billion (US\$0.2 billion).

For 2018, our net cash used in investing activities was RMB23.4 billion, which was mainly attributable to purchase of treasury investments of RMB91.2 billion and payments for business combinations, net of cash acquired of RMB7.3 billion, purchase of property, plant and equipment of RMB2.2 billion, and purchase of investments measured at fair value through profit or loss of RMB1.6 billion, partially offset by proceeds from disposal of treasury investments of RMB75.2 billion, and proceeds from disposal of investments measured at fair value through profit or loss of RMB2.6 billion.

For 2017, our net cash used in investing activities was RMB15.2 billion, which was mainly attributable to purchase of treasury investments of RMB65.6 billion, partially offset by proceeds from disposals of treasury investments of RMB51.4 billion.

## Financing Activities

For the six months ended June 30, 2020, our net cash used in financing activities was RMB913.0 million (US\$129.2 million), which was mainly attributable to repayments of borrowings of RMB3.2 billion (US\$0.4 billion) and lease payments of RMB377.1 million (US\$53.4 million), partially offset by proceeds from borrowings of RMB2.5 billion (US\$0.3 billion).

For 2019, our net cash generated from financing activities was RMB1.1 billion (US\$0.2 billion), which was mainly attributable to proceeds from borrowings of RMB4.1 billion (US\$0.6 billion) and proceeds from the exercise of options and vested RSUs of RMB444.9 million (US\$63.0 million), partially offset by repayments of borrowings of RMB2.4 billion (US\$0.3 billion), lease payments of RMB785.8 million (US\$111.2 million) and finance costs paid of RMB218.7 million (US\$31.0 million).

For 2018, our net cash generated from financing activities was RMB29.3 billion, which was mainly attributable to proceeds from issuance of ordinary shares of RMB28.5 billion.

For 2017, our net cash generated from financing activities was RMB25.5 billion, which primarily comprised proceeds from issuance of preferred shares of RMB25.8 billion.

## Indebtedness

For a summary of our material indebtedness, see “Description of Other Material Indebtedness.”

## Capital Expenditures and Long-Term Investments

The following table sets forth our capital expenditures and placement for long-term investments for the periods indicated:

	For the year ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
					(Unaudited)	(Unaudited)	
	(in thousands)						
Purchase of property, plant and equipment .....	737,680	2,210,249	2,984,976	422,496	1,463,481	2,984,545	422,435
Purchase of intangible assets.....	8,251	69,712	16,760	2,372	7,662	8,447	1,196
Payments for business combinations, net of cash acquired .....	320,801	7,260,087	1,365,975	193,341	449,764	-	-
Acquisition of investments accounted for using the equity method .....	785,568	163,675	141,025	19,961	1,025	-	-
Acquisition of investments measured at fair value .....	379,577	1,599,549	455,987	64,541	338,893	1,190,123	168,451
Increase in prepayments for investments .....	2,284	247,673	20,954	2,966	14,607	96,385	13,642
Total .....	<u>2,234,161</u>	<u>11,550,945</u>	<u>4,985,677</u>	<u>705,677</u>	<u>2,275,432</u>	<u>4,279,500</u>	<u>605,724</u>

We believe that our existing cash and cash equivalents, cash flows from operations, and term deposits will be sufficient to meet the anticipated cash needs for our operating activities and capital expenditures for at least the next 12 months.

## Contractual Obligations

### Capital Commitments

The table below sets forth our capital commitments as of the dates indicated:

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
			(in thousands)	
Within 1 year.....	24,368	37,426	23,658	3,349
1-2 years .....	2,535	3,628	91	13
Total .....	26,903	41,054	23,749	3,362

### Operating Lease Commitments

Historically, our commitments primarily related to the leases of offices, warehouses, and retail stores under non-cancellable operating lease agreements. The lease terms under those agreements were between one and ten years, and a majority of them were renewable at the end of the applicable lease period at the then market rate.

From January 1, 2019, we have recognized right-of-use assets for the leases.

Our previous aggregate minimum lease payments under non-cancellable operating lease agreements with initial terms of one year or more were as follows:

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
			(in thousands)	
Within 1 year.....	268,529	605,723	–	–
1-2 years .....	529,647	1,281,789	–	–
Over 5 years.....	299,185	223,965	–	–
Total .....	1,097,361	2,111,477	–	–

### Off-Balance Sheet Commitments and Arrangements

As of the June 30, 2020, we had no off-balance sheet commitments or arrangements.

### Financial Risk Disclosure

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management. For more information on our financial risks, see note 3 to the audited consolidated financial statements for the years ended December 31, 2018 and 2019 included in this offering memorandum.

## **Market Risk**

### *Foreign Exchange Risk*

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our entities' functional currency. Our functional currency is U.S. Dollars whereas functional currency of our PRC subsidiaries is RMB. We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures and try to minimize these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

As we operate mainly in China with most of the transactions settled in RMB, our management considers that our business is not exposed to any significant foreign exchange risk as no significant financial assets or liabilities of ours are denominated in the currencies other than the respective functional currencies of our entities.

### *Cash Flow and Fair Value Interest Rate Risk*

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for cash and cash equivalents, restricted cash, and short-term investments measured at amortized cost, details of which are disclosed in note 24 and note 20 to the audited consolidated financial statements for the year ended December 31, 2019 included in this offering memorandum.

Our exposure to changes in interest rates is also attributable to our borrowings, details of which are disclosed in note 31 to the audited consolidated financial statements for the year ended December 31, 2019 included in this offering memorandum. Borrowings carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk.

As of June 30, 2020, our borrowings were borrowings that carried at fixed rates, which did not expose us to cash flow interest rate risk.

### *Price Risk*

We are exposed to price risk in respect of other financial assets at fair value through profit or loss and treasury investments measured at fair value through profit or loss held by us. We are not exposed to commodity price risk. To manage the price risk arising from our investments, we diversify our portfolio. Each investment is managed by senior management on a case by case basis.

## **Credit Risk**

We are exposed to credit risk in relation to our cash and cash equivalents, restricted cash, treasury investments measured at amortized cost, trade receivables, prepayments, deposits and other assets, and financial assets at fair value through profit or loss. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets. We are also exposed to credit risk in relation to our financial guarantee contracts.

To manage the risk arising from cash and cash equivalents, restricted cash, short-term investments measured at amortized cost and long-term investments measured at amortized cost, we only transact with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are immaterial.

To manage risk arising from trade receivables and contract assets, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 150 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience, and other factors.

For more details on our credit risks, see note 3 to the audited consolidated financial statements for the years ended December 31, 2018 and 2019 included in this offering memorandum.

### ***Liquidity Risk***

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents or adjusted financing arrangements to meet our liquidity requirements.



## BUSINESS

### Our Mission

Our mission is: “We help people eat better, live better.”

We founded our Company with the belief that technology will make everyone’s life better. We remain excited and steadfast in our mission, and will continue using technology to help people eat better, live better.

### Overview

We are China’s leading e-commerce platform for services. Our platform uses technology to connect consumers and merchants. Service offerings on our platform address people’s daily needs for food, and extend further to broader local services. In the twelve months ended June 30, 2020, we served 457.3 million Transacting Users and 6.3 million Active Merchants in over 2,800 cities and counties across China.

Through our flagship Meituan app and an array of other specialized apps, we focus on a “food + platform” strategy to drive value propositions for both consumers and merchants. Food is our primary service offering category as we believe it is a massive market and presents significant opportunities, fueling our growth. Our food-related service offerings include food delivery, restaurant booking, review and promotion, grocery retail, restaurant management systems, and business-to-business food distribution service. Extending our food-related service offerings, we have established a platform of services, including hotel and travel, other local services, and new initiatives to satisfy consumers’ daily needs. Our platform also provides merchants with a trustworthy on-demand delivery network and an attractive marketplace with rich user content, location-based local search system, and diversified digital marketing tools.

We play an important role in consumers’ daily lives. Through our food-related services, we help consumers discover merchant information, make informed decisions, complete online and offline transactions, and enjoy on-demand delivery. We focus on mass-market, essential, and high-frequency service categories and have established market leadership in these core categories. We are China’s largest on-demand food delivery service provider in terms of GTV for the six months ended June 30, 2020, according to Trustdata, and China’s largest e-commerce platform for in-store dining services in terms of GTV for the six months ended June 30, 2020, according to iiMedia Research. Our leadership in these core categories allows us to attract a large and growing consumer base, increase user stickiness, and cater to evolving consumption habits. The number of our Transacting Users increased from 309.5 million in 2017 to 457.3 million for the twelve months ended June 30, 2020. On average, the annual number of transactions each Transacting User made on our platform increased from 18.8 transactions in 2017 to 25.7 transactions for the twelve months ended June 30, 2020.

Our leadership in food-related services also enables us to expand into new service categories efficiently. We have established many touch points with consumers’ daily lives through food-related services, which allow us to launch and cross-sell a broad range of additional service categories. For example, in 2019, over 75% of our new hotel-booking Transacting Users and over 80% of our new Transacting Users of other in-store local services were converted from Transacting Users of our food delivery and in-store dining services. The breadth of our service offerings allows us to enjoy low user acquisition cost, enhance user stickiness, and grow user lifetime value. Our platform has achieved significant operating leverage. Our selling and marketing expenses as a percentage of total revenues decreased from 32.2% in 2017 to 19.3% in 2019, and further to 17.8% for the six months ended June 30, 2020. Our marketing efficiency has been improving since 2017. As our business further grows, we believe that our massive scale, combined with our strong network effects, will allow us to acquire consumers and merchants more cost-effectively and benefit from substantial economies of scale.

We aim to transform China’s service industry by providing merchants with a wide range of solutions and digitizing their operations. Our solutions include targeted online marketing tools, cost-effective on-demand delivery infrastructure, restaurant management systems, business-to-business food distribution service, and financing solutions. We help merchants establish online presence, engage with consumers in real time, and improve operational efficiency. Merchants can grow on our platform beyond the physical

boundaries of their stores. As a result, we have sustainably expanded our merchant base over time and fostered long-term merchant loyalty. Our Active Merchants increased from 4.4 million in 2017 to 6.3 million for the twelve months ended June 30, 2020.

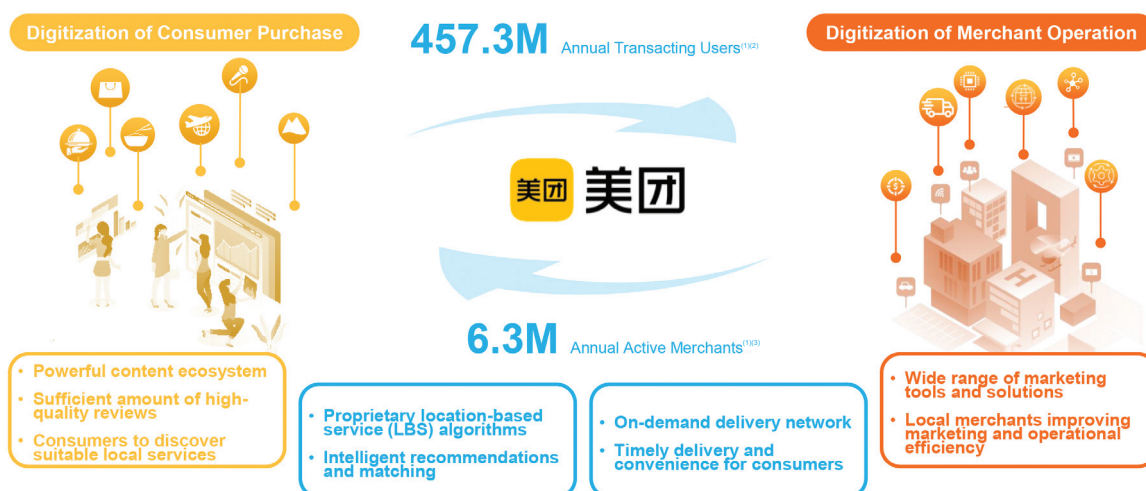
We have built and currently operate the world’s leading on-demand delivery network in terms of the number of deliveries in the fourth quarter of 2019. Our network had an average of 920,000 daily active delivery riders and fulfilled an average of 27.2 million daily transactions in the fourth quarter of 2019. In 2019, our delivery network completed 8.7 billion deliveries, representing approximately 90% of total on-demand delivery transactions generated on our platform, while the remaining transactions were directly fulfilled by merchants. We continue to optimize cost per delivery and improve the efficiency of our delivery network. In 2019, we achieved an average delivery time of less than 30 minutes.

We enable the service industry with cutting-edge big data and AI technologies. Our data-driven personalized recommendations improve efficiency for consumers and merchants. Powered by AI technologies, our intelligent dispatch system optimizes order-rider matching based on the real-time locations of delivery riders, and runs the route planning algorithms 2.9 billion times per hour during the daily peak time. We are also utilizing AI-based autonomous driving technology to develop autonomous delivery vehicles.

We are a pioneer of the service e-commerce model globally. We have evolved from a single-category service provider to a multi-category service e-commerce platform, and have expanded from large cities to small cities across China, creating a truly “online + offline” business model with nationwide coverage. We have extended our platform from digitizing the demand side to the supply side, driving internet penetration of the entire service industry value chain. With our one-stop multi-category platform and highly efficient on-demand delivery network, we have developed into an infrastructure for people’s daily lives and merchants’ daily operations in the digitization era.

We have achieved significant growth. We generate revenues from commissions, online marketing services, and other services and sales. Our total revenues increased by 92.3% from RMB33.9 billion in 2017 to RMB65.2 billion in 2018 and further increased by 49.5% to RMB97.5 billion (US\$13.8 billion) in 2019. Our total revenues for the six months ended June 30, 2020 were RMB41.5 billion (US\$5.9 billion).

The following diagram illustrates how we connect consumers and merchants through our platform and accelerate the digitization on both demand and supply sides. On the consumer side, we offer diversified services covering people’s daily lives to digitize consumer purchases. On the merchant side, we offer a wide range of solutions to digitize their operations. This is all supported by our powerful content ecosystem, extensive and intelligent technology platform, and massive on-demand delivery network.



Notes:

- (1) For the twelve months ended June 30, 2020.
- (2) “Transacting User” refers to a user account that paid for transactions of products or services on our platform in a given period, regardless of whether the account is subsequently refunded.
- (3) “Active Merchant” refers to a merchant that meets any of the following conditions in a given period: (i) completed at least one transaction on our platform, (ii) purchased any online marketing services from us, (iii) processed offline payment at least once through our integrated payment systems, or (iv) generated any order through our restaurant management systems.

## Key Operating Metrics

The following tables set forth certain key operating metrics for the periods indicated.

	For the Year Ended December 31,			For the Twelve Months Ended June 30,	
	2017	2018	2019	2019	2020
			(in millions)		
Number of Transacting Users.....	309.5	400.4	450.5	422.6	457.3
Number of Active Merchants .....	4.4	5.8	6.2	5.9	6.3
			(units)		
Average Number of Transactions Per Annual Transacting User .....	18.8	23.8	27.4	25.5	25.7
	For the Year Ended December 31,			For the Three Months Ended June 30,	
	2017	2018	2019	2019	2020
			(in billions)		
GTV of Food Delivery (RMB).....	171.1	282.8	392.7	93.1	108.8
Number of Food Delivery Transactions .....	4.1	6.4	8.7	2.1	2.2
			(in millions)		
Number of Domestic Hotel Room Nights.....	205.0	283.9	392.4	94.0	78.0

## Our Strengths

### *Leader in service e-commerce with tremendous scale and network effects*

We are China’s leading e-commerce platform for services. Operating in over 2,800 cities and counties in China, we have transformed the ways consumers enjoy their daily lives and merchants conduct their businesses. For the twelve months ended June 30, 2020, we served 457.3 million Transacting Users and 6.3 million Active Merchants. We are China’s largest on-demand food delivery service provider in terms of GTV in the six months ended June 30, 2020, with over 2.2 billion food delivery transactions and RMB108.8 billion (US\$15.4 billion) of food delivery GTV for the three months ended June 30, 2020. We have also built an industry-leading on-demand delivery network, consisting of an average of 920,000 daily active delivery riders in the fourth quarter of 2019. We operate the largest e-commerce platform for in-store dining services in China in terms of GTV for the six months ended June 30, 2020, according to iiMedia Research. In addition, we are China’s largest online hotel booking platform in terms of domestic room nights booked in 2019, according to Trustdata. With our massive scale and online plus offline operational capability, we are well positioned to further penetrate these markets.

Our platform, with a massive consumer and merchant base as well as the world’s leading on-demand delivery network, enjoys significant network effects that increase the value of our services to consumers, merchants, and other participants and thus increase their stickiness and loyalty through a virtuous cycle.

Leveraging our first mover advantage in providing direct on-demand delivery service to enhance user experience, our delivery network also has the leading capacity in the world in serving merchants on our platform. Merchants are attracted to our platform for our high-quality delivery services and the large consumer base on our platform, and we provide them with opportunities for more revenues as well as additional services, such as marketing tools, restaurant management systems, and business-to-business food distribution service, to help merchants improve both their online and offline operations. Reciprocally, our merchants contribute to our nationwide service coverage, develop long-standing relationship with us, and bring industry know-how into our network. As our platform grows, our consumers enjoy the broader selection of merchants on our platform, enhanced and more consistent delivery experience, optimized user experience, more intelligent recommendation, and attractive membership program.

The beneficial interactions among our delivery network, merchants, and consumers form a virtuous cycle: our on-demand delivery infrastructure attracts an increasing number of merchants; more merchants on our platform increase the choices available to consumers; more consumers will attract more merchants to our platform. In addition, our large and engaged consumer and merchant bases generate a massive amount of authentic comments and data, which in turn enable consumers to make better decisions, merchants to provide better services, and riders to serve consumers and merchants more efficiently guided by our AI-empowered intelligent dispatch system. Our massive scale, coupled with these network effects, allow us to further solidify our market leading position.

### ***The “super app” with full-spectrum local services and strong brand awareness***

We operate our flagship Meituan app and an array of other specialized apps. With a focus on “food + platform,” Meituan has become a household name and a “super app” with full-spectrum local services.

We focus on mass-market, essential, and high-frequency service categories, particularly food delivery and in-store dining services. These core categories present enormous market opportunities. Our market leadership in food delivery and in-store dining is well established: we are China’s largest on-demand food delivery service provider, and China’s largest e-commerce platform for in-store dining services. With our strong presence in these core categories, we are able to increase consumer stickiness as evidenced by the growth in transactions per Transacting User. On average, the annual number of transactions each Transacting User made on our platform increased from 18.8 transactions in 2017 to 25.7 transactions for the twelve months ended June 30, 2020.

Our one-stop platform offers diversified services covering many aspects of consumers’ daily lives. Leveraging our market leadership in high-frequency categories, we have been able to quickly and efficiently increase our consumer touchpoints through cross-selling to a broad range of new service categories, such as hotel, travel, beauty, medical aesthetics, parent and child services, and many other local services. For example, in 2019, over 75% of our new hotel-booking Transacting Users and over 80% of our new Transacting Users of other in-store local services were converted from Transacting Users of our core categories of food delivery and in-store dining. In 2019, 392 million domestic hotel room nights were booked through our platform, making us the largest online hotel-booking channel in China, according to Trustdata. Other local service categories, such as beauty and medical aesthetics, also achieved stellar year-over-year growth on the back of effective cross-selling in 2019. The breadth of our service offerings allows us to enjoy low user acquisition cost, enhance user stickiness, and grow user lifetime value.

### ***Leading intra-city on-demand delivery infrastructure***

We have built and currently operate the world’s leading intra-city on-demand delivery network in terms of number of deliveries completed in 2019. In the fourth quarter of 2019, this network consisted of an average of 920,000 daily active delivery riders. For the twelve months ended June 30, 2020, our network completed 8.7 billion deliveries, representing approximately 90% of the total on-demand delivery transactions generated on our platform. In 2019, we achieved an average delivery time of less than 30 minutes.

We have entered into multiple types of arrangements with our delivery partners, which give us the flexibility to scale up the delivery network quickly and enable us to complete additional deliveries at low incremental costs. We believe that our on-demand delivery network fosters strong economies of scale and

network effect, constitutes a significant entry barrier, and lays the foundation for a comprehensive intra-city on-demand delivery infrastructure spanning all types of consumer goods. The larger scale of food delivery orders leads to higher order density in a given commercial zone, so that we can batch more orders in a given delivery route and lower delivery cost per order. In addition, more orders lead to more location-based data to be analyzed by our intelligent dispatch system, which in turn can help optimize route planning and improve the efficiency of our delivery network.

### ***Comprehensive infrastructure solutions for merchants' daily operations***

We provide merchants with a variety of solutions, with the goal of digitizing China's service industry. We help merchants establish online presence and engage with consumers in real time. We provide merchants with on-demand delivery infrastructure, marketplace tools, targeted online marketing solutions, production and operation digitization solutions, restaurant management systems, business-to-business food distribution solutions, financing solutions, and more. Our broad selection of merchant enabling services helps them attract and serve more consumers more efficiently, increase sales and enhance profitability.

As a result, we have sustainably expanded our merchant base over time and fostered long-term merchant loyalty. Our Active Merchants increased from 4.4 million in 2017 to 6.3 million for the twelve months ended June 30, 2020.

### ***Proprietary and innovative technologies***

We use technology to fulfill our mission. We enhance traditional service industries with cutting-edge big data and AI technologies.

We utilize our extensive data and proprietary algorithms across all of our service categories. Our data-driven personalized recommendations help consumers quickly discover desired services, holistically evaluate choices, and make informed decisions. Our targeted marketing solutions help merchants acquire consumers more effectively. Our data analytics capabilities also help merchants better understand consumer behavior and enable them to operate more intelligently and efficiently. Additionally, the data insights from consumers' full consumption patterns and UGC also allow us to successfully expand into new service categories and enter into new geographical markets. The massive amount of data also creates a multitude of use cases, enabling us to continuously upgrade our application of AI technology and enhance our data analytics capabilities.

Powered by AI technology, our intelligent dispatch system optimizes order-rider matching based on the real time locations of delivery riders, and runs our route planning algorithms 2.9 billion times per hour during the daily peak time and calculates as many as 97% of the optimized delivery routes in an average of 0.552 milliseconds. We are also exploring the application of a series of other cutting-edge technologies, such as intelligent hardware, internet of things, robotics, image and voice recognition, and autonomous delivery system.

### ***Strong financial profile***

We have demonstrated robust revenue growth and strong profitability, and have generated positive cash flows from our operations. In 2017, 2018, 2019, and for the six months ended June 30, 2020, we had total revenues of RMB33.9 billion, RMB65.2 billion, RMB97.5 billion (US\$13.8 billion), and RMB41.5 billion (US\$5.9 billion), respectively. We began profit making in 2019. In 2019 and for the six months ended June 30, 2020, we had a profit of RMB2.2 billion (US\$316.5 million) and RMB630.9 million (US\$89.3 million), a non-IFRS adjusted EBITDA of RMB7.3 billion (US\$1.0 billion) and RMB2.7 billion (US\$375.3 million), and a non-IFRS adjusted net profit of RMB4.7 billion (US\$659.1 million) and RMB2.5 billion (US\$354.2 million), respectively. For these same periods, we also had net cash generated from operating activities of RMB5.6 billion (US\$789.0 million) and RMB545.3 million (US\$77.2 million), respectively.

We have been improving our margin profile. In 2017, 2018, 2019, and for the six months ended June 30, 2020, our gross margin was 36.0%, 23.2%, 33.1%, and 33.2%, respectively. Our operating margin has turned positive, being 2.7% and 1.1% in 2019 and for the six months ended June 30, 2020, respectively.



Thanks to our expanding economies of scale, we have gained increasing operating leverage, contributing to improving profitability. Our total operating expenses as a percentage of total revenues has decreased from 49.3% in 2017 to 35.1% for the six months ended June 30, 2020.

We have also maintained a strong and stable cash balance and liquidity. As of June 30, 2020, we had cash and cash equivalents of RMB13.9 billion (US\$2.0 billion) and short-term treasury investments of RMB44.5 billion (US\$6.3 billion), and borrowings of only RMB3.3 billion (US\$470.4 million), resulting in a net cash position.

### ***Management with long-term vision and proven execution capabilities***

Our management team pioneered the service e-commerce model globally. Led by their vision, we have evolved from a single-category service provider into a multi-category service e-commerce platform. We have expanded our footprint from large cities to small cities and counties across China, creating a truly “online + offline” integrated operating model with nationwide coverage. We have extended our platform from serving only consumers to serving merchants and the supply side as well, driving digital transformation across the entire service industry value chain. We have developed a next-generation infrastructure for the service industry.

We have demonstrated strong execution capabilities to capture emerging business opportunities. We competed with over 1,000 group-buying players in the early 2010s. Meituan and Dianping emerged as the two ultimate winners with much larger scale and better user experience across the country. In addition, we have been able to successfully expand into and become a leader in many new service categories, including hotel and travel booking, on-demand delivery services, and movie ticketing.

Our management believes that our success is measured by the value that we create for consumers, merchants and the society, which requires patience and persistence over the long term. We will continue to improve ourselves and are committed to pursuing long-term success over short-term interests.

### **Our Strategies**

The key elements of our strategy to further grow our business are:

#### ***Serve more consumers more frequently***

Growth in our consumer base and their consumption frequency is a fundamental driver for our business. We intend to attract new consumers and increase their consumption frequency by providing better and more services. In terms of consumer acquisition, we plan to further penetrate lower-tier cities across all age groups with offline resources and incentivize online referrals. In terms of frequency enhancement, we plan to further increase the transaction frequency of our food delivery services through more diversified consumption scenarios, further enhanced membership program, more intelligent recommendations based on big data analysis, and continuous expansion of the selections, available delivery hour and delivery distance of the supply on our platform. We will continue to offer more local service categories on our platform and enhance our service cross-selling capabilities to further increase the transaction frequency of in-store, hotel, and travel services, leveraging the high-quality traffic from our food delivery services. Meanwhile, the various new initiatives that we are developing also serve as new touch points with consumers and can help us reach more consumers and to increase the overall consumption frequency of our overall consumer base.

#### ***Enable more merchants with more solutions***

Merchants are critical to the success of our business. We intend to expand our merchant base and strengthen our relationships with them through expanding and improving our service offerings to merchants.

We had approximately 6.3 million Active Merchants in the twelve months ended June 30, 2020. We seek to further increase the merchant base of our platform through expansion of merchant service categories and deepened penetration within each service category. To achieve this goal, we will continue to offer merchants access to our massive consumer base and targeted, quality user traffic. Meanwhile, we will help



merchants enhance their operating efficiency through expansion of our product and service offerings, including on-demand food delivery services for restaurants, diverse advertising products to improve merchants' marketing efficiency and online operations, and additional online marketing tools to customize merchant offerings to better meet online users' needs.

***Leverage our unparalleled delivery network to provide easy and timely access to all goods and services***

We have built and currently operate the world's leading on-demand delivery network in terms of the number of deliveries in the fourth quarter of 2019. We intend to increase consumer wallet share and competitive strength through leveraging our on-demand delivery network, which we believe presents significant growth potential. Meituan Instashopping is such an initiative in the grocery retail sector leveraging our established on-demand delivery network. We intend to cover more product categories as well as improve our on-demand delivery efficiency to provide more convenience for our consumers and to increase quality sales volume for merchants.

***Strengthen our Meituan ecosystem through new initiatives***

We continue to explore new initiatives in order to capture a larger total addressable market, enhance consumer and merchant stickiness, and foster a stronger ecosystem. In addition to our core business categories, we have started to provide grocery retail services, additional merchant services including restaurant management systems and business-to-business food distribution service, mobility services through bike-sharing and car-hailing, and financial services.

We intend to continue to prudently invest in long-term growth through flexible and ROI-driven management of new initiatives, supported by our cash-rich food delivery and in-store, hotel and travel segments. We have already witnessed revenue growth and improved operating margins and unit economics for the new initiatives over the past years, and will continue to prudently explore opportunities that align with our "food + platform" strategy.

***Continue to invest in technology innovations to improve operational efficiency and user experience***

We aim to further strengthen our platform through technology innovations. We will continue to invest in technology, including AI, and further develop our data analytics capabilities to effectively utilize the massive amount of user and transaction data generated on our platform. We plan to recruit top-notch industry talent, including industry-leading researchers, experienced engineers, and top graduates from world-renowned institutions.

We plan to continue to invest in technology innovations to enhance user experience and improve operational efficiency. We intend to leverage our massive datasets and big data analytics capabilities to enhance personalized recommendations, increase user conversion from visits to transactions, and improve consumer loyalty. In addition, we intend to further improve our intelligent dispatch system, develop autonomous delivery technology, and test pilot programs to increase delivery efficiency.

**Our Service Offerings**

We are China's leading e-commerce platform for services. Our platform uses technology to connect consumers and merchants and accelerate digitization on both consumer purchases and merchant operations.

Our mission is: "We help people eat better, live better." We have established and continue to expand our one-stop platform of multi-category services to address people's daily needs for food and broader local services.

We are dedicated to creating values to both consumers and merchants on our platform. Our platform offers a wide selection of local services to consumers, such as food delivery, in-store dining, hotel and travel, and certain new initiatives and other services. We enable merchants with a wide range of solutions, such as on-demand delivery infrastructure, marketplace tools, targeted online marketing solutions, production and operation digitization solutions, restaurant management systems, business-to-business food distribution solutions, and financing solutions.

We maintain an array of apps for consumer and merchant services. Consumers may access all of our service offerings through our Meituan app. We also offer various apps dedicated to certain specific categories of our service offerings, such as Meituan Waimai (on-demand delivery services), and Meituan Grocery (on-demand grocery delivery services with self-operated model) for consumer services, and various management tools for merchant services. Consumers can also access our service offerings through apps operated by third parties. Through our strategic alliance with Tencent, access to our food delivery and in-store services is embedded into Tencent's Weixin Wallet and/or QQ apps. The strategic alliance enables us to broaden our user reach by leveraging the vast, high-frequency user base of both Weixin and QQ.

### **Service Offerings to Consumers**

We develop our service offerings based on our “food + platform” strategy, with the purpose of deepening penetration into food-related services to better satisfy consumer demands in all food-related scenarios, and expanding our service offerings to other local services by utilizing our one-stop platform. We have also built a powerful location-based search engine for local services by leveraging our rich content database, which provides consumers with a vast amount of detailed, authentic, and transparent information on Listed POIs.

We operate in over 2,800 cities and counties in China, creating a truly “online + offline” operating model with nationwide coverage. Our business is widely dispersed across the cities and counties where we operate.

### ***Food Delivery***

Food delivery mainly includes delivery of ready-to-eat meals prepared by restaurants. We are China's largest on-demand food delivery service provider in terms of GTV, with an average of 23.4 million daily transactions completed across over 2,800 cities and counties in China during the twelve months ended June 30, 2020. The GTV of our food delivery service for the twelve months ended June 30, 2020 was RMB404.4 billion (US\$57.2 billion).

Our food delivery transactions were primarily generated on our Meituan, Meituan Waimai, and Dianping apps. Consumers enter or confirm the GPS-positioned delivery address and are presented with nearby restaurants that provide delivery services. Utilizing our data and analytics capabilities, we provide consumers with personalized content and interface that match their consumption habits, taste preferences, and time sensitivity. Consumers can further filter the results based on cuisine types, popularity, proximity, and certain other features such as delivery speed, ratings, and average spending per person. They can also search merchant names or menu items directly. Available discounts and e-vouchers are displayed on merchant storefront page or on the menu directly and can be applied or redeemed immediately at check-out. Once consumers have found what they are looking for, they can provide specific instructions and make payments through various payment channels. Once we receive an order, we transmit it to the restaurant, save the consumer preference for future orders, and automatically dispatch the order to appropriate riders leveraging our intelligent dispatch system. We also design and offer our membership program to incentivize transaction frequency of food-related consumers with high potential.

Leveraging our proprietary real-time intelligent dispatch system, all restaurant orders placed on our platform are delivered to consumers in an average of less than 30 minutes in 2019 after they are placed. See “— Our Delivery Network.”

Highly efficient on-demand delivery network is essential to our businesses. Our delivery capabilities and efficiency continue to improve, and the importance of an on-demand delivery network as a critical component of our society's broader logistical infrastructure has substantially elevated. Our delivery network helps ensure continuity in people's daily lives during the COVID-19 pandemic and serves as a stabilizing force for the society by creating abundant employment opportunities. By maintaining our commitment and continuing to invest over the years, we have built up a top-notch delivery network that covers over 2,800 cities and manage an average of 920,000 daily active delivery riders in the fourth quarter of 2019. Our delivery riders are an excellent illustration of our fast evolving society, which continues to be advanced by the integration of internet and services. We are confident that our delivery network and logistical infrastructure will become the bedrock of our society and help facilitate the change in people's lifestyle in the new era.

## *In-Store, Hotel, and Travel*

Our platform also offers digitized daily consumer services outside consumers' home and office settings, including in-store dining, hotel reservation, travel services, and a variety of other in-store local services. Our in-store, hotel, and travel services bring online consumers to offline merchants. "In-store" refers to the specific use case from a consumer perspective to consume the services offline in a physical location where the merchants conduct their businesses. On our platform, consumers can search and discover merchants, check reviews, make reservations, purchase e-vouchers, order food, make online payments, and write reviews. Our full-spectrum content offerings help consumers discover local services that fit their demands, and cultivate a highly-engaged local community. Our unique interest-based feeds further fuel user engagement and drive merchant exposure through location-based features, our rich and interactive content, and customized recommendations powered by complex algorithms and data analysis capabilities.

### *In-Store Dining*

We operate the largest online platform for in-store dining services in China. The rich user content and other information available on our platform enable consumers to make informed decisions in selecting desirable restaurants. With inputs from our review contributors, consumers are able to quickly identify attractive features and potential issues of restaurants, and most of the restaurants are tagged with relevant features such as free parking, free Wi-Fi, baby chairs, smoke-free, or late evening dining. Consumers can also take advantage of the various themed posts where local foodies in our communities share their dining experiences. Consumers can browse restaurants as well as filter results by a number of criteria, such as Black Pearl Restaurants, Must-Eat List, types of cuisine, package deals or promotions, available-for-reservations, new restaurants only, and good for groups. Consumers can also sort the listed restaurants by price, proximity, popularity, and rating.

We provide attractive restaurant deals to consumers. Consumers can purchase package deals and e-vouchers that can be redeemed in the restaurants directly through our apps, typically at discounted prices compared with making in-store payments to the restaurants directly. We work with selected restaurants and offer special deals on popular cuisines to effectively bridge such featured restaurants with consumers. Our versatile packaged deals are able to facilitate a variety of consumption scenarios, such as eating alone, dating, family eating-out, business meals, and other gatherings, so that everyone is able to benefit from our restaurant deals. In addition, consumers can quickly and conveniently book tables at restaurants using our mobile apps for free or make reservations at certain high-end restaurants for a fee, without having to call restaurants. Using our apps, consumers can also put their names on a restaurant's waiting list and monitor the lineup remotely, and even browse menus and order food online, without having to visit and queue at the restaurant.

Launched in January 2018, our Black Pearl Restaurant Guide currently highlights a total of over 300 restaurants in 22 cities in China and 5 cities abroad. Restaurants are selected through a vigorous critiquing process by anonymous master chefs, culinary experts, and special advisors. We do not pay the judges for their reviews. The Black Pearl Restaurant Guide reflects the highest culinary standards from a Chinese perspective. The launch of the Black Pearl Restaurant Guide has further solidified our authority and influence in China's dining sector, enabled us to better serve the high-end consumers in China, and strengthened our brand image of the go-to platform for dining recommendations among our consumers. Furthermore, we have regularly published Must Eat List since 2017, which is the first gourmet list in China based on massive, real user testimonials and verification, covering special cuisines, food courts, and value-for-money restaurants popular among local residents and tourists. Compared with the Black Pearl Restaurant Guide, the Must Eat List provides a more comprehensive coverage of popular restaurants of a broad price range. The Must Eat List covers over 50 domestic and international cities, explores and discovers special urban cuisines, and provides users with handy, efficient, and authoritative references. It continues to encourage the food and restaurant industry to improve quality and strengthens the brand image of our platform.

### *Other In-Store Local Services*

Leveraging the large number of consumers in the high-frequency service categories, we cross-sell lower-frequency and high-value services covering a wide range of service categories, such as beauty, pet services, and parent and child services. Consumers make purchases principally in forms of package deals and e-vouchers.

- **Leisure and Entertainment.** We connect consumers with merchants that meet a variety of consumers' leisure and entertainment needs, ranging from karaoke clubs, pet services, sports and fitness, bars and teahouses to internet cafes and board game cafes.
- **Beauty, Medical Aesthetic, and Healthcare.** Consumers visit our beauty, medical aesthetic, and healthcare categories to discover and transact with businesses such as hairdressers, mani-pedis, skin care, medical beauty clinic, dental clinic and many more services.
- **Education, Parent, and Child.** We help meet parents' needs to explore for diversified child-related services, including pregnancy care, child photography, child entertainment facilities, early education centers, and family-friendly shopping malls. Meanwhile, we connect users with after-school tutoring merchants, including sports training, overseas education application services, language services, professional training, and online education services.
- **Life Events.** Our local service offerings also cover the consumer needs for daily life events, such as wedding and related services, home decoration, car washing, and house cleaning and maid services.

Expanding from our Must Eat List, we also regularly publish our Must List Series, including Must-Stay List for hotels, Must-Visit List for tourist attractions, Must-Shop List for shopping malls, and Must-Go List for cities. The Must List Series have further strengthened our unrivaled brand awareness among consumers and helped to reinforce the positioning of our platform as both the most reliable online marketing channel for merchants as well as the go-to platform for consumers to discover and explore local services in a wide range of categories.

### *Hotel*

We are China's largest online hotel booking platform in terms of domestic room nights booked in 2019, according to Trustdata.

Our major type of cooperation arrangements with hotels is the pre-paid model, under which consumers book and pre-pay for hotel room nights. Payments to the hotels are collected by us first, which will be remitted to hotels deducting our commissions after the actual consumption of hotel room nights.

The quality and depth of our hotel network enable us to offer a wide selection of hotel accommodations, from four-and five-star upscale hotels to mass-market hotels to family-run and small boutique hotels. We have expanded our hotel network into more upscale hotels as a result of the increasing purchasing power of our Transacting Users on the demand side and our enhanced cooperation arrangements with leading international and domestic hotel chains on the supply side. We have introduced "Hotel + X" project to strengthen our cooperation with upscale hotels. Leveraging the massive Transacting Users on our platform and consumers' increasing interest in local services, we help upscale hotels enhance their sales of dining, entertainment, wedding catering, and other non-lodging hotel services, and expand our cooperation with upscale hotels and our penetration in higher-tier cities. During the COVID-19 pandemic, we have further strengthened our cooperation with upscale hotels that demand more high-quality marketing channels.

### *Travel*

Our platform also provides online domestic attraction and excursion packaged ticketing services. We provide a convenient, secure, and inexpensive means for consumers to purchase attraction and excursion packaged tickets nationwide. We offer leisure travelers group tours, semi-group tours, and packaged tours.

## *New Initiatives and Other Services to Consumers*

Our new initiatives and other services to consumers primarily include grocery retail, mobility, and financial services.

### *Grocery Retail*

Our grocery retail services consist of Meituan Instashopping, Meituan Grocery, and Meituan Selected, providing food and other merchandise retail services with varied geographical coverage.

- **Meituan Instashopping.** Our nationwide online marketplace connects consumers with local merchants with respect to tens of thousands of SKUs, ranging from high-frequency, essential groceries such as fresh produce to other daily necessities such as flowers, medicine, and pet products. Consumers choose from a broad offering of merchandise for which we deliver timely leveraging our on-demand delivery network. Meituan Instashopping is highly scalable as it operates under a marketplace model.
- **Meituan Grocery.** Meituan Grocery uses a self-operated model, targeting the daily grocery needs of consumers in higher-tier cities in China. As of June 30, 2020, we had over 150 front distribution centers in Beijing, Shanghai, Guangzhou, and Shenzhen. These front distribution centers are located in high-density communities and aim to serve a consumer base within a short radius locally and deliver groceries in approximately 30 minutes or another specified time by means of high-efficiency delivery services.
- **Meituan Selected.** In July 2020, we launched our pilot Meituan Selected, which uses a community group-purchase model targeting communities in lower-tier cities in China. We offer carefully selected and popular SKUs, such as fresh produce and daily necessities, at attractive prices for local consumers within different communities. Group leaders help us acquire and engage with consumers within their communities through our Weixin mini-program. Consumers, or group members, in a community place orders online via our Meituan app or Weixin mini-program and choose a nearby self-pickup location, usually a convenience store. We deliver the ordered merchandise on the next day to the self-pickup location, where a group leader arranges for the pick-up. This model enables consumers to purchase merchandise that are proved popular within the communities at competitive prices through group buying, and to save delivery costs and enjoy next-day pick-up convenience. It also provides local convenience stores and other local pick-up locations with online traffic and store digitization without having to build their own supply chain. Consumers participate in Meituan Selected through pre-orders, thus reducing our exposure to the inventory risk.

### *Mobility*

- **Bike-Sharing.** We currently offer Meituan Bikes and Meituan e-Bikes to satisfy consumers' daily commuting needs. We rebranded Mobike to Meituan Bike in 2019 and consumers can unlock the dockless bikes by scanning QR codes with Meituan app. The embedded GPS allows the bikes to be tracked and dispatched to locations of higher demand. We have optimized the design and interface of Meituan Bike to enhance our overall offline image across China. In 2020, we introduced Meituan e-Bikes service, which has optimized the pricing matrix for our bike-sharing services. Meituan e-Bikes help supplement consumers' short-distance travel needs with better turnover rate and user experience compared to traditional bikes.
- **Car-Hailing.** We offer car-hailing services in over 50 cities in China to capture the high-frequency local mobility market. These services are self-operated in Nanjing and Shanghai, China, where we directly manage the supply of drivers, route planning, and transportation allocation. We carry out car-hailing services in other cities through aggregation of third-party operators. In 2019, we further introduced the new aggregated model on our Meituan app, which serves as an end-to-end marketplace to connect third-party car-hailing service providers with Meituan app users.



## *Financial Services*

We offer financial services to facilitate our main businesses and promote transactions, and support financing and payment needs of our consumers.

Our consumer financing services are a natural extension of our main businesses and target consumers with limited credit risk exposure. These services primarily include cash loans, joint credit cards, and credit payment. The vast majority of the cash loans outstanding on our platform are off-balance sheet loans through loan facilitation model or joint loan model and we do not bear the credit risk for off-balance sheet loans.

Consumers have various payment options with us, both online and offline. Our online payment options include our proprietary payment method Meituan Payment and other third-party payment methods. Using the integrated payment systems that we developed for merchants which provide all-channel checkout services, consumers can make offline payments through our smart POS terminals, Xiaomei Box, and Meituan QR codes.

## *Content Offerings*

Capitalizing on our over 17 years of experience in building a rich content database, we provide consumers with a vast amount of detailed, authentic, and transparent information on Listed POIs. This includes in-depth reviews, recommendations, detailed ratings, photos, short-form videos, and live streaming. We have also built highly active and engaged local communities of content contributors. As of June 30, 2020, we have accumulated over 8.4 billion user-generated reviews on millions of merchants regarding about 20 million Listed POIs in over 2,800 cities and counties in China and over 900 cities abroad. The level of details enhances consumers' search experience and enables them to rely on us for a variety of everyday purchasing decisions.

With our complex algorithms, powerful database, and the massive amount of accumulated data, we are able to provide multi-dimensional, diverse, and customized recommendations to our users. To ensure the credibility of our database, we do not engage in sponsored arrangements that may distort ratings or reviews, use our massive database and proprietary algorithms to filter fraudulent reviews, and incentivize opinion leaders and other consumers to continuously contribute and maintain accurate information. The authority and diversity of our content offerings further enhance the overall value of our platform to consumers.

## **Service Offerings to Merchants**

Merchant enabling is an important component of our value proposition for merchants. We offer merchants a wide range of functionalities and services that increase their operational efficiencies.

The creation of listings on our platform is typically free of charge. We enter into legally binding, renewable onboarding agreements with Listed Merchants who elect to purchase our services, such as marketing, order taking, bill settlement, or reservation services.

## *Online Marketing Solutions*

Using our platform, merchants can establish their online presence, and promote and sell services and products directly to consumers online. Leveraging our large user base and user review and rating database, we provide merchants with a consumer acquisition channel through which they can gain user traffic by providing exceptional services. In addition, by selling discounted services and goods directly and increasing their exposure to consumers on our platform, merchants can also use our platform as a marketing and promotional channel in order to attract new consumers.

We offer merchants diversified online marketing products, including performance-based paid searches, brand displays, coupons and smart marketing tools, and other packaged marketing solutions, which help merchants improve marketing efficiency and reach more targeted consumers. In addition, we also help merchants increase traffic through a broad range of marketing tools, including transaction-based services such as deals and coupons, and advertising-based services such as cost-per-click and subscription-based advertising. We offer merchants multiple advertisement options in order to meet their various marketing



needs. Utilizing our proprietary location-based search algorithm, unique data and big data analytics capacities, our system is also able to make personalized recommendations to consumers, which serves as an effective targeted marketing tool to attract and retain consumers. These diversified online marketing products enable us to optimize our robust profitability and capture opportunities matching budgets of local merchants.

### ***On-Demand Delivery Infrastructure***

We help merchants fulfill the transactions placed on our platform. See “— Our Delivery Network” for more details on our delivery network and delivery arrangements with merchants.

### ***Restaurant Management Systems***

We have developed restaurant management systems enabling restaurants to accept payments, streamline operations, and analyze business information. The systems include hardware and software that integrate and digitize table booking, digital menu, online order placement, queue management, takeout delivery, kitchen management, multiple payment methods, pre-paid coupons, invoicing, inventory, payroll, and customer relationship management into one system with cloud connection, thus streamlining merchants’ offline and online operations, improving merchants’ efficiencies and lowering costs. Our restaurant management systems feature comprehensive ERP functionality. We also provide restaurants with a variety of hardware supplies such as touch-screen order panels, POS terminals, QR code scanners, kitchen displays, and printers. For restaurants that still use Windows-based software, we also provide open application programming interfaces, which make our system compatible and capable of directly connecting with these restaurants’ existing ERP systems, in order to help them perform certain cloud-based functions, such as online order placement. In addition, through the use of cloud-based analytics of inventory data, our restaurant management systems help restaurants make informed business decisions to stay competitive. Once a payment is completed, the restaurant is able to further utilize the established point of contact with the consumer by soliciting reviews or distributing e-vouchers, which helps the restaurant convert offline transactions into online user traffic and expand sales channels. We expect to further drive the adoption and penetration of our restaurant management systems across high-quality restaurants on our platform to further help them digitize their businesses.

### ***Business-to-Business Food Distribution Service***

We aim to help merchants establish and maintain a more efficient supply chain through our business-to-business food distribution service. Our services allow restaurants to order raw materials, food ingredients, and disposable restaurant supplies from a large variety of vendors, and also provide delivery services for these items. By bringing mobile commerce to restaurant procurement, we help merchants improve operating efficiency. Our business-to-business food distribution service enables merchants to see real-time prices and inventories. They can order whenever and wherever they want, and we provide next-day delivery services. By aggregating orders from a large merchant base, we could consolidate purchasing and fulfillment to lower the cost of distribution, and further pass the efficiency gains to the merchants.

We focus on the development and maintenance of high-quality merchants as well as the growth of average revenue per restaurant through an increase in their wallet share, purchase frequency, and ticket size. In addition, we dynamically adjust our product structure to better satisfy the demands of our targeted merchants. During the COVID-19 pandemic, our business-to-business food distribution service also has opened green channels for medical institutions and helped many restaurants ensure adequate supply of raw materials for operations.

### ***Merchant Financing***

We provide uncollateralized micro loans to merchants on our platform. Leveraging our risk management capabilities based on big data and our insight into the merchant owners’ profile, we are well-positioned to evaluate borrowers’ creditworthiness.

Our merchant financing service helps merchants scale their businesses and improve their business operations, and thus increase merchant stickiness. A significant majority of our loans to merchants are joint loans with financial institutions.

## **Our Delivery Network**

We have built and currently operate the world's leading on-demand delivery network in terms of the number of deliveries in the fourth quarter of 2019. Our delivery network had an average of 920,000 daily active delivery riders and fulfilled an average of 27.2 million daily transactions in the fourth quarter of 2019. This network also lays the foundation for an intra-city on-demand logistics infrastructure spanning all types of consumer goods, which we believe represents promising growth opportunities. For a discussion of our intelligent dispatch system, see “— Technology — AI and Deep Learning — Real-Time Intelligent Dispatch System.”

Merchants on our platform have the option to either engage us to provide the delivery service or deliver by themselves. In 2019, approximately 90% of the on-demand delivery transactions generated on our platform were fulfilled by our delivery network. The delivery arrangements with merchants are structured under two models: Premium Delivery and Speedy Delivery. We require our delivery partners to establish strict recruiting standards and regular training programs for the delivery riders. We do not enter into employment agreements with delivery riders under either the Premium Delivery model nor the Speedy Delivery model.

- **Premium Delivery.** The delivery riders are engaged by our delivery partners as full-time employees or contractors. We license our trade name to our delivery partners, who agree to abide by the operating standards specified by us. We also require our delivery partners to incentivize and supervise the delivery riders according to our standards. We provide our delivery partners with high-quality support and resources in order to ensure merchants who select Premium Delivery enjoy the highest level of delivery service.
- **Speedy Delivery.** In this model, orders are typically fulfilled by delivery riders through a crowdsourcing platform established by us. The crowdsourced delivery riders are typically not full-time delivery riders. The delivery riders are also required to abide by the delivery service standards set by our delivery partners.

## **Technology**

Technology is the foundation of our Company and a key component of our strengths. We have used off-the-shelf technology as well as internally developed proprietary technology in building our technology infrastructure. Our research and development team comprises of over 10,000 engineers, product managers, user interface, and user experience designers. We incurred RMB3.6 billion, RMB7.1 billion, RMB8.4 billion (US\$1.2 billion), and RMB4.7 billion (US\$0.7 billion) in research and development expenses in 2017, 2018, 2019, and for the six months ended June 30, 2020, respectively.

### ***Standardized Core-Infrastructure Environment***

Our standardized core-infrastructure includes service-oriented architecture, or SOA, governance, middleware services such as Key-Value storage service, various research and development tools such as deployment systems and data infrastructure such as Hadoop cluster. Our standardized core-infrastructure facilitates our research and development activities, service calls across business groups and data onboarding.

### ***SOA Infrastructure***

Based on our standardized core-infrastructure, we have built an SOA infrastructure that is highly scalable and capable of rapid iteration in order to meet our business development needs. The SOA infrastructure also enables easier monitoring and maintenance.

### ***AI and Deep Learning***

We leverage AI and deep learning to deliver an optimized user experience.

We use deep-learning-powered natural language processing to perform text analysis, semantic matching, search result recalling, and engine ranking to return the most relevant merchants and services when a user conducts a search. Given a search phrase may mean totally different things in different

scenarios, we use the users' historical activities authorized by users on our platform in the past to guide our semantic match model optimization when training the deep learning models. We use computer vision technology to enhance text and object recognition, image classification and image quality ranking to present the most attractive pictures of a merchant or service to a consumer based on his or her sensitivity and preference with image properties, such as color, resolution, and composition.

Utilizing the aforementioned technologies, we have developed a series of innovative systems and products, such as our real-time intelligent dispatch system and autonomous delivery vehicles.

#### *Real-Time Intelligent Dispatch System*

Leveraging big data, AI, cloud computing, and our innovative technologies such as accurate rider modeling and distributed interactive simulation, we have developed a proprietary real-time intelligent dispatch system. The system tracks the direction and location of each delivery rider on a real-time basis and calculates optimized delivery routes based on the locations of the delivery rider, the merchant and the consumer. Orders placed on our platform are generally dispatched automatically by our proprietary real-time intelligent dispatch system, and these orders are delivered to consumers in an average of less than 30 minutes after they are placed. The system also reduces delivery time fluctuations resulting from human factors and therefore delivers consistent user experience. Powered by AI technology, our real-time intelligent dispatch system optimizes order-rider matching based on the real time locations of delivery riders, and is able to perform 2.9 billion times of the route planning algorithms per hour during the daily peak time and calculate as many as 97% of the optimized delivery routes in an average of 0.552 milliseconds. The system is also self-learning and self-adaptive. Using big data and AI, we have built an industry-leading two dimensional space-time dispatching capacity. Our real-time intelligent dispatch system integrates order pool controlling, order dispatching, and order re-dispatching and is able to automatically detect delivery delay risks and re-dispatch accordingly.

#### *Autonomous Delivery Vehicles*

We are exploring the use of autonomous driving vehicles for autonomous delivery. As of June 30, 2020, we had applied for over 40 patents related to autonomous driving vehicle technologies. Autonomous delivery vehicles have to tackle automatic driving technology-related issues as well as challenges from complex actual application scenarios, and typically involve advanced technologies such as scenario-specific vehicle chassis, multi-sensor fusion, high-definition maps, and AI-based driving. We expect to further invest in autonomous delivery and start implementing autonomous delivery in particular scenarios, with the ultimate goal of large-scale adoption.

### **Customer Service**

We continuously strive to improve consumer satisfaction by offering high-quality customer services. Our dedicated in-house team of customer service associates and contracted customer service staff serve consumers and merchants through telephone hotlines and online inquiry systems. We also offer self-service tools and AI-powered automated customer service to solve problems efficiently. Our management team evaluates consumers' feedback on a regular basis, identifies underlying reasons for consumer dissatisfaction, and solves these issues. We give our customer service staff the authority and flexibility needed to adapt instantly to situations, responding with better services and experiences for our consumers. We also allow merchants and delivery riders to contact consumers in real time to ensure consumers' issues are resolved expeditiously. We are promoting the use of virtual numbers to better protect the privacy of consumers.

### **Marketing and Sales**

We maintain a two-tiered marketing team. Our marketing department at the group level is responsible for marketing activities that promote our brands as a whole, aiming at attracting more users to our platform. Our marketing teams at each business segment level is responsible for the marketing activities specific to such segment's business, aiming at converting users on our platform to Transacting Users.

We believe that our one-stop platform, wide variety of services offered, and positive consumer experience are our best and most effective marketing tools, allowing us to benefit from strong word-of-mouth referrals. We employ a variety of marketing activities to promote our brands and services. Our online

marketing activities consist of paid marketing through highly popular apps and other high-traffic online channels in China and display advertisements. See “— Strategic Alliance with Tencent.” Our offline marketing activities include promotions via traditional mainstream media, such as outdoor advertisements, public relations activities, and sponsored events to increase our visibility and promote our brands. We regularly monitor the effectiveness of our marketing activities to control the overall costs of our marketing programs. We utilize an automated tracking system to monitor the traffic directed through our advertisements and promptly adjust our spending in different marketing channels based on the results with strategic and pricing considerations.

We currently acquire users primarily through targeted subsidies to first-time food delivery users, and also through our marketing efforts, search engines, and through our pre-installed apps on mobile devices through our collaboration with all major mobile device brands in China.

We develop relationships with merchants through the following ways: (i) offline direct sales, such as the business development activities by our local on-the-ground sales force, telemarketing, and key account sales; (ii) online direct sales, such as sales of our integrated payment system hardware through online marketplaces; (iii) distribution agents in certain cities, who engage sales force to acquire merchants; and (iv) merchant self-service onboarding platform. We keep improving the efficiencies of our sales force, which is evidenced by the increasing number of merchants each sales person serves.

## **Intellectual Property**

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We rely on a combination of patent, trademark, copyright, and domain name protection in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property rights. In general, our employees must enter into a standard employment contract which includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our properties, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, however, third parties may obtain and use intellectual property that we own or license without our consent. In 2017, 2018, 2019 and for the six months ended June 30, 2020, we did not find any material breaches of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry-We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.”

As of June 30, 2020, we had 1,348 patents registered with the State Intellectual Property Office of China and 1,591 pending patent applications in China. Globally, we had 59 patents registered and 133 pending patent applications in various overseas countries and jurisdictions.

As of June 30, 2020, we owned 3,150 trademarks in various categories and registered with the China Trademark Office. In addition, we had 885 trademark applications, each in various categories, pending with China Trademark Office. In addition, we had 290 registered trademarks in various overseas countries and jurisdictions.

As of June 30, 2020, we held 432 software copyrights and 104 other copyrights registered with the State Copyright Bureau of China.

As of June 30, 2020, we owned 301 registered domain names. We generally renew our domain name registrations once every year and applications for their renewal are usually made one to three months prior to their expiration. Under normal circumstances, the domain name registrations take effect immediately after the payment of renewal fees. As of the date of this offering memorandum, 301 of our registered domain names are in effect. If any of our domain name registrations cannot be renewed for any reason, the domain name registrar may deregister the relevant domain name.

## **Competition**

Although there is no single competitor that can provide the broad range of services similar to us, we face competition in each of our business segments. The number of competitors in each business segment has decreased in the past few years as smaller market players dropped out or consolidated. However, there remain multiple existing market players, and there may be new entrants emerging, in each of our business segments, and these market players compete to attract, engage and retain consumers and merchants. Some of these competitors are backed by internet giants in China. Key competitive factors among e-commerce players for services are scale and breadth of services provided, technology and data, and execution capabilities.

## **Strategic Alliance with Tencent**

We have formed a strategic alliance with Tencent, a leading provider of internet value added services in China. As of June 30, 2020, Tencent, through its wholly-owned or beneficially owned entities, indirectly controlled an aggregate of 18.0% of our issued and outstanding shares.

Through our strategic alliance with Tencent, access to our food delivery and in-store services is embedded into Tencent's Weixin Wallet and/or QQ mobile apps. Under such alliance, we benefit from Tencent's vast user base, while Tencent benefits from enhanced consumer experience. In addition, Tencent provides marketing services, promotion services, payment services, cloud services, mapping services, and other technical services to us. For example, the payment services allow our consumers to make online payment for our service offerings through Tencent's payment channels on both mobile devices and personal computers or directly on Tencent's payment interface embedded on our apps and websites. Our high-frequency consumer base also contributed to Tencent's revenue increase in payment business for commercial transactions.

## **Employees**

As of June 30, 2020, we had a total of 57,566 full-time employees. Substantially all of our employees are based in China, primarily at our headquarters in Beijing and Shanghai, with the rest in Xiamen, Shijiazhuang, Yangzhou, Chengdu, and other cities in China.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our recruiting and retention strategy, we offer employees competitive salaries, performance-based cash bonuses, and certain other incentives.

As required under the PRC regulations, we participate in housing fund and various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, maternity, work-related injury, and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees. We also purchase commercial health and accidental insurance for our employees. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have granted and plan to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

None of our employees are currently represented by labor unions. We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations.

## **Properties**

We operate our businesses through leased properties in Beijing, Shanghai, and various other cities in China. We do not own any properties. Our leased properties in China serve as our offices. Our servers and network facilities used for providing services to our users are not kept in any of our aforementioned leased properties. As of June 30, 2020, our leased properties had a total gross floor area of 444,408 square meters.

## **Insurance**

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by PRC laws and regulations and in accordance with the commercial practices in our industry. Our employee-related insurance consists of pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance, and housing funds, as required by PRC laws and regulations. We also purchase supplemental commercial medical insurance and accident insurance for our employees.

We maintain various insurance with respect to our various businesses, including property and casualty insurance for the drivers and passengers in our network. We also require personal accident, third party personal injury, and property damage insurance to be purchased for each delivery rider by our delivery partners.

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. See “Risk Factors — Risks Relating to Our Business and Industry — We have limited insurance coverage.” We do not maintain keyman life insurance, insurance policies covering damages to our network infrastructures or information technology systems, or any insurance policies for our properties.

## **Legal Proceedings**

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition, or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.



## REGULATION

### **Regulations on Value-Added Telecommunications Services and Foreign Investment Restrictions**

#### ***Restrictions on Foreign Investment***

On September 25, 2000, the Telecommunications Regulations of the People's Republic of China, or the Telecom Regulations, were issued by the State Council, which was amended and became effective on February 6, 2016, as the primary governing law on telecommunication services. The Telecom Regulations set out the general framework for the provision of telecommunication services by PRC companies. Pursuant to the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations draw a distinction between "basic telecommunications services" and "value-added telecommunications services." The Catalog of Telecommunications Business was issued as an attachment to the Telecom Regulations, to categorize telecommunications services as "basic" or "value-added," and online data processing and transaction processing services and information services via public communication networks such as fixed networks, mobile networks and internet are classified as value-added telecommunications services.

Pursuant to the Provisions on Administration of Foreign Invested Telecommunications Enterprises, promulgated by the State Council on December 11, 2001 and further amended on September 10, 2008 and February 6, 2016, if any foreign investor intends to invest in telecommunications business in China, a foreign-invested telecommunications enterprise must be established, and the ultimate foreign equity ownership in a value-added telecommunications services provider cannot exceed 50%, except for online data processing and transaction processing businesses (operating e-commerce business) which may be 100% owned by foreign investors. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a good track record and experience in operating value-added telecommunications business overseas. Foreign investors that meet these requirements must obtain approvals from the Ministry of Industry and Information Technology, or the MIIT, or its authorized local counterparts, which retain considerable discretion in granting such approvals.

The Special Administrative Measures for Entry of Foreign Investment (Negative List) (2020 Version), or the 2020 Negative List, jointly promulgated by the NDRC and the Ministry of Commerce on June 23, 2020 and took effect on July 23, 2020, also imposes the 50% restrictions on foreign ownership in value-added telecommunications business except for the operation of e-commerce business, domestic multi-party communication, information storage, and re-transmission or call center business. In addition, the 2020 Negative List prohibited the foreign investors to provide the services for releasing information by the public through internet.

On July 13, 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, which requires foreign investors to set up foreign-invested enterprises, or FIEs, and obtain a license for value-added telecommunications services, or the VATS License, to conduct any value-added telecommunications business in China. Pursuant to the circular, a domestic company that holds a VATS License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local VATS License holder or its shareholder. The circular further requires each VATS License holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license.

#### ***Regulations on the Provision of Internet Content Services***

On July 3, 2017, the MIIT promulgated the Administrative Measures for Telecommunications Business Operating Permit, which took effect on September 1, 2017. The measures confirm that there are two types of telecom operating licenses for operators in China, namely, license for basic telecommunications services and the VATS License. The operation scope of the license will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services operator must conduct its

business in accordance with the specifications listed in its VATS License. In addition, a VATS License's holder is required to obtain approval from the original permit-issuing authority in respect of any change to its shareholders.

The Administrative Measures on Internet Information Services, or the Internet Measures, which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of internet information services. Pursuant to the Internet Measures, commercial internet information services operators must obtain a value-added telecommunications business operating license, or the ICP License, from the relevant government authorities before engaging in any commercial Internet information services operations in China.

The content of the internet information is highly regulated in China. Internet information service operators must guarantee the contents of the information provided is lawful. According to the Internet Measures, violators who provide prohibited internet content may be subject to penalties, including criminal sanctions, operation suspension and rectification, or even revocation of ICP Licenses. Commercial Internet information services operators are also required to monitor their websites. They may not post or disseminate any content that falls within the prohibited categories, and must remove any such content from their websites, save the relevant records and make a report to the relevant governmental authorities. For example, at the end of 2019, the CAC issued the Provisions on the Management of Internet Information Content Ecology, which became effective on March 1, 2020, to strengthen the regulation and management of internet information content. Pursuant to the order, each internet information service provider is required, among others, (i) not to disseminate any information prohibited by laws and regulations, such as information jeopardizing national security; (ii) to strengthen the examination of advertisements published on such internet information content service platform; (iii) to promulgate management rules and platform convention and improve user agreement, such that the internet information content service platform could clarify users' rights and obligations and perform management responsibilities required by laws, regulations, rules, and conventions; (iv) to establish convenient means for complaints and reports; and (v) to prepare annual work report regarding its management of internet information content ecology. In addition, an internet information service provider must not, among others, (i) utilize new technologies such as deep-learning and virtual reality to engage in activities prohibited by laws and regulations; (ii) engage in online traffic fraud, malicious traffic rerouting and other activities related to fraudulent account, illegal transaction account or maneuver of users' account; or (iii) infringe a third party's legitimate rights or seek illegal interests by way of interfering with information display.

### ***Regulations on E-Commerce Services***

The Standing Committee of the National People's Congress promulgated the E-Commerce Law of the People's Republic of China, on August 31, 2018, which took effect on January 1, 2019. The E-commerce Law clarifies obligations for the operators of e-commerce platforms. For example, among other things, an operator of an e-commerce platform must (i) require merchants that apply to sell products or provide services on its platform to submit truthful information, including the identities, addresses, contacts, and licenses; (ii) verify and examine such information; (iii) establish registration archives and verify, examine, and update such information on a regular basis; (iv) submit identification information of merchants on its platform to market regulatory authorities and remind merchants that have not registered with market regulatory authorities to complete the relevant registration; (v) submit identities and tax payment-related information of the merchants on its platform to tax authorities and remind merchants that have not registered with tax authorities to complete the relevant tax registration; (vi) conspicuously display the terms of platform service agreements, transaction rules or links to such information on the homepage of the platform, and ensure that merchants and consumers are able to read and download such information conveniently; and (vii) restrain from deleting any comments made by consumers on any products sold or service provided on its platform. Where an e-commerce platform operator fails to take necessary measures when it knows or should have known that the products or services provided by a merchant on its platform do not meet the requirements regarding personal or property safety, or commits any other acts that impair the lawful rights and interests of consumers, such operator will be held jointly liable with the merchants on its platform. Where an e-commerce platform operator fails to verify and examine the qualifications of a merchant on its platform or fails to fulfill its obligation to assure the safety of consumers with respect to products or services affecting consumers' life and health, which results in damage to consumers, such operator must take the corresponding liability. Where an e-commerce platform operator knows or should have known that a

merchant on its platform has infringed any intellectual property right of other third parties, it must take necessary measures, such as deleting or blocking the relevant information, disabling the relevant links, and terminating the relevant transactions and services; otherwise, such operator will be held jointly liable with the infringing party.

### ***Regulations on Mobile Internet Applications Information Services***

In addition to the Telecommunications Regulations and other regulations above, mobile internet applications and the internet application store are specifically regulated by the Administrative Provisions on Mobile Internet Application Information Services, which were promulgated by the Cyberspace Administration of China, or the CAC, on June 28, 2016 and took effect on August 1, 2016. Pursuant to the Administrative Provisions on Mobile Internet Application Information Services, application information service providers must obtain the relevant qualifications prescribed by laws and regulations, strictly implement their information security management responsibilities and carry out certain duties, including establish and complete user information security protection mechanism and information content inspection and management mechanisms, protect users' right to know and right to choose in the process of usage, and to record users' daily information and preserve it for 60 days. Application store services providers must, within 30 days of the business going online and starting operations, conduct filing procedures with the local cybersecurity and information department. Furthermore, internet application store service providers and internet application information service providers must sign service agreements to determinate both sides' rights and obligations.

Furthermore, on December 16, 2016, the MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals, which took effect on July 1, 2017. The interim measures require that, among others, internet information service providers must ensure that a mobile application, as well as its ancillary resource files, configuration files, and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of hardware and operating system of a mobile smart device.

### **Regulations on Information Security and Privacy Protection**

Internet content in China is regulated and restricted from a state security standpoint. The Standing Committee of the National People's Congress, or the SCNPC, enacted the Decisions on the Maintenance of Internet Security on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe upon intellectual property rights. On December 16, 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with International Connections, which took effect on December 30, 1997 and were amended by the State Council on January 8, 2011 and prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP License holder violates these measures, the PRC government may revoke its ICP License and shut down its websites.

According to Network Security Law of the People's Republic of China promulgated by SCNPC on November 7, 2016 and took effect on June 1, 2017, network operators must comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks must take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator cannot collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure must store within the territory of China all the personal information and important data collected and produced within the territory of China. The purchase of network products and services that may affect national security must be subject to national cybersecurity

review. On April 13, 2020, the CAC, NDRC, MIIT, Ministry of Public Security, Ministry of State Security, Ministry of Finance, Ministry of Commerce, People's Bank of China, or the PBOC, SAMR, and other PRC government authorities jointly promulgated the Measures on Internet Security Examination which took effect on June 1, 2020, to provide more detailed rules regarding cybersecurity review requirements. Pursuant to the Measures on Internet Security Examination, the providers of network products and services must cooperate with the security examination process. The "network products or services" as defined in the Internet Security Review Measures mainly refer to core network facilities, high-performance computers and servers, mass storage devices, large database, applications or software, cyber security devices, clouding computing services, and other products and services which may have significant effect on security of the key information infrastructures.

On December 13, 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection, effective on March 1, 2006, which requires internet service providers to take proper measures including anti-virus, data back-up, and other related measures, and to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content, and time of posts by users) for at least 60 days, discover and detect illegal information, stop transmission of such information, and keep relevant records. Internet services providers are prohibited from unauthorized disclosure of users' information to any third parties unless such disclosure is required by the laws and regulations. They are further required to establish management systems and take technological measures to safeguard the freedom and secrecy of the users' correspondences.

On December 28, 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection, which took effect on the same date, to enhance the legal protection of information security and privacy on the internet. On July 16, 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users, which took effect on September 1, 2013, to regulate the collection and use of users' personal information in the provision of telecommunication services and internet information services in China and the personal information includes a user's name, birth date, identification card number, address, phone number, account name, password and other information that can be used independently or in combination with other information for identifying a user.

On December 29, 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market, which took effect on March 15, 2012. The Provisions stipulate that without the consent of users, internet information service providers cannot collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information (hereinafter referred to as "personal information of users"), nor can they provide personal information of users to others, unless otherwise provided by laws and administrative regulations.

On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, or the Interpretations, which took effect on June 1, 2017. The Interpretations clarify several concepts regarding the crime of "infringement of citizens' personal information" stipulated by Article 253A of the Criminal Law of the People's Republic of China, including "citizen's personal information," "provision," and "unlawful acquisition." Also, the Interpretations specify the standards for determining "serious circumstances" and "particularly serious circumstances" of this crime. On October 21, 2019, the Supreme People's Court and the Supreme People's Procuratorate jointly issued the Interpretations on Certain Issues Regarding the Application of Law in Handling Criminal Case Involving Illegal Use of Information Networks and Assisting Committing Internet Crimes, which came into effect on November 1, 2019, and further clarifies the meaning of Internet service operators and the severe situations of the relevant crimes.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps, which was issued on January 23, 2019, app operators should collect and use personal information in compliance with the Network Security Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen personal information protection. Furthermore, app operators should not force their users to make authorization by means of bundling, suspending installation or in other default forms and should not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized



by the Notice on Launching Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by MIIT on October 31, 2019, and the Notice on Deepening Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by MIIT on July 22, 2020. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly-seen illegal practices of apps operators in terms of personal information protection, including: (i) failure to publicize rules for collecting and using personal information; (ii) failure to expressly state the purpose, manner, and scope of collecting and using personal information; (iii) collection and use of personal information without consent of users of such App; (iv) collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity; (v) provision of personal information to others without users' consent; (vi) failure to provide the function of deleting or correcting personal information as required by laws; and (vii) failure to publish information such as methods for complaints and reporting.

### **Regulations on Payment Services of Non-Financial Institutions**

According to Measures for the Administration of Payment Services of Non-Financial Institutions, promulgated by the PBOC on June 14, 2010, took effect on September 1, 2010, and further amended on April 29, 2020, and Detailed Implementing Rules for the Measures for the Administration of Payment Services of Non-Financial Institution, promulgated by the PBOC and took effect on December 1, 2010, and amended on June 2, 2020, the payment services provided by non-financial institutions refer to some or all of the following monetary capital transfer services provided by the non-financial institutions as intermediary agencies between payers and payees: (i) payment through the internet; (ii) issuance and acceptance of prepaid cards; (iii) bankcard acquiring; and (iv) other payment services as determined by the PBOC. Non-financial institutions which provide payment services must obtain a "Payment Business License" and become a "payment institution." Payment Business License is valid for five years from the date of issuance. Payment institutions must carry out business activities in compliance with the scope of business approved by the Payment Business License, and cannot outsource any businesses, transfer, lease, or lend its Payment Business License. Any non-financial institutions and individuals cannot directly or indirectly engage in the payment business without the approval of the PBOC.

The Guidance Letter on Promoting the Sound Development of Internet Finance, jointly issued by the PBOC and several other authorities with immediate effect on July 14, 2015, provides that banking financial institutions and third-party payment institutions that are engaged in online payment services should comply with applicable laws and regulations. When collaborating with other institutions, third-party payment institutions are required to clearly define each party's rights and obligations and establish effective risk insulation and mechanisms to protect clients' rights. Payment institutions should make adequate disclosure regarding their services and clear disclosure regarding risks related to their businesses and should avoid exaggerating the nature and functions of the payment service intermediaries. The guidance letter also confirms PBOC as the supervisory body of online payment businesses.

The Administrative Measures on Online Payments by Non-bank Payment Institutions, or the Administrative Measures on Online Payment, were promulgated by the PBOC on December 28, 2015 and came into effect on July 1, 2016. According to the Administrative Measures on Online Payment, "online payment services" refers to money transfer services provided by payment institutions when a payer and a payee, through computers and mobile terminals, remotely initiate payment instructions relying on public network information systems with no interaction between the payer's electronic device and the payee's personal equipment. The Administrative Measures on Online Payment set out requirements on various aspects of online payment, including business scope, limitations on payment, client management, risk management, supervision and penalty. Specifically, they require payment institutions to establish a "know your customer" system. Accounts should be opened on a real-name basis and payment institutions should take steps to verify clients' identification information and link different accounts of the same client. Personal payment accounts are divided into Type I, II, and III depending on the identity verification methods and the reliability of such verification, and are regulated differently. Type I and Type II payment accounts can only be used for consumption and fund transfer. Type III payment accounts can be used for consumption, fund transfer and investments and have higher payment limits. The Administrative Measures on Online Payment also require payment institutions to have risk management in place and to protect clients' rights and interests. They require payment institutions to establish a transaction risk management system and transaction monitoring

system and take steps, such as investigation, delaying settlement and termination of services, to stop suspected fraud, illegal cash-out, money laundering, illegal financing, terrorist financing and the like. In addition, payment institutions are required to protect clients' funds security, data security, right of choice and information rights. Specifically, payment institutions should establish a sound risk control system and transaction compensation system, and should compensate clients for any loss of funds that are not attributable to such clients' negligence or bad faith.

To liberalize the payment service market and explicit policies on entry and supervision of foreign-invested payment institutions, on March 19, 2018, PBOC promulgated Issues Concerning Foreign-invested Payment Institutions, which took effect on the same day. Overseas institutions intending to provide electronic payment services for domestic entities must establish FIEs in China and obtain the Payment Business License pursuant to the Measures for the Administration of Payment Services of Non-Financial Institutions. Foreign-invested payment institutions established by overseas institutions must: (i) have a secure and compliant business system and disaster recovery system that are capable of independently completing the processing of payment business within the territory of China; and (ii) store, process and analyze the personal information and financial information collected and generated within the territory of China. Where such information needs to be transmitted overseas for the purpose of processing cross-border transactions, foreign-invested payment institutions must comply with laws, administrative regulations and the provisions of relevant regulatory departments, require overseas parties to fulfill corresponding information confidentiality obligations, and obtain consent from the parties involved in such personal information. Their corporate governance, daily operations, risk management, fund processing, deposit of excess reserves and contingent arrangements must comply with PBOC's requirements on non-bank payment institutions.

### **Regulations on M&A Rules**

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, or the SAT, SAMR, China Securities Regulatory Commission, or the CSRC, and SAFE issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which took effect on September 8, 2006 and was amended on June 22, 2009. The M&A Rules established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. These rules require, among other things, that the approval of the Ministry of Commerce must be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire domestic companies affiliated with PRC enterprises or residents. After the PRC Foreign Investment Law and its implementation regulations became effective on January 1, 2020, the provisions of the M&A Rules remain effective to the extent they are not inconsistent with the PRC Foreign Investment Law and its implementation regulations. In addition, national security review rules issued by the PRC governmental authorities in 2011 require acquisitions by foreign investors of domestic companies engaged in military-related or certain other industries that are crucial to national security to be subject to prior security review. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. Moreover, the Anti-Monopoly Law requires that the SAMR must be notified in advance of any concentration of undertaking, occurring inside or outside China, if certain thresholds are triggered.

### **Regulations on Company Establishment and Foreign Investment**

The establishment, operation and management of companies in China is governed by the PRC Company Law, as amended in 2005, 2013 and 2018 subsequently. According to the PRC Company Law, companies established in China are either limited liability companies or joint stock limited liability companies. The PRC Company Law applies to both PRC domestic companies and foreign-invested companies, unless the PRC laws on foreign investment have stipulated otherwise.

The establishment procedures, approval procedures, registered capital requirements and day-to-day operational matters of a wholly foreign-owned enterprise are regulated by the PRC Foreign Investment Law, effective on January 1, 2020, and the Implementation Rules of the PRC Foreign Investment Law, effective on January 1, 2020. The Foreign Investment Law replaced the trio of laws regulating foreign investment in China, namely, the Sino-Foreign Equity Joint Venture Enterprise Law, the PRC Sino-Foreign Contractual Joint Ventures Law, and the PRC Wholly Foreign-owned Enterprise Law, together with their implementation



rules and ancillary regulations. According to the Foreign Investment Law, “foreign investment” refers to the investment activities conducted directly or indirectly by foreign individuals, enterprises or other entities in China, including the following circumstances: (i) the establishment of foreign-invested enterprises in China by foreign investors solely or jointly with other investors, (ii) a foreign investors’ acquisition of shares, equity interests, property portions or other similar rights and interests of enterprises in China, (iii) investment in new projects in China by foreign investors solely or jointly with other investors, and (iv) investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Pursuant to the Foreign Investment Law, China has adopted a system of national treatment which includes a negative list with respect to foreign investment administration. The negative list will be issued by, amended or released upon approval by the State Council, from time to time. The negative list will consist of a list of industries in which foreign investments are prohibited and a list of industries in which foreign investments are restricted. Foreign investment in prohibited industries is not allowed, while foreign investment in restricted industries must satisfy certain conditions stipulated in the negative list. Foreign investments and domestic investments in industries outside the scope of the prohibited industries and restricted industries stipulated in the negative list will be treated equally. The most recent version of the negative list was issued in 2020. Foreign Investment Law and the Implementation Regulations allow foreign-invested enterprises established prior to January 1, 2020 and having corporate structure and governance inconsistent with the PRC Company Law or the PRC Partnership Enterprise Law, as applicable, to maintain their corporate structure and governance within a five-year transition period, but require adjustment for compliance with the PRC Company Law or the PRC Partnership Enterprise Law, as applicable, must be completed prior to the expiration of such transition period.

On December 30, 2019, the Ministry of Commerce and the SAMR issued the Measures for the Reporting of Foreign Investment Information, which became effective on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises promulgated by Ministry of Commerce in October 2016. Pursuant to this regulation, the requirement of record-filing with or approval from the commerce authorities is replaced with a reporting requirement, regardless of whether such foreign investment is subject to the special entry administration measures under the negative list.

## **Regulations on Food Service**

### ***Food Safety Law***

According to the PRC Food Safety Law, which was promulgated by SCNPC on February 28, 2009, took effect on June 1, 2009, and recently amended on December 29, 2018, and the PRC Regulations for the Implementation of the Food Safety Law, which were promulgated by the State Council, took effect on July 20, 2009, and recently amended on December 1, 2019, businesses engaging in food production and trading must obtain relevant food production and trading licenses in accordance with the law. The supervision and management of food production and trading activities must be carried out by the State Council departments of food safety administration. The Food Safety Law and its implementation rules stipulate certain requirements for online food trades. The Food Safety Law mandates that online food traders must register their real name on the platform, and clearly set forth the traders’ responsibilities and the platform providers’ examination duties. Third party platform providers of online transactions of foodstuffs must implement real name registration for participating food business operators, and specify their food safety management responsibilities. Third party platform providers of online transactions of foodstuffs must, upon discovery of any violation by participating food business operators of the provisions of this Law, promptly stop the offender and forthwith report to the food safety administration department of the county People’s Government at the locality; upon discovery of a serious illegal act, the third party platform provider must forthwith cease provision of online trading platform service.

To strengthen the supervision and administration of food safety of online catering services, on November 6, 2017, the SAMR promulgated Measures for the Supervision and Administration of Food Safety of Online Catering Services, which took effect on January 1, 2018, to regulate the business activities of provider of a third-party online catering services platform, or the Platform Provider, and catering service providers who provide catering services through third-party platforms and self-developed websites, or the Online Catering Service Provider. Pursuant to the measures, the Platform Provider must within 30 working days after approval by the competent communications administration, go through record-filing with the

provincial food and drug administration at its domicile, review the food business permit of an Online Catering Service Provider and ensure that the authenticity of the information. The Online Catering Service Provider must have physical stores, operate the food business permit pursuant to the law, and engage in business activities according to the main business model and business items specified in its food business permit. The Platform Provider and an Online Catering Service Provider must strengthen food safety training and management of food delivery personnel. Where a delivery entity is entrusted with food delivery services, the delivery entity must strengthen food safety training and management of food delivery personnel. Where a local food safety administration at or above the county level finds that an Online Catering Service Provider it is investigating and dealing with has committed grave violations of the law, the said administration must notify the Platform Provider, and require the Platform Provider to immediately stop online transaction platform services for the Online Catering Service Provider. To specify food safety responsibilities, the provider of a third-party online catering services platform must sign a food safety agreement with an Online Catering Service Provider.

### ***Food Operation Licensing***

The Administrative Measures for Food Operation Licensing, which were promulgated on August 31, 2015, by the SAMR and took effect on October 1, 2015, and amended on November 17, 2017, provide that the food operation must be licensed in accordance with the law to engage in food selling and catering service within the territory of China. The principle of one license for one enterprise must apply to the licensing for food operation, that is, the same food seller engaged in food operation activities must obtain a food operation license. The Administrative Measures for Food Operation Licensing also provide application requirements regarding operators who engage in the sale of food using vending equipment.

The SAMR will take charge of the supervision over and guidance to the nationwide food operation licensing administration. Local food safety regulatory authorities at and above the county level should take charge of food operation licensing within their respective administrative regions. The date on which the decision on licensing is made should be the date of issuance of the food operation license. The Food Operation License will be valid for five years.

### **Regulations on Travel Agency**

The State Council promulgated the Regulations on Travel Agencies on February 20, 2009, which took effect on May 1, 2009 and were amended on February 6, 2016 and March 1, 2017. On April 25, 2013, the SCNPC promulgated the PRC Tourism Law, which took effect on October 1, 2013 and was recently amended on October 26, 2018. Pursuant to the PRC Tourism Law, travel agencies may engage in domestic tourism, outbound tourism, border tourism and inbound tourism. According to the Implementing Rules of the Regulations on Travel Agencies promulgated by the Ministry of Culture and Tourism, or the MCT, and took effect on December 12, 2016, outbound tourism business means the travel agencies' businesses of soliciting, organizing, and receiving residents of the mainland of China to travel abroad, and to Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan region, and their businesses of soliciting, organizing, and hosting foreigners in the mainland of China, and residents of Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan region in the mainland of China to travel outside the mainland of China. Pursuant to such regulations and laws, the travel agency engaging in domestic tourism business and inbound tourism business must apply for business operation permit for travel agency. After obtaining such business operation permit for travel agency for two years without fines and severe punishment by administrative organs for infringing tourists' legal rights and interests, the travel agency may then apply for outbound tourism business. Further, pursuant to the Measures for Administration of Outbound Tours by Chinese Citizens promulgated by the State Council on May 27, 2002, took effect on July 1, 2002, and amended on March 1, 2017, the travel agency applying for operating the outbound tour business must have obtained the qualification as an international travel agency over one year, have prominent performance of inbound tour business and have no material unlawful acts and major service problems.

## **Regulations on Ticket Sales Agency**

The ticket sales agency business is subject to the supervision of China Air Transport Association and its regional branches. In 2019, the principal regulation governing ticket sales agency in China, the Measures for the Recognition of Sales Agency Qualifications, was abolished and air transportation sales agencies can operate ticket sales agency business without permits as was previously required. Alternatively, the Self-Discipline Measures for Air Passenger and Freight Transportation Sales Agency Business, was promulgated by China Air Transport Association on March 1, 2019, which encourages self-discipline administration for air transportation sale agency business. China Air Transport Association has further promulgated the Business Standards of Air Passenger Transportation Sales Agencies and the Business Standards of Air Freight Transportation Sales Agencies, which introduce general business standards applied by airlines for selecting and authorizing their sales agents. For example, basic requirements for passenger air transportation sales agencies include (i) obtaining appropriate business license with the business scope of air ticket sales agency business or similar items, (ii) holding a VATS License for its online air-ticketing sales business, (iii) having the paid-in capital suitable for business scale, (iv) providing capital guarantee or pledge in favor of airlines, (v) that such agency and its principals must be without any poor credit records, and (vi) having skilled and trained employees suitable for business scale.

## **Regulations on Express Delivery Services**

According to the Administrative Measures on Business Licensing for Express Delivery Services promulgated by Ministry of Transport on September 1, 2009, took effect on October 1, 2009, and amended on November 28, 2019, operators of express delivery services must obtain the Business License for Express Delivery Services issued by Postal Service Administrations pursuant to the law, and accept the supervision and administration by Postal Service Administrations and other relevant departments. The Business License for Express Delivery Services will be valid for a period of five years. An enterprise providing express delivery services must comply with the licensing scope and term of validity as specified in the Business License for Express Delivery Services. In addition, pursuant to the Interim Regulations of Courier which came into effect in May 2018 and was further amended in March 2019, express delivery operators and their branches may open express delivery terminal outlets according to their business needs, and must file with the local postal administrations in the places where such terminal outlets are located within 20 days from the date of opening such terminal outlets.

## **Regulations on Online Taxi Booking Services**

Online taxi booking services are a relatively new business model in China. On July 27, 2016, the Ministry of Transport, MIIT, Ministry of Public Security, Ministry of Commerce, SAMR and the CAC jointly promulgated Administrative Measures for the Business of Online Taxi Booking Services which took effect on November 1, 2016 and further amended on December 28, 2019, to regulate the business activities of online taxi booking services, and ensure operational safety for the passengers. Before carrying out online taxi booking services, an online taxi booking service platform company must obtain the permit for online taxi booking business and complete the record-filing of internet information services to the provincial communications administration in the place of its enterprise registration. When collecting the personal information of drivers and passengers, an online taxi booking service platform enterprise cannot exceed the scope of information requisite for its online taxi booking business. Vehicles engaging the online taxi booking services must install satellite positioning devices and fulfill the criteria of safe operations. The competent administrative departments of the taxi industry in the service locations of a vehicle owner will issue the transportation permit for online taxi booking services for vehicles that satisfy the prescribed conditions and are registered as vehicles for pre-booked passenger transport by taxi. Drivers engaging in the online taxi booking services must satisfy the requirement of driving experience, no record of criminal offence and violent crimes to obtain his license for online taxi booking services. Except for the regulation on the national level, many local authorities have promulgated detailed implementing rules to further stipulate the requirements for online taxi booking service platform, vehicles and drivers. In addition, the Ministry of Transport promulgated the Administrative Measures for the Operation and Management of the Online Taxi Booking Services Supervision Information Interactive Platform on February 13, 2018 which took effect to March 1, 2018. The measures require that the online taxi booking service platform company must transmit certain operation data, including basic static information, order information, operation information, positioning information, and service quality information, to the ministerial-level information interactive platform on a daily basis.

## **Regulations on Internet Advertising**

On July 4, 2016, the SAMR promulgated the Interim Measures on Internet Advertising, which took effect on September 1, 2016, regulate any advertisement published on the internet, including but not limited to, through websites, webpage and apps, in the form of word, picture, audio and video and provides more detailed guidelines to the advertisers, advertising operators and advertising distributors. Internet advertisers, advertising operators and/or advertisement publishers must enter into written contracts in conducting internet advertising business and activities. Internet advertisers are responsible for the authenticity of the content of advertisements and may publish advertisements by setting up a website or an internet medium legally used by them, or by entrusting internet advertising operators or advertising publishers to publish advertisements. Internet information service providers must stop any person from using their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the internet information service provider merely provides information services and is not involved in the internet advertising businesses. The following activities are prohibited pursuant to the measures: (i) providing or using applications and hardware to block, filter, skip over, tamper with, or cover up lawful advertisements provided by others; (ii) using network access, network equipment and applications to disrupt the normal transmission of lawful advertisements provided by others or adding or uploading advertisements without permission; or (iii) harming the interests of others by using fake statistics or traffic data. The industry and commerce administrative department is the relevant local administrative authority that supervises and enforces punishments for any illegal act in internet advertising. In addition, pursuant to the amended PRC Advertising Law in October 2018, all the provisions thereunder apply to the advertising activities conducted via the internet. The amended PRC Advertising Law further provides that the release or distribution of advertisements via internet cannot affect the normal use of the internet by users. Advertisements released on internet pages such as pop-up advertisements must be indicated with clear close button to ensure that the users may close such advertisements by one click. Any violation of these laws and regulations may result in fines, prohibition of publishing advertisements for a period of time or withdrawal of business licenses, etc. Furthermore, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties.

## **Regulations on Internet Audio-Visual Program Services**

According to the Certain Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry promulgated by the State Council and took effect on April 13, 2005, and the Several Opinions on Canvassing Foreign Investment into the Culture Sector promulgated by the MCT, State Administration of Press, Publication, Radio, Film and Television (currently known as the National Radio and Television Administration, or the NRTA), NDRC and Ministry of Commerce and took effect on July 6, 2005, non-state-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via an information network.

On February 17, 2011, the MCT promulgated the Interim Administrative Provisions on Internet Culture, which was amended on December 15, 2017. According to the provisions, “internet culture activities” includes, among other things, online dissemination of internet cultural products and the production, reproduction, importation, publication and broadcasting of internet cultural products. In May 2019, the MCT issued a circular to adjust the applicable scope for the online culture operating permit, pursuant to which it will no longer be the authority supervising the online game industry and therefore the business scope of an online culture operating permit issued by it and its local counterparts will only cover internet cultural products including online music, online plays or programs, online performance, online works of art, online cartoon and exhibition, and online matches, but excluding online games. Internet cultural entities are classified into operational internet cultural entities and non-operational internet cultural entities. Operational internet cultural entities must file an application for establishment to the competent culture administration authorities for approval and must obtain the online culture operating permit.

According to the Administrative Regulations on Internet Audio-Visual Program Service, promulgated by the NRTA and the MIIT on December 20, 2007, took effect on December 20, 2007, and were amended on August 28, 2015, “internet audio-video program services” means producing, editing and integrating of audio-video programs, supplying audio-video programs to the public via the internet, and providing audio-video programs uploading and transmission services to a third party. Entities providing internet audio-video programs services must obtain an internet audio-video program transmission license. According to the

Administrative Regulations on Internet Audio-Visual Program Service and other relevant laws and regulations, audio-video programs provided by the entities supplying internet audio-video program services cannot contain any illegal content or other content prohibited by the laws and regulations, such as any content against the basic principles in the PRC Constitution, any content that damages the sovereignty of the country or national security, and any content that disturbs social order or undermines social stability.

On November 18, 2019, the CAC, the MCT and the NRTA jointly issued the Administrative Provisions on Online Audio-visual Information Services, which took effect on January 1, 2020. According to the provisions, Online audio-visual information services refer to the services of producing, publishing and disseminating audio-visual information offered to the public via internet platforms, such as websites and application programs. The provisions also require that no individual or entity is allowed to (i) use the online audio-visual information services or related technologies to engage in any activities which may jeopardize national security, undermine social stability or infringe legitimate right of others; (ii) produce, publish or disseminate any audio-visual information prohibited by the laws and regulations, such as internet rumors. The provider of audio-visual information services must establish, maintain and optimize a rumors refuting regime, under which once it identifies that any user of audio-visual information services produces, publishes or disseminates any rumor by virtue of the technology of producing forged pictures or audio-visual information based on deep-learning or virtual reality, such provider must take measures to refute such rumors in a timely manner and file such situations with the competent authorities governing Internet information, culture and tourism, and radio and television.

### **Regulations on Radio and Television Programs**

On August 11, 1997, the State Council promulgated Administrative Regulations on Radio and Television, which came into effect on September 1, 1997 and were amended on December 7, 2013 and March 1, 2017. Units for the production and management of radio television programs are established upon the approval of the administrative departments for radio and television under the people's governments at or above the provincial level. Only radio stations, television stations and units for the production and management of radio television programs can produce radio and television programs. No radio or television station may broadcast any program produced by units which are not licensed to produce and manage radio or television programs.

According to the Provisions for the Administration of the Production and Distribution of Radio and Television Programs promulgated by the NRTA on July 19, 2004, which took effect on August 20, 2004 and was recently amended on October 31, 2018, any business that produces or operates radio or television programs must first obtain a Radio and Television Program Production and Operation Permit. Entities holding such permits must conduct their business within the permitted scope as provided in their permits. In addition, foreign-invested enterprises are not allowed to engage in the above-mentioned services.

### **Regulations on Internet Pharmaceutical Information Service**

The Administration Measures on Pharmaceutical Information Service on the Internet, promulgated by the SAMR on 8 July 2004, took effect on the same date and amended on November 17, 2017, define the provision of profit-making and non-profit-making online medicine information services on the internet. Where any website intends to provide internet drug information services, to obtain the Qualification Certificate for Internet Drug Information, it must first file an application with the food and drug administration department of the province level at the domicile of the website's sponsor, and then apply for an operation permit from the State Council's department in charge of information industry or the telecom administrative authority at the provincial level or complete the procedures for record-filing.

### **Regulations on Micro Credit Industry**

China Banking and Insurance Regulatory Commission, or the CBIRC, and PBOC jointly promulgated the Guidance on the Pilot Programs for Microcredit Company on May 4, 2008. To establish a microcredit company, the investors must apply to the competent governmental body at provincial level and, upon approval, register at competent local branch of the SAMR where the company will be domiciled and obtain the business license. Within five days after the registration, the microcredit company must submit relevant materials to the local public security department and local branches of the CBIRC and the PBOC.



Microcredit companies must be subject to public supervision and cannot illegally raise funds in any form. On September 7, 2020, the CBIRC issued the Circular on Strengthening the Supervision and Administration of Microcredit Company, which took effect on the same date, to further regulate the business operation of the microcredit companies and put forward certain new requirements in terms of the microcredit company's business scope, external financing ratio, loan amount, loan purpose, business area, loan interest rate, etc.

All provinces, autonomous regions, and municipalities directly under the PRC central government must appoint their own regulatory authority for the microcredit industry. Currently, the microcredit industry in China is primarily regulated by the financial affairs offices of the people's governments of the relevant provinces, autonomous regions and municipalities directly under the PRC central government. According to the Chongqing Municipal Instructions on Promoting Pilot Microcredit Companies promulgated by Chongqing Municipal People's Government on August 1, 2008, Notice on Forwarding "Chongqing Municipal Interim Measures of Pilot Microcredit Companies" by General Office of Chongqing Municipal People's Government," Notice on Issues concerning the Adjustment of "Chongqing Municipal Interim Measures of Pilot Microcredit Companies" by General Office of Chongqing Municipal People's Government, and Suggestion on Further Promoting the Development of Microcredit Companies by General Office of Chongqing Municipal People's Government promulgated by General Office of Chongqing Municipal People's Government on August 1, 2008, April 27, 2009, and April 12, 2011, respectively, in preparing for the establishment of a microcredit company, all the investors as the applicants must submit an application to the financial affairs office for approval. Microcredit company with approval of establishment must put a deposit no less than 10% of its registered capital into a specified account before the establishment. With the approval of the financial affairs office, the microcredit company can carry out the businesses listed as below: 1) granting loans; 2) handling the discounting of negotiable instruments; 3) handling asset transfer. Microcredit companies cannot perform any kind of illegal fund-raising or absorb public deposits in a disguised way. Microcredit companies with good management status and risk-control capability, and with capital equal to or more than RMB200 million, can establish branches in the administrative jurisdiction of Chongqing Municipal and conduct business across counties and autonomous counties after approval. Foreign investors are encouraged to hold shares of or own microcredit companies.

### **Regulations on Internet Map Services**

According to the Administrative Rules of Surveying Qualification Certificate promulgated by the PRC Ministry of Natural Resources, or the MNR, on July 1, 2014 and took effect on August 1, 2014, the provision of internet map services by any non-surveying and mapping enterprise is subject to the approval of the MNR and requires a surveying and mapping qualification certificate. Internet maps refer to maps called or transmitted through the internet. Pursuant to the Notice on Further Strengthening the Administration of Internet Map Services Qualification issued by the MNR on December 23, 2011, any entity without a Surveying and Mapping Qualification Certificate for Internet Surveying and Mapping is prohibited from providing any internet map services. According to the Provisions on the Administration of Examination of Maps promulgated by the MNR on June 23, 2006 and took effect on August 1, 2006 and recently amended on July 24, 2019, subject to limited exceptions, an enterprise must first apply for an approval by the relevant regulatory authority, if it intends to engage in any of the following activities: (i) publication, display, production, posting, import or export of a map or a product attached with a map, (ii) re-publication, re-display, re-production, re-posting, re-import or re-export of a map the content of which has been changed after it is approved, or other commercial products attached with such a map, and (iii) publication or display of a map or a product attached with a map overseas. The operator of an approved internet map is required to file the updated contents of the map with the relevant regulatory authority semi-annually, and re-apply for a new approval of the map when the two-year term of the existing approval expires.

### **Regulations on Bike-Sharing**

According to the Guiding Opinions on Encouraging and Regulating the Development of Internet Bike Rental promulgated by the Ministry of Transport, Publicity Department of the Communist Party of China Central Committee, Office of the Central Leading Group for Cyberspace Affairs, NDRC, MIIT, Ministry of Public Security, Ministry of Housing and Urban-rural Development, PBOC, SAMR and MCT and took effect on August 1, 2017, the internet bike-sharing operators must establish the users' real name registration mechanism and enter into a service agreement with users to define their respective rights and obligations and specify the requirements on users' riding and parking. To strengthen the protection of the



networks and information security, internet bike-sharing operators must set up their servers within the territory of China, implement the network security hierarchical protection, data security management and personal information protection systems and establish a network and information security management system and technical support measures. Additionally, internet bike-sharing operators must refine their internal control mechanism, including rigorously distinguish enterprise self-owned funds from deposits and advance from users, open special accounts for user's deposits and advance, and prevent and control user fund risks.

### **Regulations on Consumer Protection**

The Law of the People's Republic of China on the Protection of Consumer Rights and Interests, which was promulgated by the SCNPC on October 31, 1993, further amended on October 25, 2013, and became effective on March 15, 2014, sets out the obligations of business operators and the rights and interests of the consumers. Pursuant to the law, business operators must guarantee the quality, function, usage, term of validity, personal or property safety requirement of the goods and services and provide customers with authentic information about the goods and services. Consumer whose legitimate rights and interests are harmed in the purchase of goods or receipt of services rendered through an online trading platform may seek compensation from the seller or the service provider. Where the online trading platform provider is unable to provide the true name, address and valid contact method of the seller or the service provider, the consumer may seek compensation from the online trading platform provider; where the online trading platform provider makes an undertaking which is more favorable to the consumer, the undertaking must be performed. Upon compensation by the online trading platform provider, the online trading platform provider must have the right to recover the compensation from the seller or the service provider. Where the online trading platform provider is or should be aware that the seller or the service provider is using its platform to harm the legitimate consumer rights and interests but failed to adopt the requisite measures, the online trading platform provider will be liable jointly and severally with the seller or the service provider pursuant to the law.

### **Regulations on Unfair Competition**

According to the Law of the People's Republic of China against Unfair Competition promulgated by the SCNPC on September 2, 1993 and further amended on November 4, 2017 and April 23, 2019, respectively, operators cannot undermine their competitors by engaging in improper activities, including but not limited to, taking advantage of powers or influence to affect a transaction, market confusion, commercial bribery, misleading false publicity, infringement of trade secrets, price dumping, illegitimate premium sale and commercial libel. Any operators who violate the law by engaging in the foregoing unfair competitive activities must be ordered to cease such illegal activities, eliminate the influence of such activities or compensate for the damages caused to any party. The competent supervision and inspection authorities may also confiscate the illegal gains or impose fines on such operators.

### **Regulations Relating to Foreign Exchange**

#### ***Regulation on Foreign Currency Exchange***

Pursuant to the Foreign Exchange Administration Regulations, which was promulgated by the State Council on January 29, 1996, took effect on April 1, 1996 and last amended on August 5, 2008, Renminbi is freely convertible into other currencies for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless prior approval is obtained from SAFE and prior registration with SAFE is made.

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012 and was further amended on May 4, 2015, October 10, 2018 and December 30, 2019, respectively, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment. SAFE Notice No. 59 also simplified the capital verification and confirmation formalities for foreign invested entities, the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire equities from Chinese party, and further improved the administration on exchange settlement of foreign exchange capital of foreign invested entities.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, or the Circular 19, which was amended on December 30, 2019. SAFE further promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or the Circular 16, on June 9, 2016, which, among other things, amend certain provisions of the Circular 19. According to the Circular 19 and the Circular 16, the flow and use of the Renminbi capital converted from foreign currency denominated registered capital of a foreign-invested company is regulated such that Renminbi capital may not be used for business beyond its business scope or to provide loans to persons other than affiliates unless otherwise permitted under its business scope, securities investment or other financial investment except for guaranteed financial products issued by banks, providing loans to non-affiliated enterprises unless otherwise permitted under its business scope or constructing or purchasing real estate not for self-use. On October 23, 2019, the SAFE issued the Circular on Further Promoting Cross-border Trade and Investment Facilitation, which expressly allows FIEs that do not have equity investments in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investments as long as the investments are real and in compliance with the foreign investment-related laws and regulations. Violations of these regulations could result in administrative penalties.

On January 26, 2017, the SAFE promulgated the Notice on Improving the Check of Authenticity and Compliance to Further Promote Foreign Exchange Control, or the 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 must check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities must hold income to account for previous years' losses before remitting the profits. Moreover, pursuant to the Circular 3, domestic entities must 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.

### ***Regulations on Dividend Distribution***

Under applicable PRC laws and regulations, FIEs in China may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. At the discretion of the board of directors of a FIE, it may allocate a portion of its after-tax profits based on PRC accounting standards to other reserve funds. These reserve funds are not distributable as cash dividends. In addition, a PRC company cannot distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

### ***Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents***

On July 4, 2014, SAFE promulgated the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or the Circular 37, for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. The Circular 37 supersedes the Notice on Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents, and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular 37, (i) a resident in mainland China must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (ii) following the initial registration, PRC resident must update his or her SAFE registration when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term, increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions).

Pursuant to the SAFE Circular Further Simplification and Improvement Foreign Exchange Administration on Direct Investment, promulgated on February 13, 2015, effective on June 1, 2015, and further amended on December 30, 2019, the aforementioned registration must be directly reviewed and handled by qualified banks, and SAFE and its branches must perform indirect regulation over the foreign exchange registration via qualified banks.

Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control the company from time to time are required to register with the SAFE in connection with their investments in the company. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

### ***Regulations on Stock Incentive Plans***

On February 15, 2012, SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies, pursuant to which individuals participating in any stock incentive plan of any overseas publicly listed company who are Chinese citizens or foreign citizens who reside in mainland China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE or its local branches and complete certain other procedures through a domestic qualified agent, which could be a Chinese subsidiary of such overseas listed company, and complete certain other procedures. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the agent in mainland China is required to further amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the mainland Chinese agent or the overseas entrusted institution or other material changes. The mainland Chinese agents must, on behalf of the mainland Chinese residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the mainland Chinese residents' exercise of the employee share options. The foreign exchange proceeds received by the mainland Chinese residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in mainland China opened by the mainland Chinese agents before distribution to such mainland Chinese residents. Under the Circular of the State Administration of Taxation on Issues Concerning Individual Income Tax in Relation to Equity Incentives promulgated by the SAT and effective from August 24, 2009, listed companies and their domestic organizations must, according to the individual income tax calculation methods for "wage and salary income" and stock option income, lawfully withhold and pay individual income tax on such income.

### **Regulation on Intellectual Property**

#### ***Copyright and Software Products***

On September 7, 1990, the National People's Congress promulgated PRC Copyright Law, which took effect on June 1, 1991, and amended on October 27, 2001 and February 26, 2010, respectively. The PRC Copyright Law provides that Chinese citizens, legal persons, or other organizations must, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. In addition, internet activities, products disseminated over the internet and software products also enjoys copyright. There is a voluntary registration system administered by the China Copyright Protection Center.

In order to further implement the Computer Software Protection Regulations promulgated by the State Council on December 20, 2001, took effect on March 1, 2013, and amended on January 30, 2013, the State Copyright Bureau issued the Computer Software Copyright Registration Procedures on February 20, 2002 and amended on June 18, 2004, which apply to software copyright registration, license contract registration and transfer contract registration. The National Copyright Administration of China must be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China is designated as the software registration authority. The Copyright Protection

Center of China must grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013).

Provisions of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks provide that web players or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization will be deemed to have infringed upon the right of dissemination through information networks.

### ***Trademarks***

Trademarks are protected by the PRC Trademark Law promulgated by the National People's Congress on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013, and April 23, 2019, as well as the Implementation Regulation of the PRC Trademark Law promulgated by the State Council on August 3, 2002 and amended on April 29, 2014. The Trademark Office of the PRC National Intellectual Property Administration, or the Trademark Office, handles trademark registrations and grants a term of ten years to registered trademarks and another ten years if requested upon expiry of the first or any renewed ten-year term. Trademark registrant may license its registered trademark to another party by entering into a trademark license agreement. Trademark license agreements must be filed with the Trademark Office to be recorded. The licensor must supervise the quality of the commodities on which the trademark is used, and the licensee must guarantee the quality of such commodities. Trademark license agreements must be filed with the Trademark Office for record. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use. Trademark license agreements should be filed with the Trademark Office or its regional offices.

### ***Domain Names***

Internet domain name registration and related matters are primarily regulated by the Measures on Administration of Domain Names for the Chinese Internet, promulgated by MIIT on November 5, 2004 and took effect on December 20, 2004 which was superseded by the Measures on Administration of Internet Domain Names promulgated by MIIT on August 24, 2017 and took effect on November 1, 2017, and Implementation Rules on Registration of National Top-level Domain Names promulgated by China Internet Network Information Center and took effect on June 18, 2019. Domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC internet domain names. The domain name services follow a "first come, first file" principle. Applicants for registration of domain names must provide their true, accurate, and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure.

### ***The Patent Law***

According to the PRC Patent Law (Revised in 2008) promulgated by the SCNPC on December 27, 2008 and took effect on October 1, 2009, and its Implementation Rules (Revised in 2010) promulgated by the State Council on January 9, 2010 and took effect on February 1, 2010, the PRC State Intellectual Property Office is responsible for administering patents in China. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The PRC Patent Law and its implementation rules provide for three types of patents, "invention," "utility model," and "design." Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a "first come, first file" principle, which means that where more than one person files a patent

application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

## **Regulations on Taxes**

### ***Enterprise Income Tax***

Pursuant to the EIT Law and its implementing rules, enterprises are classified into resident enterprises and non-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25% while non-PRC resident enterprises without any branches in China should pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10%.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People's Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies promulgated by the SAT on April 22, 2009, took effect on January 1, 2008, and recently amended on December 29, 2017, sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of mainland China and controlled by mainland Chinese enterprises or mainland Chinese enterprise groups is located within mainland China.

On July 27, 2011, SAT issued a trial version of the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises, which came into effect on September 1, 2011 and was amended on June 15, 2018, to clarify certain issues in the areas of resident status determination, post-determination administration and competent tax authorities' procedures.

The EIT Law and the implementation rules provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-resident enterprises," and gains derived by such investors, which (a) do not have an establishment or place of business in China or (b) have an establishment or place of business in China, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within China. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement, promulgated by the SAT on August 21, 2006, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties promulgated and took effect on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Based on the Announcement on Recognition of "Beneficial Owner" in Tax Treaties issued by the SAT on February 3, 2018 and effective on April 1, 2018, when determining the applicant's status of the "beneficial owner" regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases.



## ***Value-added Tax and Business Tax***

According to the Provisional Regulations on Value-added Tax promulgated by the State Council on December 13, 1993 and amended on November 1 2008, January 8, 2011, February 6, 2016, and November 19, 2017, and the Implementing Rules of the Provisional Regulations on Value-added Tax promulgated by the Ministry of Finance on December 25, 1993 and amended on February 22, 1995, December 15, 2008 and October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods in China must pay value-added tax.

Pursuant to the PRC Provisional Regulations on Business Tax, which took effect on January 1, 1994 and were subsequently amended on November 10, 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets, or selling real estate in China must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax attached to the regulation. On November 19, 2017, the regulations in relation to business tax was abolished.

Since January 1, 2012, the Ministry of Finance and the SAT have implemented the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax, which imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expanded to nation-wide application in 2013. According to the implementation circulars released by the Ministry of Finance and the SAT on the VAT Pilot Program, the “modern service industries” include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner, or the SAT Circular 36, promulgated by the Ministry of Finance and SAT and took effect on May 1, 2016, entities and individuals engaging in the sale of services, intangible assets or fixed assets within the territory of China are required to pay value-added tax instead of business tax. On March 20, 2019, the MOF, the SAT and the General Administration of Customs jointly issued the Announcement on Policies for Deepening the VAT Reform to further slash value-added tax rates. The Announcement on Policies for Deepening the VAT Reform came into effect on April 1, 2019 and prevails in case of any conflict with previous provisions.

## **Regulations Relating to Employment and Social Welfare**

### ***The Labor Contract Law***

Pursuant to the PRC Labor Law promulgated by the SCNPC on July 5, 1994, took effect on January 1, 1995 and recently amended on December 29, 2018, the PRC Labor Contract Law promulgated by the SCNPC on June 29, 2007, took effect on January 1, 2008 and amended on December 28, 2012, and the Implementing Regulations of the Employment Contracts Law promulgated by the State Council and took effect on September 18, 2008, labor relationships between employers and employees must be executed in written form. Wages may not be lower than the local minimum wage. Employers must establish a system for labor safety and sanitation, strictly abide by state standards and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions.

### ***Social Insurance and Housing Fund***

Under PRC laws, rules and regulations, including the Social Insurance Law promulgated by the State Council on October 28, 2010 and took effect on July 1, 2011, and amended on December 29, 2018, the Interim Regulations on the Collection and Payment of Social Security Funds promulgated by the State Council and took effect on January 22, 1999, and amended on March 24, 2019, and the Regulations on the Administration of Housing Accumulation Funds promulgated by the State Council and took effect on April 3, 1999, and amended on March 24, 2002, and amended on March 24, 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and housing accumulation funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to pay the deficit amount.



## DIRECTORS AND SENIOR MANAGEMENT

### Directors

Our board of directors currently consists of eight directors, comprising three executive directors, two non-executive directors, and three independent non-executive directors. The following table sets out the name, age, and position of our directors as of the date of this offering memorandum:

Name	Age	Position
Wang Xing .....	41	Co-founder, Executive Director, Chief Executive Officer, and Chairman of the Board
Mu Rongjun .....	40	Co-founder, Executive Director, and Senior Vice President
Wang Huiwen .....	41	Co-founder, Executive Director, and Senior Vice President
Lau Chi Ping Martin .....	47	Non-executive Director
Shen Nanpeng.....	52	Non-executive Director
Orr Gordon Robert Halyburton .....	57	Independent Non-executive Director
Leng Xuesong.....	49	Independent Non-executive Director
Shum Heung Yeung Harry .....	53	Independent Non-executive Director

### Executive Directors

**Wang Xing** (王興), aged 41, is our co-founder, executive director, chief executive officer, and chairman of the board. Wang Xing is responsible for the overall strategic planning, business direction, and management of our company. He oversees the senior management team. Wang Xing founded meituan.com in 2010 and currently holds directorship in various subsidiaries, consolidated affiliated entities, and operating entities of our company.

Wang Xing has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding our company, he co-founded xiaonei.com (校內網), China's first college social network website in December 2005 and worked there as chief executive officer from December 2005 to April 2007. xiaonei.com (校內網) was sold to China InterActive Corp in October 2006 which was later renamed as Renren Inc. (NYSE Ticker: RENN). Wang Xing also co-founded fanfou.com (飯否網), a social media company specializing in microblogging, in May 2007 and was responsible for the management and operation of this company from May 2007 to July 2009.

Wang Xing received his bachelor's degree in electronic engineering from Tsinghua University in July 2001 and his master's degree in computer engineering from University of Delaware in January 2005.

**Mu Rongjun** (穆榮均), aged 40, is our co-founder, executive director, and senior vice president. He is responsible for our financial services and corporate affairs.

Mu Rongjun has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding our company, he worked as senior software engineer and project manager in Baidu, Inc. (Nasdaq Ticker: BIDU), the leading Chinese language internet search provider, from July 2005 to May 2007. Mu Rongjun was also a co-founder and the engineering director of fanfou.com (飯否網), a social media company specializing in microblogging, from May 2007 to July 2009.

Mu Rongjun received his bachelor's degree in automation engineering from Tsinghua University in July 2002 and his master's degree in computer science and technology from Tsinghua University in July 2005.

**Wang Huiwen** (王慧文), aged 41, is our co-founder, executive director, and senior vice president. Wang Huiwen is responsible for our on-demand delivery and certain new initiatives. He will withdraw from his day-to-day management duties in the Company in December 2020, but will continue to perform his director's duties by devoting himself to the strategic planning, organizational growth, and talent development of the Company after withdrawing from his day-to-day duties.

Wang Huiwen has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding our company, he co-founded xiaonei.com (校內網), China's first college social network website, in December 2005 and worked there as co-founder from December 2005 to October 2006. xiaonei.com (校內網) was sold to China InterActive Corp in October 2006 which was later renamed as Renren Inc. (NYSE Ticker: RENN). In January 2009, Wang Huiwen co-founded taofang.com and worked there from June 2008 to October 2010.

Wang Huiwen received his bachelor's degree in electronic engineering from Tsinghua University in July 2001.

### **Non-executive Directors**

**Lau Chi Ping Martin** (劉熾平), aged 47, is our non-executive director. He is responsible for providing advice on business and investment strategies, general market trends, and other matters subject to the board guidance and approval.

Lau Chi Ping Martin joined Tencent in 2005 as the chief strategy and investment officer. In 2006, Lau Chi Ping Martin was promoted as the president of Tencent to manage the day-to-day operation of Tencent. In 2007, he was appointed as an executive director of Tencent. Prior to joining Tencent, Lau Chi Ping Martin was an executive director at Goldman Sachs (Asia) L.L.C.'s investment banking division and the chief operating officer of its Telecom, Media and Technology Group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant.

Lau Chi Ping Martin received a Bachelor of Science degree in Electrical Engineering from the University of Michigan in July 1994, a Master of Science degree in Electrical Engineering from Stanford University in July 1995 and an MBA degree from Kellogg Graduate School of Management, Northwestern University in June 1998. In July 2011, Lau Chi Ping Martin was appointed as a non-executive director of Kingsoft Corporation Limited (HKEx Stock Code: 3888), an internet based software developer, distributor, and software service provider listed in Hong Kong. In March 2014, Lau Chi Ping Martin was appointed as a director of JD.com, Inc. (Nasdaq Ticker: JD). In March 2014, Lau Chi Ping Martin was appointed as a director of Leju Holdings Limited (NYSE Ticker: LEJU), In December 2017, Lau Chi Ping Martin was appointed as a director of Vipshop Holdings Limited (NYSE Ticker: VIPS), an online discount retailer company listed on the New York Stock Exchange.

**Neil Nanpeng Shen** (沈南鵬), aged 52, is our non-executive director. He is responsible for providing advice on investment and business strategies, financial discipline, and other matters subject to the board guidance and approval.

Neil Nanpeng Shen founded Sequoia Capital China in September 2005 and has been serving as the founding managing partner since then. Prior to founding Sequoia Capital China, he co-founded Ctrip.com International, Ltd., or Ctrip (Nasdaq Ticker: CTRP), a leading travel service provider in China, in 1999. Neil Nanpeng Shen served as Ctrip's president from August 2003 to October 2005 and its chief financial officer from 2000 to October 2005. Neil Nanpeng Shen also co-founded and served as non-executive Co-Chairman of Homeinns Hotel Group, a leading economy hotel chain in China, which commenced operations in July 2002.

Neil Nanpeng Shen received his bachelor's degree in applied mathematics from Shanghai Jiao Tong University in July 1988 and his master's degree from Yale University in November 1992.

Neil Nanpeng Shen has been an independent non-executive director of Trip.com Group Limited (Nasdaq Ticker: TCOM) since October 2008, an independent non-executive director of Momo Inc. (Nasdaq Ticker: MOMO) since May 2014, a non-executive director of Noah Holdings Limited (NYSE Ticker: NOAH) since January 2016, a non-executive director of BTG Hotels Group (SHSE Stock Code: 600258) since January 2017, a non-executive director of 360 Security Technology Inc. (SHSE Stock Code: 601360) since February 2018, and an independent non-executive director of Pinduoduo Inc. (Nasdaq Ticker: PDD) since April 2018.

Neil Nanpeng Shen was the non-executive director of Homeinns Group from 2006 to 2017 and non-executive director of PPDAl Group Inc. (NYSE Ticker: PPDF) from 2017 to August 2018.

## Independent Non-Executive Directors

**Orr Gordon Robert Halyburton**, aged 57, is our independent non-executive director. He is responsible for providing independent advice on financial and accounting affairs and corporate governance matters, and other matters subject to the board guidance and approval.

Orr Gordon Robert Halyburton joined McKinsey & Company in 1986 and served as senior partner of McKinsey & Company from July 1998 until August 2015 when he retired. He was a member of McKinsey's global shareholder board from July 2003 until June 2015.

Orr Gordon Robert Halyburton acquired extensive corporate governance experience during his position as a senior partner of McKinsey & Company, as well as a director and member of board committees in Lenovo Group Limited (HKEx Stock Code: 992) and Swire Pacific Limited (HKEx Stock Code: 00019 and 00087). His corporate governance experience includes, among others, (i) reviewing, monitoring and making recommendations as to the companies' policies, practices and compliance; (ii) proposing measures to ensure effective communication between the board and shareholders; (iii) opining on proposed connected transactions; and (iv) understanding requirements of the Listing Rules and directors' duty to act in the best interest of the company and the shareholders as a whole.

Orr Gordon Robert Halyburton received his bachelor's degree in engineering science from Oxford University in June 1984 and his master's degree in business administration from Harvard University in June 1986.

Orr Gordon Robert Halyburton has been a non-executive director of Lenovo Group Limited (HKEx Stock Code: 992) since September 2015 and an independent non-executive director of Swire Pacific Limited (HKEx Stock Code: 00019 and 00087) since August 2015. He is also a board member of China-Britain Business Council.

Orr Gordon Robert Halyburton was responsible for the following areas in his capacity as a senior partner of McKinsey & Company from July 1998 to August 2015, through which he has gained the financial management expertise required under Rule 3.10(2) of the Listing Rules:

- Reviewing and analyzing financial statements, business plans and financial projections of client companies in the context of their overall strategy;
- Responsible for formulating and providing assistance in the implementation of the business, financial and investment strategies of client companies; and
- Working closely with client companies to review and analyze financial statements of the target companies as part of the negotiation of corporate finance transactions.

In addition, Gordon has also served as a member of the audit committee of Swire Pacific Limited (HKEx Stock Code: 00019 and 00087) since August 2015 and a member of the audit committee of Lenovo Group Limited (HKEx Stock Code: 992) since September 2016, which demonstrated his experience in reviewing and analyzing audited financial statements of public companies.

**Leng Xuesong** (冷雪松), aged 51, is our independent non-executive director. He is responsible for providing independent advice on finance, executive compensation and corporate governance matters, and other matters subject to the board guidance and approval.

Leng Xuesong joined Warburg Pincus, an international private equity firm, in September 1999 as an associate and served as managing director when he left in August 2007. From September 2007 to December 2014, he served as managing director at General Atlantic LLC, where he focused on investment opportunities in North Asia. In January 2015, Leng Xuesong founded Lupin Capital, a China-focused private equity fund.

Leng Xuesong acquired extensive corporate governance experience through his position as managing director of private equity funds and as non-executive director of various listed companies in Hong Kong and the US. He has accumulated corporate governance experience in (i) reviewing, monitoring, and providing

recommendations as to the companies' policies and compliance; (ii) facilitating effective communication between the board and shareholders; and (iii) understanding requirements of the Listing Rules and directors' duty to act in the best interest of the company and the shareholders as a whole.

Leng Xuesong received his bachelor's degree in international industrial trade from Shanghai Jiao Tong University in July 1992 and his master's degree in business administration from the Wharton School of the University of Pennsylvania in May 1999.

Leng Xuesong served as non-executive director of China Huiyuan Juice Group Limited (HKEx Stock Code: 1886) from July 2006 to August 2007 and Zhongsheng Group Holdings Limited (HKEx Stock Code: 881) from August 2008 to June 2015. He served as non-executive director of Wuxi Pharmatech (Cayman) Inc. (NYSE Ticker: WX) from March 2008 to December 2015 and Soufun Holdings Ltd. (NYSE Ticker: SFUN) from September 2010 to December 2014.

**Shum Heung Yeung Harry** (沈向洋), aged 53, is our independent non-executive director. He is responsible for providing independent advice on technology innovation, the global technology, and internet industry trends, and other matters subject to the board guidance and approval.

Shum Heung Yeung Harry joined Microsoft Research in November 1996 as a researcher based in Redmond, Washington. In November 1998, he moved to Beijing as one of the founding members of Microsoft Research China (later renamed Microsoft Research Asia) and spent nine years there first as a researcher, subsequently moving on to become managing director of Microsoft Research Asia and a distinguished engineer of Microsoft Corporation. From October 2007 to November 2013, Shum Heung Yeung Harry served as the corporate vice president responsible for Bing search product development. He has been the executive vice president of Microsoft Corporation since November 2013.

Shum Heung Yeung Harry has acquired corporate governance experience in his capacity as the executive vice president of Microsoft Corporation. His key corporate governance experience includes (i) making recommendations as to internal control systems and policies; (ii) regular communication with the board of directors; and (iii) implementing corporate governance measures.

Shum Heung Yeung Harry received his Ph.D. in Robotics from Carnegie Mellon University in August 1996. He was elected into the National Academy of Engineering of United States in February 2017.

#### **Senior Management (Non-Directors)**

**Chen Shaohui** (陳少暉), aged 39, is our chief financial officer and senior vice president. He is responsible for overseeing our finance, strategic planning, investments, and capital market activities.

Before joining the Company in November 2014, Chen Shaohui worked as an analyst in A.T. Kearney from June 2004 to October 2005, an investment manager in WI Harper from October 2005 to August 2008 and an investment director in Tencent (HKEx Stock Code: 700) from January 2011 to October 2014.

In July 2018, Chen Shaohui was appointed as a director of Beijing Enlight Media Co., Ltd. (SZSE Stock Code: 300251) and a non-executive director of Maoyan Entertainment (HKEx Stock Code: 1896).

Chen Shaohui received his bachelor's degree in economics from Peking University in June 2004 and his master's degree in business administration from Harvard University in May 2010.

**Chen Liang** (陳亮), aged 41, is our senior vice president and is responsible for overseeing our grocery retail business.

Prior to joining the Company in January 2011, Chen Liang worked as a software engineer in Guangzhou Institute of Communications (廣州通信研究所) from August 2002 to November 2004 and the chief technology officer in Shenzhen Tianshitong Technology Co., Ltd. (深圳天時通科技有限公司) from November 2004 to December 2005. He co-founded xiaonei.com (校內網) in December 2005 and worked there from January 2006 to October 2006. xiaonei.com (校內網) was subsequently sold to China InterActive

Corp in October 2006 which was later renamed as Renren Inc. (NYSE Ticker: RENN). Chen Liang worked as the research and development manager of the communication division in Beijing Yahoo Network Information Technology Co., Ltd. from May 2007 to June 2008. After that, he co-founded taofang.com (淘房網) in June 2008 and worked there from 2008 to 2010.

Chen Liang received his bachelor's degree in mechatronic engineering from South China University of Technology in July 2002.

**Zhang Chuan** (張川), aged 44, is our senior vice president and is responsible for overseeing our in-store services business.

Before joining the Company in January 2017, Zhang Chuan worked as development manager in the Information Centre of Ministry of Education from September 1997 to 2005, senior product manager at Yonyou Software Co., Ltd. (SHSE Stock Code: 600588) from May 2005 to August 2006, product director at Baidu, Inc. (Nasdaq Ticker: BIDU) from August 2006 to October 2011, and executive vice president at 58.com Inc. (NYSE Ticker: WUBA) from October 2011 to December 2016.

Zhang Chuan received his bachelor's degree in computer science from Beijing Normal University in July 1997 and his master's degree in business administration from Tsinghua University in June 2003.

### **Share Option and Share Award Schemes**

As of June 30, 2020, we have adopted three share options schemes, namely the Pre-IPO ESOP, the Post-IPO Share Option Scheme, and the Post-IPO Share Award Scheme.

#### ***Pre-IPO ESOP***

The Pre-IPO ESOP was approved and adopted pursuant to the written resolutions of all the then shareholders of the Company dated October 6, 2015. The eligible participants include employees, consultants and Directors, as determined by a committee authorized by the Board. The maximum aggregate number of Shares which may be issued is 683,038,063, subject to any adjustments for other dilutive issuances. The Pre-IPO ESOP commenced on October 6, 2015 and will expire on the tenth anniversary of the commencement date.

#### ***Post-IPO Share Option Scheme***

The Post-IPO Share Option Scheme was approved and adopted by all the then shareholders of the Company on August 30, 2018. The eligible participants include any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner, or service provider of any member of us, our subsidiaries, or our Consolidated Affiliated Entities, or any affiliate who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our company. As of June 30, 2020, the total number of Class B Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 475,568,628 Class B Shares.

#### ***Post-IPO Share Award Scheme***

The Post-IPO Share Award Scheme was approved and adopted by all the then shareholders of the Company on August 30, 2018. The eligible participants include any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of us, our subsidiaries, or our Consolidated Affiliated Entities, or any affiliate (an "Eligible Person" and collectively "Eligible Persons") who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Company. The aggregate number of Class B Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 272,336,228 Shares.

## **Compensation of Directors and Senior Management**

During the year ended December 31, 2017, 2,000,000 share options and 11,000,000 RSUs were granted to two of our directors. During the year ended December 31, 2018, 4,700,000 share options and 4,330,000 RSUs were granted to five of our directors. During the year ended December 31, 2019, no share options or RSUs were granted to any of our directors or senior management. During the six months ended June 30, 2020, no share options or RSUs were granted to any of our directors or senior management.

For more information on the compensation of our director and senior management, see note 32 of the audited consolidated financial statements for the year ended December 31, 2019 and note 28 of the unaudited interim condensed consolidated financial information for the six months ended June 30, 2020 included in this offering memorandum.



## SUBSTANTIAL SHAREHOLDERS AND DIRECTORS' INTERESTS

As of June 30, 2020, to the best knowledge of the Directors, the following persons had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholder	Capacity/ Nature of interest	Number and class of Shares held	Approximate percentage of interest in each class of Shares <sup>(5)</sup>
<b><i>Class A Shares — Wang Xing</i></b>			
Crown Holdings <sup>(1)</sup> .....	Beneficial interest	489,600,000 Class A Shares	66.56%
Shared Patience <sup>(1)</sup> .....	Beneficial interest	83,588,783 Class A Shares	11.36%
Songtao Limited <sup>(1)</sup> .....	Interest in controlled corporation	489,600,000 Class A Shares	66.56%
TMF (Cayman) Ltd. ....	Trustee	489,600,000 Class A Shares	66.56%
Wang Xing .....	Beneficiary of a trust <sup>(1)</sup>	489,600,000 Class A Shares	66.56%
	Founder of a trust <sup>(1)</sup>	489,600,000 Class A Shares	66.56%
	Interest in controlled corporation <sup>(1)</sup>	83,588,783 Class A Shares	11.36%
<b><i>Class A Shares — Mu Rongjun</i></b>			
Charmway Enterprises <sup>(2)</sup> .....	Beneficial interest	118,650,000 Class A Shares	16.13%
Shared Vision <sup>(2)</sup> .....	Beneficial interest	7,330,000 Class A Shares	1.00%
Day One Holdings Limited <sup>(2)</sup> .....	Interest in controlled corporation	118,650,000 Class A Shares	16.13%
TMF (Cayman) Ltd. ....	Trustee	118,650,000 Class A Shares	16.13%
Mu Rongjun .....	Beneficiary of a trust <sup>(2)</sup>	118,650,000 Class A Shares	16.13%
	Founder of a trust <sup>(2)</sup>	118,650,000 Class A Shares	16.13%
	Interest in controlled corporation <sup>(2)</sup>	7,330,000 Class A Shares	1.00%
<b><i>Class B Shares — Tencent</i></b>			
Huai River Investment Limited <sup>(3)</sup> .....	Beneficial interest	623,420,905 Class B Shares	12.18%
Tencent Mobility Limited <sup>(3)</sup> .....	Beneficial interest	389,413,655 Class B Shares	7.61%
Morespark Limited <sup>(3)</sup> .....	Beneficial interest	8,850,245 Class B Shares	0.17%
Great Summer Limited <sup>(3)</sup> .....	Beneficial interest	25,000,000 Class B Shares	0.49%
TPP Follow-on I Holding B Limited <sup>(3)</sup> .....	Beneficial interest	3,150,931 Class B Shares	0.06%
TPP Follow-on I Holding C Limited <sup>(3)</sup> .....	Beneficial interest	4,473,024 Class B Shares	0.09%
THL A Limited .....	Beneficial interest	149,261 Class B Shares	0.00%
THL A25 Limited .....	Beneficial interest	1,927 Class B Shares	0.00%

Name of Substantial Shareholder	Capacity/ Nature of interest	Number and class of Shares held	Approximate percentage of interest in each class of Shares <sup>(5)</sup>
<b><i>Class B Shares — Sequoia</i></b>			
Sequoia Capital China Funds, Sequoia Capital Global Growth Funds and Other Controlled Entities <sup>(4)</sup> .....	Beneficial interest  Other	417,230,593 Class B Shares 7,782,112 Class B Shares	8.15%  0.15%

*Notes:*

- (1) Crown Holdings is wholly owned by Songtao Limited which is in turn wholly owned by TMF (Cayman) Ltd. The entire interest in Songtao Limited is held by TMF (Cayman) Ltd. as trustee for a trust established by Wang Xing (as settlor) for the benefit of Wang Xing and his family. Wang Xing is deemed to be interested in the 489,600,000 Class A Shares held by Crown Holdings under the SFO. Shared Patience is wholly owned by Wang Xing.
- (2) Charmway Enterprises is wholly owned by Day One Holdings Limited which is in turn wholly owned by TMF (Cayman) Ltd. The entire interest in Day One Holdings Limited is held by TMF (Cayman) Ltd. as trustee for a trust established by Mu Rongjun (as settlor) for the benefit of Mu Rongjun and his family. Mu Rongjun is deemed to be interested in the 118,650,000 Class A Shares held by Charmway Enterprises under the SFO. Shared Vision is wholly owned by Mu Rongjun.
- (3) Huai River Investment Limited, a company incorporated under the laws of the British Virgin Islands, Tencent Mobility Limited, a company incorporated under the laws of Hong Kong, Morespark Limited, a company incorporated under the laws of Hong Kong and Great Summer Limited, a company incorporated under the laws of the British Virgin Islands, are direct wholly owned subsidiaries of Tencent. TPP Follow-on I Holding B Limited and TPP Follow-on I Holding C Limited, companies incorporated under the laws of the Cayman Islands, are beneficially owned by Tencent. THL A Limited and THL A25 Limited, companies incorporated under the laws of the British Virgin Islands, are beneficially owned by Tencent.
- (4) Sequoia Capital China Funds refers to Sequoia Capital China I, L.P., Sequoia Capital China Partners Fund I, L.P., Sequoia Capital China Principals Fund I, L.P., Sequoia Capital China II, L.P., Sequoia Capital China Partners Fund II, L.P., Sequoia Capital China Principals Fund II, L.P., Sequoia Capital 2010 CV Holdco, Ltd., SCC Venture V Holdco I, Ltd., SCC Venture VI Holdco, Ltd., SCC Venture VI Holdco B, Ltd., SCC Growth 2010-Top Holdco, Ltd., Sequoia Capital 2010 CGF Holdco, Ltd., SCC Growth IV Holdco A, Ltd. and Sequoia Capital China Growth Fund IV, L.P. (which hold approximately 0.85%, 0.10%, 0.13%, 2.60%, 0.07%, 0.44%, 0.67%, 0.01%, 0.04%, 0.01%, 0.89%, 0.14%, 0.02% and 0.13%, respectively, of the outstanding Shares), and Sequoia Capital Global Growth Funds refers to Sequoia Capital Global Growth Fund, L.P., Sequoia Capital Global Growth Principals Fund, L.P. and SC GGFII Holdco, Ltd. (which hold approximately 0.39%, 0.01% and 0.55%, respectively, of the outstanding Shares). The Sequoia Capital China Funds and the Sequoia Capital Global Growth Funds may act together with respect of the holding, disposal and casting of voting rights of the Shares.

The general partner of each of Sequoia Capital China I, L.P., Sequoia Capital China Partners Fund I, L.P. and Sequoia Capital China Principals Fund I, L.P. is Sequoia Capital China Management I, L.P. (“SCC Management I”). The general partner of each of Sequoia Capital China II, L.P., Sequoia Capital China Partners Fund II, L.P. and Sequoia Capital China Principals Fund II, L.P. is Sequoia Capital China Management II, L.P. (“SCC Management II”). The sole shareholder of Sequoia Capital 2010 CV Holdco, Ltd. is Sequoia Capital China Venture 2010 Fund, L.P. (“China Venture 2010 Fund”), whose general partner is SC China Venture 2010 Management, L.P. (“SCCV 2010 Management”). The sole shareholder of SCC Venture V Holdco I, Ltd. is Sequoia Capital China Venture Fund V, L.P. (“China Venture Fund V”), whose general partner is SC China Venture V Management, L.P. (“SCCV V Management”). The sole shareholder of each of SCC Venture VI Holdco, Ltd. and SCC Venture VI Holdco B, Ltd. is Sequoia Capital China Venture Fund VI, L.P. (“China Venture Fund VI”), whose general partner is SC China Venture VI Management, L.P. (“SCCV VI Management”). The controlling shareholder of SCC Growth 2010-Top Holdco, Ltd. and the sole shareholder of Sequoia Capital 2010 CGF Holdco, Ltd. is Sequoia Capital China Growth 2010 Fund, L.P. (“China Growth Fund 2010”), whose general partner is SC China Growth 2010 Management, L.P. (“SCCGF 2010 Management”). In respect of the casting of votes held by China Growth Fund 2010 in SCC Growth 2010-Top Holdco, Ltd., China Growth Fund 2010 is accustomed to act in accordance with the instructions of Sequoia Capital China Growth Fund I, L.P. (“China Growth Fund I”), whose general partner is Sequoia Capital China Growth Fund Management I, L.P. (“SCCGF Management I”). The sole shareholder of SCC Growth IV Holdco A, Ltd. is Sequoia Capital China Growth Fund IV, L.P., whose general partner is SC China Growth IV Management, L.P. (“SCCGF IV Management”) and, together with SCC Management I, SCC Management II, SCCV 2010 Management, SCCV V Management, SCCV VI Management, SCCGF 2010 Management and SCCGF Management I, collectively, the “General Partners”). The general partner of each of the General Partners is SC China Holding Limited, which is a wholly owned subsidiary of SNP China Enterprises Limited. Neil Nanpeng Shen is the sole shareholder of SNP China Enterprises Limited, and has a beneficial interest of 7,782,112 Class B Shares. In addition, Neil Nanpeng Shen is interested in more than 33.3% limited partnership interest in Sequoia Capital China Partners Fund I, L.P. Other Controlled Entities refers to URM Management Limited and N&J Investment Holdings Limited (which hold approximately 0.0012% and 0.08%, respectively, of the outstanding Shares) and are controlled by Neil Nanpeng Shen. Therefore, each of China Venture 2010 Fund, China Venture Fund V, China Venture Fund VI, China Growth Fund I, China Growth Fund 2010, the General Partners, SC China Holding Limited, SNP China Enterprises Limited and Neil Nanpeng Shen is deemed to be interested in 7.26% interest in the share capital of the Company (or 8.30% of the total issued Class B Shares).

The general partner of Sequoia Capital Global Growth Fund, L.P. and Sequoia Capital Global Growth Principals Fund, L.P. is SCGGF Management, L.P., whose general partner is SC US (TTGP), Ltd. Therefore, each of SCGGF Management, L.P. and SC US (TTGP), Ltd. is deemed to be interested in the 0.40% interest in the share capital of the Company (or 0.46% of the total issued Class B Shares).

The controlling shareholder of SC GGFII Holdco, Ltd. is Sequoia Capital Global Growth Fund II, L.P. The general partner of Sequoia Capital Global Growth Fund II, L.P. is SC Global Growth II Management, L.P., whose general partner is SC US (TTGP), Ltd. Therefore, each of Sequoia Capital Global Growth Fund II, L.P., SC Global Growth II Management, L.P. and SC US (TTGP), Ltd. is deemed to be interested in the 0.55% interest in the share capital of the Company (or 0.63% of the total issued Class B Shares).

- (5) As at June 30, 2020, the Company had 5,853,665,710 issued Shares in total, comprising of 735,568,783 Class A Shares and 5,118,096,927 Class B Shares. The above calculation is based on the total number of relevant class of Shares or the total number of Shares in issue as of June 30, 2020.

## Directors' Interests

As of June 30, 2020, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

### (A) Interest of Directors and Chief Executives in the Company

Name of Director or chief executive	Nature of interest <sup>(1)</sup>	Relevant company	Number and class of securities	Approximate percentage of interest in each class of Shares <sup>(7)</sup>
Wang Xing <sup>(2)</sup> .....	Beneficiary and founder of a Trust (L)	Trust	489,600,000 Class A Shares	66.56%
	Interest in controlled corporation (L)	Songtao Limited	489,600,000 Class A Shares	66.56%
	Interest in controlled corporation (L)	Crown Holdings	489,600,000 Class A Shares	66.56%
	Interest in controlled corporation (L)	Shared Patience	83,588,783 Class A Shares 318 Class B Shares	11.36% 0.00%
Mu Rongjun <sup>(3)</sup> .....	Beneficiary and founder of a Trust (L)	Trust	118,650,000 Class A Shares	16.13%
	Interest in controlled corporation (L)	Day One Holdings Limited	118,650,000 Class A Shares	16.13%
	Interest in controlled corporation (L)	Charmway Enterprises	118,650,000 Class A Shares	16.13%
	Interest in controlled corporation (L)	Shared Vision	7,330,000 Class A Shares 333,334 Class B Shares	1.00% 0.00%
	Beneficial interest (L)	–	5,666,666 Class B Shares	0.11%
Wang Huiwen <sup>(4)</sup> .....	Beneficiary and founder of a Trust (L)	Trust	36,400,000 Class A Shares 2,134,660 Class B Shares	4.95% 0.04%
	Interest in controlled corporation (L)	Aim Mars Investment Limited	36,400,000 Class A Shares 2,134,660 Class B Shares	4.95% 0.04%

Name of Director or chief executive	Nature of interest <sup>(1)</sup>	Relevant company	Number and class of securities	Approximate percentage of interest in each class of Shares <sup>(7)</sup>
	Interest in controlled corporation (L)	Kevin Sunny	36,400,000 Class A Shares	4.95%
			2,134,660 Class B Shares	0.04%
	Interest in controlled corporation (L)	Galileo Space Limited	2,963,001 Class B Shares	0.06%
	Beneficial interest (L)	–	15,180,939 Class B Shares	0.30%
Neil Nanpeng Shen <sup>(5)</sup> .....	Interest in controlled corporations (L)	Sequoia Capital China Funds, Sequoia Capital Global Growth Funds and Other Controlled Entities	417,230,593 Class B Shares	8.15%
	Beneficial interest (L)	–	7,782,112 Class B Shares	0.15%
Orr Gordon Robert Halyburton <sup>(6)</sup> .....	Beneficial interest (L)	–	60,000 Class B Shares	0.00%
Leng Xuesong <sup>(6)</sup> .....	Beneficial interest (L)	–	60,000 Class B Shares	0.00%
Shum Heung Yeung Harry <sup>(6)</sup> .....	Beneficial interest (L)	–	60,000 Class B Shares	0.00%

*Notes:*

- (1) The letter “L” denotes the person’s Long Position in such Shares.
- (2) Crown Holdings is wholly owned by Songtao Limited. The entire interest in Songtao Limited is held through a trust which was established by Wang Xing (as settlor) for the benefit of Wang Xing and his family. Wang Xing is deemed to be interested in the 489,600,000 Class A Shares held by Crown Holdings under the SFO. Shared Patience is wholly owned by Wang Xing.
- (3) Charmway Enterprises is wholly owned by Day One Holdings Limited. The entire interest in Day One Holdings Limited is held through a trust which was established by Mu Rongjun (as settlor) for the benefit of Mu Rongjun and his family. Mu Rongjun is deemed to be interested in the 118,650,000 Class A Shares held by Charmway Enterprises under the SFO. Shared Vision is wholly owned by Mu Rongjun. Mu Rongjun was granted RSUs equivalent to 1,000,000 Class B Shares and options with respect to 5,000,000 Class B Shares under the Pre-IPO ESOP subject to vesting/exercise. As at June 30, 2020, 333,334 Class B Shares were issued to Shared Vision with respect to the vesting of 333,334 RSUs granted to Mu Rongjun under the Pre-IPO ESOP.
- (4) Kevin Sunny is wholly owned by Aim Mars Investment Limited. The entire interest in Aim Mars Investment Limited is held through a trust established by Wang Huiwen (as settlor) for the benefit of Wang Huiwen and his family. Wang Huiwen is deemed to be interested in the 36,400,000 Class A Shares held by Aim Mars Investment Limited under the SFO. Galileo Space Limited is wholly-controlled by Wang Huiwen. Wang Huiwen was granted RSUs equivalent to 15,700,000 Class B Shares, and options with respect to 7,578,600 Class B Shares under the Pre-IPO ESOP. As at June 30, 2020, (i) 972,160 Class B Shares were issued to Kevin Sunny with respect to the exercise of 972,160 share options; and 1,162,500 Class B Shares were issued to Kevin Sunny with respect to the vesting 1,162,500 RSUs under the Pre-IPO ESOP; (ii) 1,550,500 Class B Shares were issued to Galileo Space Limited with respect to the exercise of 1,550,500 share options; and 4,412,501 Class B Shares were issued to Galileo Space Limited with respect to the vesting 4,412,501 RSUs under the Pre-IPO ESOP.
- (5) Sequoia Capital China Funds refers to Sequoia Capital China I, L.P., Sequoia Capital China Partners Fund I, L.P., Sequoia Capital China Principals Fund I, L.P., Sequoia Capital China II, L.P., Sequoia Capital China Partners Fund II, L.P., Sequoia Capital China Principals Fund II, L.P., Sequoia Capital 2010 CV Holdco, Ltd., SCC Venture V Holdco I, Ltd., SCC Venture VI Holdco, Ltd., SCC Venture VI Holdco B, Ltd., SCC Growth 2010-Top Holdco, Ltd., Sequoia Capital 2010 CGF Holdco, Ltd., SCC Growth IV Holdco A, Ltd. and Sequoia Capital China Growth Fund IV, L.P. (which hold approximately 0.85%, 0.10%, 0.13%, 2.60%, 0.07%, 0.44%, 0.67%, 0.01%, 0.04%, 0.01%, 0.89%, 0.14%, 0.02% and 0.13%, respectively, of the outstanding Shares), and Sequoia Capital Global Growth Funds refers to Sequoia Capital Global Growth Fund, L.P., Sequoia Capital Global Growth Principals Fund, L.P. and SC GGFII Holdco, Ltd. (which hold approximately 0.39%, 0.01% and 0.55%, respectively, of the outstanding Shares). The Sequoia Capital China Funds and the Sequoia Capital Global Growth Funds may act together with respect of the holding, disposal and casting of voting rights of the Shares.

The general partner of each of Sequoia Capital China I, L.P., Sequoia Capital China Partners Fund I, L.P. and Sequoia Capital China Principals Fund I, L.P. is Sequoia Capital China Management I, L.P. ("SCC Management I"). The general partner of each of Sequoia Capital China II, L.P., Sequoia Capital China Partners Fund II, L.P. and Sequoia Capital China Principals Fund II, L.P. is Sequoia Capital China Management II, L.P. ("SCC Management II"). The sole shareholder of Sequoia Capital 2010 CV Holdco, Ltd. is Sequoia Capital China Venture 2010 Fund, L.P., whose general partner is SC China Venture 2010 Management, L.P. ("SCCV 2010 Management"). The sole shareholder of SCC Venture V Holdco I, Ltd. is Sequoia Capital China Venture Fund V, L.P., whose general partner is SC China Venture V Management, L.P. ("SCCV V Management"). The sole shareholder of each of SCC Venture VI Holdco, Ltd. and SCC Venture VI Holdco B, Ltd. is Sequoia Capital China Venture Fund VI, L.P., whose general partner is SC China Venture VI Management, L.P. ("SCCV VI Management"). The controlling shareholder of SCC Growth 2010-Top Holdco, Ltd. and the sole shareholder of Sequoia Capital 2010 CGF Holdco, Ltd. is Sequoia Capital China Growth 2010 Fund, L.P. ("China Growth Fund 2010"), whose general partner is SC China Growth 2010 Management, L.P. ("SCCGF 2010 Management"). In respect of the casting of votes held by China Growth Fund 2010 in SCC Growth 2010-Top Holdco, Ltd., China Growth Fund 2010 is accustomed to act in accordance with the instructions of Sequoia Capital China Growth Fund I, L.P., whose general partner is Sequoia Capital China Growth Fund Management I, L.P. ("SCCGF Management I"). The sole shareholder of SCC Growth IV Holdco A, Ltd. is Sequoia Capital China Growth Fund IV, L.P., whose general partner is SC China Growth IV Management, L.P. ("SCCGF IV Management" and, together with SCC Management I, SCC Management II, SCCV 2010 Management, SCCV V Management, SCCV VI Management, SCCGF 2010 Management and SCCGF Management I, collectively, the "General Partners"). The general partner of each of the General Partners is SC China Holding Limited, which is a wholly owned subsidiary of SNP China Enterprises Limited. Neil Nanpeng Shen is the sole shareholder of SNP China Enterprises Limited, and has a beneficial interest of 7,782,112 Class B Shares. Other Controlled Entities refers to URM Management Limited and N&J Investment Holdings Limited (which hold approximately 0.0012% and 0.08%, respectively, of the outstanding Shares) and are controlled by Neil Nanpeng Shen.

In view of the above, the Sequoia Capital China Funds and the Sequoia Capital Global Growth Funds are deemed to be interested in the Shares held by each other and by Neil Nanpeng Shen and Other Controlled Entities and vice versa; and is therefore each deemed to be interested in 7.26% interest in the share capital of the Company (or 8.30% of the total issued Class B Shares).

- (6) Each of the independent non-executive Directors, namely Orr Gordon Robert Halyburton, Leng Xuesong and Shum Heung Yeung Harry was granted RSUs equivalent to 60,000 Class B Shares under the Post-IPO Share Award Scheme.
- (7) As at June 30, 2020, the Company had 5,853,665,710 issued Shares in total, comprising of 735,568,783 Class A Shares and 5,118,096,927 Class B Shares. The above calculation is based on the total number of relevant class of Shares or the total number of Shares in issue as of June 30, 2020.

**(B) *Interests of Directors and Chief Executives in Associated Corporations of the Company***

None of the Directors or chief executives of the Company had interests and short positions in shares, underlying shares or debentures in associated corporations of the Company as of June 30, 2020.

Save as disclosed above, as of June 30, 2020, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between us, our subsidiaries, Consolidated Affiliated Entities, associated companies, key management and other related parties. The related party transactions were carried out in the normal course of business and at terms negotiated. For further information on our related party transactions, see note 36 to our audited consolidated financial statements for the years ended December 31, 2019 and note 31 to our unaudited interim condensed consolidated financial information for the six months ended June 30, 2020 included in this offering memorandum.

### Contractual Arrangements

Mainland China's laws and regulations currently prohibit or restrict foreign ownership and investment in a variety of businesses in China in which we operate, including but not limited to online culture business, radio and television program services, e-commerce platform services, cloud storage services, and other value-added telecommunications services. As a result, we operate the relevant businesses through a number of VIEs and their subsidiaries based on a series of contractual arrangements that we, through our WFOEs, entered into with the VIEs and their subsidiaries and the VIEs' shareholders. Pursuant to these contractual arrangements, we obtained effective control over and had the right to receive all economic benefits from the business and operations of the VIEs and their subsidiaries. For information on the risks relating to the contractual arrangements, see "Risk Factors-Risks Relating to Our Corporate Structure."

The contractual arrangements primarily include the following:

***Exclusive Business Cooperation Agreements***, pursuant to which the VIEs agreed to engage our WFOEs as their respective exclusive provider of technical support, consultation, and various other services and to provide service fee consisting of 100% of their total consolidated profits to the WFOEs in return, subject to certain customary adjustments;

***Exclusive Option Agreements***, pursuant to which the WFOEs have the rights to require the shareholders of the VIEs to transfer any or all their equity interests in the VIEs to the WFOEs and/or a designated third party in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the VIEs' shareholders (or part of the loan amounts in proportion to the equity interests being transferred) or for a nominal price, unless otherwise required by relevant government authorities;

***Equity Pledge Agreements***, pursuant to which the shareholders of the VIEs agreed to pledge all their respective equity interests in the VIEs to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts. The pledge in respect of the VIEs takes effect upon the completion of registration with the SAMR or its relevant local branch and will remain valid until after all the contractual obligations of the VIEs' shareholders and the VIEs under the relevant contractual arrangements have been fully performed and all the outstanding debts of them under the relevant contractual arrangements have been fully paid.

***Powers of Attorney***, pursuant to which the shareholders of the VIEs irrevocably appointed the WFOEs and their designated persons as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the VIEs; and

***Loan Agreements***, pursuant to which the relevant WFOEs agreed to provide loans to certain shareholders of the VIEs to be exclusively used as investment in the relevant VIEs.

### 2018 Marketing and Promotion Services Framework Agreement

On September 1, 2018, we entered into a framework agreement with Shenzhen Tencent Computer (for itself and on behalf of other members of Tencent), pursuant to which Tencent would provide marketing and promotion services for us (including but not limited to advertisement solicitation services on Tencent's social media network, provision of links to our platform, technical support to enable us to give virtual "red packets" to our users via our platform and mobile apps, and grant of access to Tencent's platform to provide



our services to Tencent’s clients) (the “2018 Marketing and Promotion Services Framework Agreement”). The precise scope of service, service fee calculation, method of payment and other details of the service agreement will be agreed between the relevant parties separately.

The term of the 2018 Marketing and Promotion Services Framework Agreement commenced on September 20, 2018 and expires on December 31, 2020.

### **2018 Cloud Services and Technical Services Framework Agreement**

On September 1, 2018, we entered into a framework agreement with Shenzhen Tencent Computer (for itself and on behalf of other members of Tencent), pursuant to which Tencent agreed to provide cloud services, cloud storage and cloud services related technical support to us for service fees (the “2018 Cloud Services and Technical Services Framework Agreement”). The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

The term of the 2018 Cloud Services and Technical Services Framework Agreement commenced on September 20, 2018 and expires on December 31, 2020.

### **2018 Payment Services Framework Agreement**

On September 1, 2018, we entered into a framework agreement with Shenzhen Tencent Computer (for itself and on behalf of other members of Tencent), pursuant to which Tencent agreed to provide us with payment services in order to enable our consumers to make online payment for our service offerings through Tencent payment channels on both mobile devices and personal computers or directly on Tencent payment interface embedded on our mobile apps and website (the “2018 Payment Services Framework Agreement”). We shall in return pay payment service commissions to Tencent. The precise scope of service, commission rate, the applicable payment channel and other details of the arrangement shall be agreed between the relevant parties.

The term of the 2018 Payment Services Framework Agreement commenced on September 20, 2018 and expires on December 31, 2020.

### **Renewal of the 2018 Agreements**

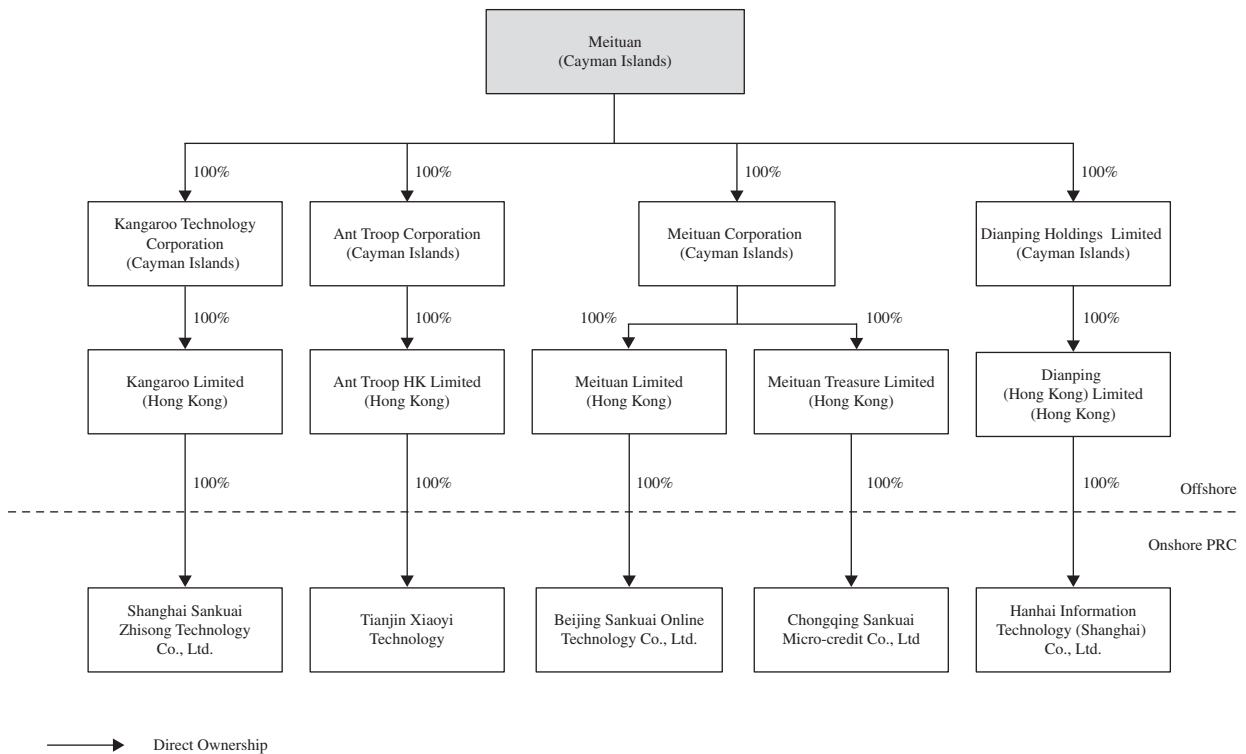
On September 30, 2020, we and Shenzhen Tencent Computer agreed to renew the 2018 Marketing and Promotion Services Framework Agreement, 2018 Cloud Services and Technical Services Framework Agreement, and 2018 Payment Services Framework Agreement to extend the expiration date for each of the agreement to December 31, 2023. The terms under the renewed agreement also include annual caps for the maximum total fees payable by us to Tencent and by Tencent to us, respectively, for the years ending December 31, 2021, 2022, and 2023.

### **Key Management Compensation**

Members of key management and their close family members of the Company are also considered as related parties. For the years ended December 31, 2017, 2018 and 2019, the total key management compensation (including fees, basic salaries, bonuses, pension costs and other employee benefits, share-based compensation expenses and others) amounted to RMB130.2 million, RMB248.4 million and RMB516.5 million (US\$73.1 million).

## CORPORATE STRUCTURE

The following chart illustrates our structure, including our principal subsidiaries that are material to our business, as of the date of this offering memorandum.



## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the general information regarding our material indebtedness does not purport to be a complete description of and may not contain all of the information that may be important to prospective investors. Investors should read the audited consolidated financial statements for the year ended December 31, 2019 (including but not limited to note 31 attached thereto) and the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2020 (including but not limited to note 27 attached thereto) included in this offering memorandum for additional information about our indebtedness.

	<b>Unaudited As of June 30, 2020</b>	
	<b>RMB</b>	<b>US\$</b>
	<b>(in thousands)</b>	
<b>Included in non-current liabilities</b>		
Asset-backed securities <sup>(2)</sup> .....	—	—
<b>Included in current liabilities</b>		
Bank loan — unsecured <sup>(1)</sup> .....	3,117,000	441,183
Asset-backed securities <sup>(2)</sup> .....	206,694	29,255
<b>Total short-term debt</b> .....	<b>3,323,694</b>	<b>470,438</b>

*Notes:*

- (1) As of June 30, 2020, the balance of our bank borrowing was RMB3.1 billion, with an annual average interest rate of 4.134% (2019:5.199%). For the six months ended June 30, 2020, the weighted average effective interest rate for our bank borrowings was 4.520% (2019: 5.242%).
- (2) Asset-backed securities (“ABS”) of RMB467 million as of December 31, 2019 were reclassified to current liabilities, and no new ABS were issued during the six months ended June 30, 2020. ABS of RMB207 million will be repayable within one year as of June 30, 2020.

## DESCRIPTION OF THE 2025 NOTES

*All terms defined in this “Description of the 2025 Notes” shall have the meanings assigned to them herein and are applicable to this “Description of the 2025 Notes” only unless the context otherwise requires. For the purpose of this “Description of the 2025 Notes” only, “Notes” means the 2025 Notes. The 2025 Notes are to be issued under an indenture (the “Indenture”) to be dated October 28, 2020, among Meituan 美团 (the “Issuer”) and Citicorp International Limited, as trustee (the “Trustee”). Copies of the 2025 Notes and the Indenture will be available for inspection during normal business hours at the corporate trust office of the Trustee. The following summary of the material terms of the 2025 Notes and the Indenture does not purport to be complete and are subject to, and are qualified in its entirety by reference to, the Indenture, including definitions of specified terms used therein. We urge you to read the Indenture because it, and not this description, defines your rights as a beneficial holder of the 2025 Notes. Holders are deemed to have notice of all the provisions of the Indenture applicable to them. The following, subject to modification and except for the paragraphs in italics, is the text of the Description of the 2025 Notes.*

### General

The Notes will initially be issued in an aggregate principal amount of US\$750,000,000 and will mature on October 28, 2025, unless they are redeemed prior to the maturity pursuant to the Indenture and the terms thereof. The Notes will bear interest at the rate of 2.125% per annum. Interest on the Notes will accrue from October 28, 2020 and will be payable semi-annually in arrears on April 28 and October 28 of each year, beginning on April 28, 2021, to the persons in whose names the Notes are registered at the close of business on the preceding April 13 and October 13, respectively, which we refer to as the record dates. At maturity or upon early redemption, the Notes are payable at their principal amount plus premium (if any) plus accrued and unpaid interest thereon. In any case where the payment of principal of, premium (if any) or interest on the Notes is due on a date that is not a Business Day, then payment of principal of, premium (if any) or interest on the Notes, as the case may be, shall be made on the next succeeding Business Day and no interest shall accrue with respect to such payment for the period from and after such date that is not a Business Day to such next succeeding Business Day. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Notes shall be denominated in minimum principal amounts of US\$200,000 and in integral multiples of US\$1,000 in excess thereof. The Notes will be issued in global registered form.

### Payments on the Notes; Paying Agent and Registrar

The Issuer will pay principal of, premium, if any, and interest on the Notes at the office or agency designated by the Issuer, which initially will be the office of Citibank, N.A., London Branch, located at c/o Citibank, N.A., Dublin Branch, 1 North Way Quay, Dublin 1, Ireland, except that the Issuer may, when acting as its own paying agent, at its option and expense, pay interest on the Notes by wire transfer or by mailing a check to the registered account of the holder details of which appear in the register of Notes. Payments of the principal amount of the Notes at maturity or the principal amount (or redemption price) to be prepaid upon redemption or repayment in full, together with accrued interest due at maturity, redemption or repayment, as the case may be, will be made to the registered holder thereof against presentation and surrender of the Notes at the specified office of the paying agent. Any payments of principal of, premium, if any, and interest on the Notes to be made on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue as a result of such delayed payment.

The Issuer has initially designated Citibank, N.A., London Branch to act as its paying agent (the “Paying Agent”), transfer agent (the “Transfer Agent”) and registrar (the “Registrar”). The Paying Agent, Transfer Agent and Registrar are each referred to as an “Agent,” and together, the “Agents.” The Issuer may, however, change the Paying Agent or Registrar without prior notice to the holders.

Payment of the principal of, premium, if any, and interest on the Notes held through the DTC will be credited to the respective accounts of holders of the Notes with DTC or its participants, including Euroclear and Clearstream. See “— Book-Entry; Delivery and Form.”

## Ranking

The Notes will constitute senior unsecured obligations of the Issuer. The Notes will rank senior in right of payment to all of the Issuer's existing and future obligations expressly subordinated in right of payment to the Notes and rank at least equal in right of payment with all of the Issuer's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Notes will be effectively subordinated to all of the Issuer's existing and future secured obligations, to the extent of the value of the assets serving as security therefor, and be structurally subordinated to all existing and future obligations and other liabilities of the Issuer's Controlled Entities.

## Issuance of Additional Notes

The Issuer may, from time to time, without the consent of the holders of the Notes, issue additional Notes having the same terms and conditions as the previously outstanding Notes in all respects (or in all respects except for the issue date, the issue price and the first payment of interest) (the "Additional Notes"). Additional Notes issued in this manner may be consolidated with the previously outstanding Notes to constitute a single series of the Notes. We will not issue any additional Notes with the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Notes unless the additional Notes are fungible with the outstanding Notes for U.S. federal income tax purposes.

## Optional Redemption

The Issuer may at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Notes (which notice shall be irrevocable) and the Trustee, redeem the Notes at any time prior to September 28, 2025, in whole or in part, at a redemption amount equal to the greater of:

- 100% of the principal amount of the Notes to be redeemed; and
- the make-whole amount, which means the amount determined on the fifth Business Day before the redemption date equal to the sum of (i) the present value of the principal amount of the Notes to be redeemed, assuming a scheduled repayment thereof on the stated maturity date, plus (ii) the present value of the remaining scheduled payments of interest to and including the stated maturity date, in each case discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed) at the Treasury Yield plus 30 basis points,

plus, in each case, accrued and unpaid interest on the Notes to be redeemed, if any, to, but not including, the redemption date; provided that the principal amount of a Note remaining outstanding after redemption in part shall be US\$200,000 or an integral multiple of US\$1,000 in excess thereof.

Each of the Trustee and the Agents shall not be responsible to any person for determining or verifying the make-whole amount.

The Issuer may, at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Notes (which notice shall be irrevocable) and the Trustee, redeem the Notes at any time on or after September 28, 2025, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest on the Notes to be redeemed, if any, to (but not including) the date of redemption; *provided* that the principal amount of the Notes remaining outstanding after redemption in part shall be US\$200,000 or an integral multiple of US\$1,000 in excess thereof.

The notice of redemption will be mailed at least 30 but not more than 60 days before the redemption date to the Trustee and each holder of record of the Notes to be redeemed at its registered address. The notice of redemption for the Notes will state, among other things, the amount of Notes to be redeemed, the redemption date, the manner in which the redemption price will be calculated and the place or places that payment will be made upon presentation and surrender of Notes to be redeemed. Unless we default in the payment of the redemption price, interest will cease to accrue on any Notes that have been called for redemption at the redemption date. If less than all of the Notes are to be redeemed, the Notes for redemption

will be selected as follows: (i) if the Notes are listed on a securities exchange then in compliance with the rules of such securities exchange and if the Notes are held through the clearing systems then in compliance with the rules and procedures of the clearing systems, or (ii) if the Notes are not listed on a securities exchange or held through the clearing systems, then pro rata by lot or such other method as the Trustee shall deem to be fair and appropriate in its sole and absolute discretion or as otherwise required by applicable law.

### **Tax Redemption**

The Issuer may redeem the Notes at any time, in whole but not in part, upon written notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, if (i) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (or, in the case of Additional Amounts payable by a successor Person to the Issuer, the applicable Successor Jurisdiction), or any change in the official application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the issue date of the Notes (or, in the case of Additional Amounts payable by a successor Person to the Issuer that is not organized or tax resident in a jurisdiction that was already a Relevant Jurisdiction prior to the date of succession, after the date on which such successor Person to the Issuer became a successor to the Issuer pursuant to the applicable provisions of the Indenture) (a “Tax Change”), the Issuer or any such successor Person to the Issuer is, or would be, obligated to pay Additional Amounts upon the next payment of principal, premium (if any) or interest in respect of such Notes and (ii) such obligation cannot be avoided by the Issuer or any such successor Person to the Issuer taking reasonable measures available to it, *provided* that changing the Issuer’s or such successor Person’s jurisdiction is not a reasonable measure for purposes of this section.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Issuer or any such successor Person to the Issuer shall deliver to the Trustee (i) a notice of such redemption election, (ii) an opinion of external legal counsel or an opinion of an independent tax consultant to the effect that the Issuer or any such successor Person to the Issuer is, or would become, obligated to pay such Additional Amounts as the result of a Tax Change and (iii) an officers’ certificate from the Issuer or any such successor Person to the Issuer, stating that such amendment or change has occurred, and stating that such requirement cannot be avoided by the Issuer or any such successor Person to the Issuer taking reasonable measures available to it. The Trustee shall be entitled to rely conclusively upon such certificate and opinion as sufficient evidence of the conditions precedent described above, in which event it shall be conclusive and binding on the relevant holders.

Notice of redemption of the Notes as provided above shall be given to the holders and the Trustee not less than 30 nor more than 60 days prior to the date fixed for redemption; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or any such successor Person to the Issuer would be required to pay Additional Amounts if a payment in respect of such Notes was then due. Notice having been given, the Notes shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, at the place or places of payment and in the manner specified in the Notes. From and after the redemption date, if moneys for the redemption of such Notes shall have been made available as provided in the Indenture for redemption on the redemption date, the Notes shall cease to bear interest, and the only right of the holders of such Notes shall be to receive payment of the redemption price and accrued and unpaid interest, if any, to, but not including, the date fixed for redemption.

### **Repurchase Upon Triggering Event**

If a Triggering Event occurs, unless the Issuer has exercised our right to redeem the Notes as described under the heading “Tax Redemption” or under the heading “Optional Redemption” above, the Issuer will be required to make an offer to repurchase all or, at the holder’s option, any part (equal to US\$200,000 or multiples of US\$1,000 in excess thereof), of each holder’s Notes pursuant to the offer described below (the “Triggering Event Offer”) on the terms set forth in the Indenture and the Notes. In the Triggering Event Offer, the Issuer will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, if any, on the Notes repurchased to, but not including, the date of purchase (the “Triggering Event Payment”).



Within 30 days following a Triggering Event, the Issuer will be required to mail a notice to holders of the Notes, with a copy to the Trustee and the Paying Agent, describing the transaction or transactions that constitute the Triggering Event and offering to repurchase the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the "Triggering Event Payment Date"), pursuant to the procedures required by the Notes and described in such notice.

On the Triggering Event Payment Date, the Issuer will be required, to the extent lawful, to:

- accept for payment all Notes or portions of Notes properly tendered pursuant to the Triggering Event Offer;
- deposit with a tender agent one Business Day prior to the Triggering Event Payment Date an amount of cash in U.S. dollars equal to the Triggering Event Payment in respect of all Notes or portions of Notes properly tendered; and
- deliver or cause to be delivered to the Paying Agent the Notes properly accepted together with an officers' certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The tender agent will be required to promptly mail, to each holder who properly tendered the Notes, the purchase price for such Notes properly tendered, and the Trustee will be required to as soon as reasonably practicable authenticate and mail (or cause to be transferred by book-entry) to each such holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each new Note will be in a principal amount of US\$200,000 or a multiple of US\$1,000 in excess thereof.

The Issuer will not be required to make a Triggering Event Offer upon a Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Issuer and such third party purchases all Notes properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults on its offer, the Issuer will be required to make a Triggering Event Offer treating the date of such termination or default as though it were the date of the Triggering Event.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws and regulations thereunder in connection with the repurchase of the Notes as a result of a Triggering Event. To the extent that the provision of any such securities laws or regulations conflicts with the Triggering Event Offer provisions of the Notes, the Issuer will comply with those securities laws and regulations and will not be deemed to have breached its obligations under the Triggering Event Offer provisions of the Notes by virtue of any such conflict.

There can be no assurance that the Issuer will have sufficient funds available at the time of a Triggering Event to consummate a Triggering Event Offer for all Notes then outstanding (or all Notes properly tendered by the holders of such Notes) and pay the Triggering Event Payment. The Issuer may also be prohibited by terms of other indebtedness or agreements from repurchasing the Notes upon a Triggering Event, which would require the Issuer to repay the relevant indebtedness or terminate the relevant agreement before it can proceed with a Triggering Event Offer, and there can be no assurance that it will be able to effect such repayment or termination.

The Trustee shall not be required to take any steps to ascertain whether a Triggering Event or any event which could lead to a Triggering Event has occurred and shall not be liable to any persons for any failure to do so.

## Payment of Additional Amounts

All payments of principal, premium and interest made by the Issuer in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”) imposed or levied by or within the Cayman Islands, Hong Kong, the PRC or any jurisdiction where the Issuer or the paying agent are otherwise considered by a taxing authority to be a resident for tax purposes (in each case, including any political subdivision or any authority therein or thereof having power to tax) (the “Relevant Jurisdiction”), unless such withholding or deduction of such Taxes is required by law. If such withholding or deduction is so required, the Issuer will pay such additional amounts (“Additional Amounts”) as will result in receipt by each holder of any Notes of such amounts as would have been received by such holder had no such withholding or deduction of such Taxes been required, except that no such Additional Amounts shall be payable:

- (i) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection (whether present or former) between the holder or beneficial owner of a Note and the Relevant Jurisdiction other than merely holding such Note or receiving principal, premium (if any) or interest in respect thereof (including such holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein);
- (ii) in respect of any Note presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period. For this purpose, the “relevant date” in relation to any Note means the later of (a) the due date for such payment or (b) the date such payment was made or duly provided for;
- (iii) in respect of any Taxes that would not have been imposed, deducted or withheld but for a failure of the holder or beneficial owner of a Note to comply with a timely request by the Issuer addressed to the holder to provide information concerning such holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such holder;
- (iv) in respect of any Taxes imposed as a result of a Note being presented for payment (where presentation is required) in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
- (v) in respect of any estate, inheritance, gift, sale, transfer, personal property or similar Taxes;
- (vi) to any holder of a Note that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the holder thereof;
- (vii) with respect to any withholding or deduction that is imposed in connection with Sections 1471-1474 of the U.S. Internal Revenue Code of 1986, as amended, and current or future U.S. Treasury regulations thereunder (“FATCA”), any agreement with the Internal Revenue Service implementing or relating to FATCA, any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA or any non-U.S. law, regulation or other official guidance enacted or issued in any jurisdiction implementing FATCA or any intergovernmental agreement with respect thereto;

(viii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Note; or

(ix) any combination of Taxes referred to in the preceding items (i) through (viii) above.

In the event that any withholding or deduction for or on account of any Taxes is required and Additional Amounts are payable with respect thereto, at least 10 Business Days prior to each date of payment of principal of, premium (if any) or interest on the Notes, the Issuer will furnish to the Trustee and the Paying Agent, if other than the Trustee, an officers' certificate specifying the amount required to be withheld or deducted on such payments to such holders, certifying that the Issuer shall pay such amounts required to be withheld to the appropriate governmental authority and certifying to the fact that the Additional Amounts will be payable and the amounts so payable to each holder, and that the Issuer will pay to the Trustee or the Paying Agent the Additional Amounts required to be paid; *provided* that no such officers' certificate will be required prior to any date of payment of principal of, premium (if any) or interest on such Notes if there has been no change with respect to the matters set forth in a prior officers' certificate. The Trustee and the Paying Agent shall be entitled to rely on the fact that any officers' certificate contemplated by this paragraph has not been furnished as evidence of the fact that no withholding or deduction for or on account of any Taxes is required. The Issuer covenants to indemnify the Trustee and the Paying Agent for and to hold them harmless against any loss, liability or incurred expense without fraudulent activity, gross negligence or willful misconduct on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any such officers' certificate furnished pursuant to this paragraph or on the fact that any officers' certificate contemplated by this paragraph has not been furnished.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Note, such mention shall be deemed to include the payment of Additional Amounts provided for in the Indenture, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

The foregoing provisions shall apply in the same manner with respect to the jurisdiction in which any successor Person to the Issuer or its paying agent is organized or resident for tax purposes or any authority therein or thereof having the power to tax (a "Successor Jurisdiction"), substituting such Successor Jurisdiction for the Relevant Jurisdiction.

Our obligation to make payments of Additional Amounts under the terms and conditions described above will survive any termination, defeasance or discharge of the Indenture.

### **Open Market Purchases**

The Issuer or any of its Controlled Entities may, in accordance with all applicable laws and regulations, at any time purchase the Notes issued under the Indenture in the open market or otherwise at any price, so long as such purchase does not otherwise violate the terms of the Indenture. The Notes so purchased, while held by or on behalf of the Issuer or any of its Controlled Entities, shall not be deemed to be outstanding for the purposes of determining whether the holders of the requisite principal amount of outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder.

### **Modification and Waiver**

The Indenture contains provisions permitting us and the Trustee, without the consent of the holders of the Notes, to execute supplemental indentures for certain enumerated purposes in the Indenture and, with the consent of the holders of not less than a majority in aggregate principal amount of the Notes then outstanding under the Indenture, to add, change, eliminate or modify in any way the provisions of the Indenture or any supplemental indentures or to change or modify in any manner the rights of the holders of such Notes. The Issuer and the Trustee may not, however, without the consent of each holder of the Notes affected thereby:

(i) change the Stated Maturity of any Note;

(ii) reduce the principal amount of, payments of interest on or stated time for payment of interest on any Note;

- (iii) change any obligation of the Issuer to pay Additional Amounts with respect to any Note;
- (iv) change the currency of payment of the principal of, premium (if any) or interest on any Note;
- (v) impair the right to institute suit for the enforcement of any payment due on or with respect to any Note;
- (vi) reduce the above stated percentage of outstanding Notes necessary to modify or amend the Indenture;
- (vii) reduce the percentage of the aggregate principal amount of outstanding Notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (viii) modify the provisions of the Indenture with respect to modification and waiver;
- (ix) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes in a manner which adversely affects the holders of such Notes;
- (x) reduce the amount of the premium payable upon the redemption or repurchase of the Notes or change the time at which such Notes may be redeemed or repurchased as described above under “— Tax Redemption”; or
- (xi) reduce the amount of the premium payable upon the redemption or repurchase of the Notes or change the time at which any such Notes may be redeemed or repurchased as described above under “— Optional Redemption” or “— Repurchase Upon Triggering Event” whether through an amendment or waiver of provisions in the covenants, definitions or otherwise (except through amendments to the definition of “Triggering Event”).

The holders of not less than a majority in aggregate principal amount of the Notes then outstanding may on behalf of all holders of the Notes waive any existing or past Default or Event of Default and its consequences under the Indenture, except a continuing Default or Event of Default (i) in the payment of principal of, premium (if any) or interest on (or Additional Amount payable in respect of) the Notes then outstanding, in which event the consent of all holders of the Notes then outstanding affected thereby is required, or (ii) in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each Note then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Notes, whether or not they have given consent to such waivers, and on all future holders of such Notes, whether or not notation of such waivers is made upon such Notes. Any instrument given by or on behalf of any holder of the Notes in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Notes.

Notwithstanding the foregoing, without the consent of any holder of the Note, the Issuer and the Trustee may amend the Indenture and the relevant Notes to, among other things:

- (i) cure any ambiguity, omission, defect or inconsistency contained in the Indenture or in any supplemental indenture; *provided*, however, that such amendment does not materially and adversely affect the rights of holders;
- (ii) in the case of a merger or consolidation, evidence the succession of another corporation to the Issuer, or successive successions, and the assumption by such successor of the covenants and obligations of the Issuer contained in the Notes and in the indenture or any supplemental indenture;
- (iii) comply with the rules of any applicable depositary;
- (iv) secure the Notes;

- (v) add to the covenants and agreements of the Issuer, to be observed thereafter and during the period, if any, in such supplemental indenture or indentures expressed, and to add Events of Default, in each case for the protection or benefit of the holders of the Notes, or to surrender any right or power herein conferred upon the Issuer;
- (vi) make any change in the Notes that does not adversely affect the legal rights under the Indenture of any holder of such Notes in any material respect;
- (vii) evidence and provide for the acceptance of an appointment under the Indenture of a successor trustee; *provided* that the successor trustee is otherwise qualified and eligible to act as such under the terms thereof;
- (viii) make any amendment to the provisions of the Indenture relating to the transfer and legending of Notes as permitted by the Indenture, including, but not limited to, facilitating the issuance and administration of the Notes or, if incurred in compliance with the Indenture, additional Notes; *provided*, however, that (A) compliance with the Indenture as so amended would not result in the Notes being transferred in violation of any applicable securities law and (B) such amendment does not materially and adversely affect the rights of holders to transfer Notes;
- (ix) change or eliminate any of the provisions of the Indenture; *provided* that any such change or elimination shall become effective only when there is no outstanding Note created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision and as to which such supplemental indenture would apply;
- (x) add guarantors or co-obligors with respect to the Notes;
- (xi) establish the form and terms of Notes as permitted under the Indenture, or to provide for the issuance of additional Notes in accordance with the limitations set forth in the Indenture, or to add to the conditions, limitations or restrictions on the authorized amount, terms or purposes of issue, authentication or delivery of the Note, as herein set forth, or other conditions, limitations or restrictions thereafter to be observed; or
- (xii) conform the text of the Indenture or the Notes to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture or the Notes as evidenced by an officers’ certificate.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment, supplement or waiver. It is sufficient if such consent approves the substance of the proposed amendment or supplement. A consent to any amendment, supplement or waiver under the Indenture by any holder given in connection with a tender of such holder’s Notes will not be rendered invalid by such tender. After an amendment, supplement or waiver under the Indenture becomes effective, the Issuer is required to give to the holders a notice briefly describing such amendment, supplement or waiver. However, the failure to give such notice to all the holders, or any defect in the notice will not impair or affect the validity of the amendment, supplement or waiver.

### **Limitation on Liens**

So long as any Note remains outstanding, the Issuer will not create or have outstanding, and will ensure that none of its Principal Controlled Entities will create or have outstanding, any Lien upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) securing any Relevant Indebtedness or create or have outstanding any guarantee or indemnity in respect of any Relevant Indebtedness either of the Issuer or of any of its Principal Controlled Entities, without (i) at the same time or prior thereto securing or guaranteeing the Notes equally and ratably therewith or (ii) providing such other security or guarantee for the Notes as shall be approved by an act of the holders of the Notes holding at least a majority of the principal amount of the Notes then outstanding.

The foregoing restriction will not apply to:

- (i) any Lien arising or already arisen automatically by operation of law which is timely discharged or disputed in good faith by appropriate proceedings;
- (ii) any Lien in respect of the obligations of any Person which becomes a Principal Controlled Entity or which merges with or into the Issuer or a Principal Controlled Entity after the date of the Indenture which is in existence at the date on which it becomes a Principal Controlled Entity of the Issuer or merges with or into the Issuer or a Principal Controlled Entity; *provided* that any such Lien was not incurred in anticipation of such acquisition or of such Person becoming a Principal Controlled Entity or being merged with or into the Issuer or a Principal Controlled Entity;
- (iii) any Lien created or outstanding in favor of the Issuer;
- (iv) any Lien in respect of Relevant Indebtedness of the Issuer or any Principal Controlled Entity with respect to which the Issuer or such Principal Controlled Entity has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Issuer or such Principal Controlled Entity in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full);
- (v) any Lien created in connection with Relevant Indebtedness of the Issuer or any Principal Controlled Entity denominated in RMB and initially offered, marketed or issued primarily to Persons resident in the PRC;
- (vi) any Lien created in connection with a project financed with, or created to secure, Non-recourse Obligations; or
- (vii) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by the foregoing clauses (ii), (v), (vi) or this clause (vii); provided that such Relevant Indebtedness is not increased beyond the principal amount thereof (together with the costs of such refinancing, extension, renewal or refunding) and is not secured by any additional property or assets.

### **Consolidation, Merger, and Sale of Assets**

The Issuer may not, directly or indirectly, consolidate with or merge into any other Person in a transaction or a series of transactions in which the Issuer is not the surviving entity, or convey, transfer, or lease our properties and assets substantially as an entirety to, any Person unless:

- (i) the Issuer shall be the continuing Person or, if it is not the continuing Person, any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the Cayman Islands or Hong Kong;
- (ii) such Person expressly assumes by indentures supplemental to the Indenture all of the Issuer's obligations under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, and will, if required by law to effectuate the assumption, execute a supplemental indenture which will be delivered to the Trustee and will be in form and substance reasonably satisfactory to the Trustee;
- (iii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and
- (iv) the Issuer has delivered to the Trustee an officers' certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indentures comply with the Indenture and that all conditions precedent therein relating to such transaction have been complied with.



## Payments for Consent

The Issuer will not, and will not permit any of the Issuer's Controlled Entities to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

## NDRC Post-issue Filing

The Issuer will notify the Trustee if it does not file or cause to be filed with the National Development and Reform Commission of the PRC (the "NDRC") the requisite information and documents required to be filed with the NDRC within 10 PRC Business Days after the closing date in accordance with the Registration Certificate of Enterprise Foreign Debt Filing issued by the General Office of the NDRC on December 9, 2019 pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations issued by the NDRC on September 14, 2015, the Approval of Foreign Debt Quota Administration Reform Trial Enterprise (Second Batch) for 2017 issued by the NDRC on March 22, 2017, and any implementation rules as issued by the NDRC as in effect at such time (the "Post-Issuance Filing"). Such notification to the Trustee will be made within 10 PRC Business Days after such failure to complete the Post-Issuance Filing.

The Trustee shall have no obligation or duty to monitor or ensure or to assist with the Post-Issuance Filing on or before the relevant deadline or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the Post-Issuance Filing and/or the relevant documents evidencing the Post-Issuance Filing or to give notice to the Holders confirming the completion of the Post-Issuance Filing, and shall not be liable to Holders or any other person for not doing so.

"PRC Business Day" means a day other than a Saturday, Sunday or a day on which banking institutions in the PRC are authorized or obligated by law, regulation or executive order to remain closed.

## Events of Default

Under the terms of the Indenture, each of the following constitutes an Event of Default for the Notes:

- (i) failure to pay principal or premium in respect of any Notes by the due date for such payment;
- (ii) failure to pay interest on any Notes within 30 days after the due date for such payment;
- (iii) the Issuer defaults in the performance of or breach its obligations under the "— Consolidation, Merger, and Sale of Assets" covenant;
- (iv) the Issuer defaults in the performance of or breach any covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (i), (ii) or (iii) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the holders of 25% or more in aggregate principal amount of the Notes then outstanding;
- (v) (1) there occurs with respect to any indebtedness of the Issuer or any of the Issuer's Principal Controlled Entities, whether such indebtedness now exists or shall hereafter be created, (A) an event of default that has resulted in the holder thereof declaring the principal of such indebtedness to be due and payable prior to its stated maturity or (B) a failure to make a payment of principal, interest or premium when due (after giving effect to the expiration of any applicable grace period therefor, a "Payment Default") and, in each case, such default continues for more than 30 days after the expiration of any grace period or extension of time for payment applicable thereto; provided that any such Event of Default shall be deemed cured and not

continuing upon payment of such indebtedness, rescission of such declaration of acceleration, or waiver or with consent of the applicable lender; and (2) the outstanding principal amount of such indebtedness, together with the outstanding principal amount of any other indebtedness of the Issuer or any of the Issuer's Principal Controlled Entities under which there has been a Payment Default or the maturity of which has been so accelerated, is equal to or exceeds the greater of (x) US\$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Issuer's Total Equity;

- (vi) one or more final judgments or orders for the payment of money are rendered against the Issuer or any of the Issuer's Principal Controlled Entities and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against the Issuer or any of the Issuer's Principal Controlled Entities (net of any amounts that our insurance carriers have paid or agreed to pay with respect thereto under applicable policies) to exceed the greater of (x) US\$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Issuer's Total Equity, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (vii) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer or any of the Issuer's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or (ii) a decree or order adjudging the Issuer or any of the Issuer's Principal Controlled Entities bankrupt or insolvent, or approving as final and nonappealable a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Issuer or any of the Issuer's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of the Issuer's Principal Controlled Entities or of any substantial part of their respective property, or ordering the winding up or liquidation of their respective affairs (or any similar relief granted under any foreign laws), and in any such case the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive calendar days;
- (viii) the commencement by the Issuer or any of the Issuer's Principal Controlled Entities of a voluntary case or proceeding under any applicable federal, state or foreign bankruptcy, insolvency or other similar law or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by the Issuer or any of the Issuer's Principal Controlled Entity to the entry of a decree or order for relief in respect of the Issuer or any of the Issuer's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or the commencement of any bankruptcy or insolvency case or proceeding against the Issuer or any of the Issuer's Principal Controlled Entity, or the filing by the Issuer or any of the Issuer's Principal Controlled Entity of a petition or answer or consent seeking reorganization or relief with respect to the Issuer or any of the Issuer's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or the consent by the Issuer or any of the Issuer's Principal Controlled Entity to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of the Issuer's Principal Controlled Entities or of any substantial part of their respective property pursuant to any such law, or the making by the Issuer or any of the Issuer's Principal Controlled Entities of a general assignment for the benefit of creditors in respect of any indebtedness as a result of an inability to pay such indebtedness as it becomes due, or the admission by the Issuer or any of the Issuer's Principal Controlled Entities in writing of their inability to pay the debts generally as they become due, or the taking of corporate action by the Issuer or any of the Issuer's Principal Controlled Entities that resolves to commence any such action; and
- (ix) the Notes or the Indenture is or becomes or is claimed by the Issuer to be unenforceable, invalid or ceases to be in full force and effect otherwise than is permitted by the Indenture.

However, a default under clause (iv) of the preceding paragraph will not constitute an Event of Default until the Trustee or the holders of 25% or more in aggregate principal amount of the then outstanding Notes provide written notice to us of the default and we do not cure such default within the time specified in clause (iv) of the preceding paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clauses (vii) and (viii) above) shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer (and to the Trustee if such notice is given by the holders) as provided in the Indenture, may, and the Trustee shall, upon instructions from holders of at least 25% in aggregate principal amount of the Notes then outstanding and subject to receipt of pre-funding, security and/or indemnity to its satisfaction, declare the unpaid principal amount of such Notes and any accrued and unpaid interest and premium (if any) thereon (and any Additional Amount payable in respect thereof) to be due and payable immediately upon receipt of such notice. If an Event of Default in clause (v) above shall occur, the declaration of acceleration of the Notes shall be automatically annulled if the default triggering such Event of Default pursuant to clause (v) shall be remedied or cured by the Issuer or waived by the holders of the relevant indebtedness within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium (if any) or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived. If an Event of Default in clauses (vii) or (viii) above shall occur, the unpaid principal amount of all the Notes then outstanding and any accrued and unpaid interest thereon will automatically, and without any declaration or other action by the Trustee or any holder of such Notes, become immediately due and payable. After a declaration of acceleration but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of at least a majority in aggregate principal amount of the Notes then outstanding may, under certain circumstances, waive all past defaults and rescind and annul such acceleration if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium, if any, or interest on such Notes that became due solely because of the acceleration of such Notes, have been cured or waived. For information as to waiver of defaults, see “— Modification and Waiver.”

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of the trusts or powers vested in it by the Indenture or enforce any provisions of the Indenture at the request, order or direction of any of the holders of Notes, unless the requisite number of holders shall have instructed the Trustee in writing and offered to the Trustee pre-funding, security and/or indemnity satisfactory to it against the costs, expenses, and liabilities which may be incurred therein or thereby. Subject to certain provisions, including those requiring pre-funding, security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Notes then outstanding will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. No holder of any Note will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Notes, (ii) the holders of at least 25% in aggregate principal amount of the Notes then outstanding have made written request to the Trustee to institute such proceeding, (iii) such holder or holders have offered pre-funding, security and/or indemnity satisfactory to the Trustee and (iv) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Notes then outstanding a written direction inconsistent with such request, within 60 days after such notice, request, and offer. However, such limitations do not apply to a suit instituted by a holder of a Note for the enforcement of the right to receive payment of the principal of, premium (if any) or interest on such Note on or after the applicable due date specified in such Note. The Trustee may refuse to follow any direction that conflicts with the law, regulation or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of holders not joining in the giving such direction received from such holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that reimbursement or satisfactory indemnification and/or security is assured to it.

## Legal Defeasance and Covenant Defeasance

The Indenture will provide that the Issuer may at its option and at any time elect to have all of its obligations discharged with respect to the outstanding Notes (“Legal Defeasance”) except for:

- (i) the rights of holders of the Notes that are then outstanding to receive payments in respect of the principal of, or interest or premium on such Notes when such payments are due from the trust referred to below;
- (ii) the Issuer’s obligations with respect to the Notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (iii) the rights, powers, trusts, duties and immunities of the Trustee for the Notes, and the Issuer’s obligations in connection therewith; and
- (iv) the Legal Defeasance and Covenant Defeasance (as defined below) provisions of the Indenture for the Notes.

The Indenture will provide that, the Issuer may, at its option and at any time, elect to have its obligations with respect to the outstanding Notes released with respect to certain covenants (including their obligations under the headings “Consolidation, Merger, and Sale of Assets” and “Reports”) that are described in the Indenture (“Covenant Defeasance”) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under the caption “— Events of Default” will no longer constitute an Event of Default.

The Indenture will also provide that, in order to exercise either Legal Defeasance or Covenant Defeasance:

- (i) the Issuer must irrevocably deposit with the Trustee or the paying agent, in trust, for the benefit of the holders of all Notes subject to Legal Defeasance or Covenant Defeasance, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants to pay the principal of, or interest and premium on such notes that are then outstanding on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must specify whether such Notes are being defeased to maturity or to a particular redemption date;
- (ii) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that (1) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (2) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of external legal counsel will confirm that, the beneficial owners of the then outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (iii) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that the beneficial owners of the then outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

- (iv) no Default or Event of Default with respect to the Notes must have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);
- (v) the Issuer must deliver to the Trustee an officers' certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of Notes over other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding such creditors or others; and
- (vi) the Issuer must deliver to the Trustee an officers' certificate and an opinion of external legal counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect with respect to Notes when:

- (i) either:
  - (1) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Paying Agent for cancellation; or
  - (2) all Notes that have not been delivered to the Paying Agent for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer has irrevocably deposited or caused to be deposited with the Trustee (or its agent) as trust funds in trust solely for the benefit of the holders of the Notes, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient (in the case of a deposit not entirely in cash, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants), without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on such Notes not delivered to the Paying Agent for cancellation for principal, premium and accrued interest to the date of maturity or redemption;
- (ii) no Default or Event of Default under the Indenture has occurred and is continuing with respect to the Notes on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer is a party or by which the Issuer is bound;
- (iii) the Issuer has paid or caused to be paid all sums payable by it under the Indenture with respect to the Notes; and
- (iv) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, the Issuer shall deliver an officers' certificate and an opinion of external legal counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

### **No Sinking Fund**

The Notes will not be subject to, nor entitled to the benefit of, any sinking fund.



## **Book-Entry; Delivery and Form**

The Notes will be represented by one or more global notes that will be deposited with Citibank, N.A., London Branch for The Depository Trust Company, New York, New York (“DTC”) and registered in the name of Cede & Co., as nominee of DTC, for the accounts of its participants, including Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). The Issuer will not issue certificated Notes, except in the limited circumstances described below. Transfers of ownership interests in the global notes will be effected only through entries made on the books of DTC participants acting on behalf of beneficial owners. You will not receive written confirmation from DTC of your purchase. The direct or indirect participants through whom you purchased the Notes should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The direct and indirect participants are responsible for keeping accurate account of the holdings of their customers like you. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the global notes.

You, as the beneficial owner of Notes, will not receive certificates representing ownership interests in the global notes, except in the following limited circumstances: (1) DTC notifies the Issuer that it is unwilling or unable to continue as depository or if DTC ceases to be eligible under the Indenture and a successor depository is not appointed within 90 days; or (2) an event of default with respect to the Notes will have occurred and be continuing and a holder requests the Issuer to issue a certificated Note. These certificated Notes will be registered in such name or names as DTC will instruct the Trustee and the Registrar. It is expected that such instructions may be based upon directions received by DTC from participants with respect to ownership of beneficial interests in global notes.

So long as DTC or its nominee is the registered owner and holder of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the global notes for all purposes under the Indenture relating to the Notes. Except as provided above, you, as the beneficial owner of interests in the global notes, will not be entitled to have Notes registered in your name, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owner or holder thereof under the Indenture. Accordingly, you, as the beneficial owner, must rely on the procedures of DTC and, if you are not a DTC participant, on the procedures of the DTC participants through which you own your interest, to exercise any rights of a holder under the Indenture.

Neither the Issuer, the Trustee, nor any other agent of the Issuer or agent of the Trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in global notes or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests. DTC’s practice is to credit the accounts of DTC’s direct participants with payment in amounts proportionate to their respective holdings in principal amount of beneficial interest in a security as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payment date. The initial purchasers will initially designate the accounts to be credited. Beneficial owners may experience delays in receiving distributions on their Notes because distributions will initially be made to DTC and they must be transferred through the chain of intermediaries to the beneficial owner’s account. Payments by DTC participants to you will be the responsibility of the DTC participant and not of DTC, the Trustee, any agent or us. Accordingly, the Issuer, the Trustee and any paying agent will have no responsibility or liability for: any aspect of DTC’s records relating to, or payments made on account of, beneficial ownership interests in the Notes represented by a global securities certificate; any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a global securities certificate held through those participants; or the maintenance, supervision or review of any of DTC’s records relating to those beneficial ownership interests.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.



The Issuer has been informed that, under DTC's existing practices, if the Issuer requests any action of holders of senior notes, or an owner of a beneficial interest in a global security such as you desires to take any action which a holder of the Notes is entitled to take under the Indenture, DTC would authorize the direct participants holding the relevant beneficial interests to take such action, and those direct participants and any indirect participants would authorize beneficial owners owning through those direct and indirect participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Clearstream and Euroclear have provided the Issuer with the following information:

### ***Clearstream***

Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance, and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream participants include underwriters, securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations and may include the underwriters. Clearstream's U.S. participants are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to the Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the U.S. depository for Clearstream.

### ***Euroclear***

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear performs various other services, including securities lending and borrowing and interacts with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV under contract with Euroclear plc, a U.K. corporation. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator is a Belgian bank. As such it is regulated by the Belgian Banking and Finance Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific clearance accounts. The Euroclear operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the U.S. depository for Euroclear.

Euroclear has further advised us that investors who acquire, hold and transfer interests in the Notes by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities certificates.

### ***Global Clearance and Settlement Procedures***

Initial settlement for the Notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC's Same Day Funds Settlement System. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering or receiving Notes through DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to their respective U.S. depositories.

Because of time zone differences, credits of the Notes received through Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Euroclear participants or Clearstream participants on such Business Day. Cash received in Clearstream or Euroclear as a result of sales of the Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither the Issuer nor the Trustee nor the paying agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants of their obligations under the rules and procedures governing their operations.

### **Concerning the Trustee and Agents**

The Trustee under the Indenture is Citicorp International Limited. Pursuant to the Indenture, Citibank, N.A., London Branch, a banking corporation organized and existing under the laws of the States of New York with limited liability, will be designated by the Issuer as the initial paying and transfer agent and registrar for the Notes. The corporate trust office of the Trustee is currently located at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The Indenture provides that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture or the Notes, and no implied covenants or obligations will be read into the Indenture, the Notes, or the agent appointment letter with respect to the Agents. If an Event of Default has occurred and is continuing, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Whenever the Trustee shall have discretion or permissive power in accordance with the Indenture or the law, the Trustee may decline to exercise the same in the absence of approval by the requisite number of holders and shall have no obligation to exercise the same unless the requisite number of holders instructed the Trustee in writing and the Trustee has received pre-funding, been indemnified and/or provided with security to its satisfaction against all actions, proceedings, claims, actions or demands to which it may render itself liable and all costs, damages, charges, expenses, and liabilities which it may incur by so doing. The Trustee and the Agents shall in no event be responsible for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit, goodwill or opportunity), whether or not foreseeable, even if the Trustee has been advised of the possibility of such loss or damage and regardless of the form of action.

Subject to the terms of the Indenture, the Trustee is permitted to engage in other transactions with the Issuer and its affiliates and can profit there from without being obliged to account for such profit; and the Trustee shall not be under any obligation to monitor any conflict of interest, if any, which may arise between itself and such other parties. The Trustee may have interest in, or may be providing, or may in the future provide financial services to other parties.

Furthermore, each holder of the Notes, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of, and investigation into, all risks arising under or in connection with the Notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

### **Currency Indemnity**

To the fullest extent permitted by law, the Issuer's obligations to any holder of Notes under the Indenture or the Notes shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Issuer agrees, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder or the Trustee, such holder or the Trustee, as the case may be, agrees to pay to or for their respective account such excess, provided that such holder shall not have any obligation to pay any such excess as long as a Default by the Issuer in its obligations under the Indenture or the Notes has occurred and is continuing, in which case such excess may be applied by such holder to such obligations.

### **Notices**

Notices to holders of Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register.

### **Governing Law and Consent to Jurisdiction**

The Indenture and the Notes will be governed by and will be construed in accordance with the laws of the State of New York. The Issuer has agreed that any action arising out of or based upon the Indenture may be instituted in any U.S. federal or New York State court located in the Borough of Manhattan, The City of New York, and has irrevocably submitted to the non-exclusive jurisdiction of any such court in any such action. The Issuer has appointed Law Debenture Corporate Services Inc., located at 801 2nd Avenue, Suite 403, New York, NY 10017, as its agent upon which process may be served in any such action.

The Issuer has agreed that, to the extent that the Issuer is or becomes entitled to any sovereign or other immunity, it will waive such immunity in respect of its obligations under the Indenture.

## Certain Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

“Business Day” means a day other than a Saturday, Sunday or a day on which banking institutions or trust companies in the City of New York, London, Hong Kong or Beijing (or in the city where the relevant paying agent is located) are authorized or obligated by law, regulation or executive order to remain closed.

“Capital Stock” of any Person means any and all shares, interests, rights to purchase, warrants, options, participations, or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Shares and limited liability or partnership interests (whether general or limited), but excluding any debt securities convertible or exchangeable into such equity.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if we obtain fewer than three such Reference Treasury Dealer Quotations, the average of all quotations obtained.

“Consolidated Affiliated Entity” of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under IFRS 10: *Consolidated Financial Statements*, IFRS 11: *Joint Arrangements* and IFRS 12: *Disclosure of Interests in Other Entities* issued by the International Accounting Standards Board (including any changes, amendments or supplements thereto) or, if such Person prepares its financial statements in accordance with accounting principles other than IFRS, the equivalent of IFRS 10: *Consolidated Financial Statements*, IFRS 11: *Joint Arrangements* and IFRS 12: *Disclosure of Interests in Other Entities* issued by the International Accounting Standards Board under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Issuer.

“Controlled Entity” of any Person means a Subsidiary or a Consolidated Affiliated Entity of such Person.

“Default” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Exchange Act” means the Securities Exchange Act of 1934.

“Group” means the Issuer and its Controlled Entities.

“holder” in relation to a Note, means the Person in whose name a Note is registered in the security register for the registration and the registration of transfer or of exchange of the applicable series of securities.

“IFRS” means the International Financial Reporting Standards as issued by the International Accounting Standards Board.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us.

“Lien” means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

“Non-listed Controlled Entities” means the Controlled Entities other than (i) any Controlled Entities with shares of common stock or other common equity interests listed on an internationally recognized stock exchange; and (ii) any Subsidiaries or Consolidated Affiliated Entities of any Controlled Entity referred to in clause (i) of this definition.

“Non-recourse Obligation” means indebtedness or other obligations substantially related to (i) the acquisition of assets (including any person that becomes a Controlled Entity) not previously owned by the Issuer or any of the Issuer’s Controlled Entities or (ii) the financing of a project involving the purchase, development, improvement or expansion of properties of the Issuer or any of the Issuer’s Controlled Entities, as to which the obligee with respect to such indebtedness or obligation has no recourse to the Issuer or any of the Issuer’s Controlled Entities or to the Issuer or any such Controlled Entity’s assets other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof).

“Person” means any individual, corporation, firm, limited liability company, partnership, joint venture, undertaking, association, joint stock company, trust, unincorporated organization, trust, state, government or any agency or political subdivision thereof or any other entity (in each case whether or not being a separate legal entity).

“PRC” means the People’s Republic of China, excluding, for purposes of this definition, the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan.

“PRC Business Day” means a day other than a Saturday, Sunday or a day on which banking institutions in China are authorized or obligated by law, regulation or executive order to remain closed.

“Preferred Shares” as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends upon liquidation, dissolution or winding up.

“Principal Controlled Entities” at any time shall mean one of the Issuer’s Non-Listed Controlled Entities

(i) as to which one or more of the following conditions is/are satisfied:

- (a) its total revenue or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated total revenue attributable to the Issuer is at least 10% of our consolidated total revenue;
- (b) its net profit or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net profit attributable to the Issuer (in each case before taxation and exceptional items) is at least 10% of our consolidated net profit (before taxation and exceptional items); or
- (c) its net assets or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net assets attributable to the Issuer (in each case after deducting minority interests in Subsidiaries) are at least 10% of our consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of such Non-Listed Controlled Entity and the Issuer’s then latest audited consolidated financial statements;

provided that, in relation to paragraphs (a), (b) and (c) above:

- (1) in the case of a corporation or other business entity becoming a Non-Listed Controlled Entity after the end of the financial period to which the Issuer's latest consolidated audited accounts relate, the reference to the Issuer's then latest consolidated audited accounts and the Issuer's Non-Listed Controlled Entities for the purposes of the calculation above shall, until the Issuer's consolidated audited accounts for the financial period in which the relevant corporation or other business entity becomes a Non-Listed Controlled Entity are issued, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Non-Listed Controlled Entities adjusted to consolidate the latest audited accounts (consolidated in the case of a Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities) of such Non-Listed Controlled Entity in such accounts;
  - (2) if at any relevant time in relation to the Issuer or any Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities, no consolidated accounts are prepared and audited, total revenue, net profit or net assets of the Issuer and/or any such Non-Listed Controlled Entity shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;
  - (3) if at any relevant time in relation to any Non-Listed Controlled Entity, no accounts are audited, its net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Non-Listed Controlled Entity prepared for this purpose by or on behalf of the Issuer; and
  - (4) if the accounts of any Non-Listed Controlled Entity (not being a Non-Listed Controlled Entity referred to in proviso (1) above) are not consolidated with our accounts, then the determination of whether or not such Non-Listed Controlled Entity is a Principal Controlled Entity shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the Issuer's consolidated accounts (determined on the basis of the foregoing); or
- (ii) to which is transferred all or substantially all of the assets of a Controlled Entity which immediately prior to the transfer was a Principal Controlled Entity; *provided* that, with effect from such transfer, the Controlled Entity which so transfers its assets and undertakings shall cease to be a Principal Controlled Entity (but without prejudice to paragraph (i) above) and the Controlled Entity to which the assets are so transferred shall become a Principal Controlled Entity.

An officers' certificate of the Issuer delivered to the Trustee certifying in good faith as to whether or not a Non-Listed Controlled Entity is a Principal Controlled Entity shall be conclusive in the absence of manifest error and the Trustee shall be entitled to rely conclusively upon such officers' certificate (without further investigation or enquiry) and shall not be liable to any person for so accepting and relying on such officers' certificate.

"Relevant Indebtedness" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market, except (i) any indebtedness in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities initially offered, marketed or issued primarily to Persons resident in the PRC and dominated in Renminbi, and (ii) any Non-recourse Obligations.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. government securities dealer in the United States, selected by us in good faith.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the fifth Business Day before such redemption date.



“Securities Act” means the Securities act of 1933, as amended.

“Stated Maturity” means, when used with respect to any Note or any installment of interest thereon, the date specified in such Note as the fixed date on which the principal (or any portion thereof) of or premium, if any, on such Note or such installment of interest is due and payable.

“Subsidiary” of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or Persons performing similar functions) or (b) any partnership, joint venture limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), voting at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Issuer.

“Total Equity” as of any date, means the total equity attributable to shareholders of the Issuer on a consolidated basis determined in accordance with IFRS, as shown on the Issuer’s consolidated balance sheet for the most recent fiscal quarter.

“Treasury Yield” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the fifth Business Day before such redemption date) of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Triggering Event” means (A) any change in or amendment to the laws, regulations and rules of the PRC or the official interpretation or official application thereof (“Change in Law”) that results in (x) the Group (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the Issuer’s consolidated financial statements for the most recent fiscal quarter and (y) the Issuer being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in its consolidated financial statements for the most recent fiscal quarter and (B) the Issuer has not furnished to the Trustee, prior to the date that is twelve months after the date of the Change in Law, an opinion from an independent financial advisor or external legal counsel stating either (1) the Issuer is able to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law), taken as a whole, as reflected in its consolidated financial statements for the most recent fiscal quarter (including after giving effect to any corporate restructuring or reorganization plan of the Issuer) or (2) such Change in Law would not materially adversely affect the Issuer’s ability to make principal, premium (if any) and interest payments on the Notes when due.

The definition of Triggering Event includes a phrase relating to operating “substantially all” or deriving “substantially all” of the economic benefits from, the business operations conducted by the Group. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the applicability of the requirement that the Issuer offers to repurchase the Notes as a result of a Triggering Event may be uncertain.

“U.S. Government Obligations” means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

## DESCRIPTION OF THE 2030 NOTES

*All terms defined in this “Description of the 2030 Notes” shall have the meanings assigned to them herein and are applicable to this “Description of the 2030 Notes” only unless the context otherwise requires. For the purpose of this “Description of the 2030 Notes” only, “Notes” means the 2030 Notes. The 2030 Notes are to be issued under an indenture (the “Indenture”) to be dated October 28, 2020, among Meituan 美团 (the “Issuer”) and Citicorp International Limited, as trustee (the “Trustee”). Copies of the 2030 Notes and the Indenture will be available for inspection during normal business hours at the corporate trust office of the Trustee. The following summary of the material terms of the 2030 Notes and the Indenture does not purport to be complete and are subject to, and are qualified in its entirety by reference to, the Indenture, including definitions of specified terms used therein. We urge you to read the Indenture because it, and not this description, defines your rights as a beneficial holder of the 2030 Notes. Holders are deemed to have notice of all the provisions of the Indenture applicable to them. The following, subject to modification and except for the paragraphs in italics, is the text of the Description of the 2030 Notes.*

### General

The Notes will initially be issued in an aggregate principal amount of US\$1,250,000,000 and will mature on October 28, 2030, unless they are redeemed prior to the maturity pursuant to the Indenture and the terms thereof. The Notes will bear interest at the rate of 3.05% per annum. Interest on the Notes will accrue from October 28, 2020 and will be payable semi-annually in arrears on April 28 and October 28 of each year, beginning on April 28, 2021, to the persons in whose names the Notes are registered at the close of business on the preceding April 13 and October 13, respectively, which we refer to as the record dates. At maturity or upon early redemption, the Notes are payable at their principal amount plus premium (if any) plus accrued and unpaid interest thereon. In any case where the payment of principal of, premium (if any) or interest on the Notes is due on a date that is not a Business Day, then payment of principal of, premium (if any) or interest on the Notes, as the case may be, shall be made on the next succeeding Business Day and no interest shall accrue with respect to such payment for the period from and after such date that is not a Business Day to such next succeeding Business Day. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Notes shall be denominated in minimum principal amounts of US\$200,000 and in integral multiples of US\$1,000 in excess thereof. The Notes will be issued in global registered form.

### Payments on the Notes; Paying Agent and Registrar

The Issuer will pay principal of, premium, if any, and interest on the Notes at the office or agency designated by the Issuer, which initially will be the office of Citibank, N.A., London Branch, located at c/o Citibank, N.A., Dublin Branch, 1 North Way Quay, Dublin 1, Ireland, except that the Issuer may, when acting as its own paying agent, at its option and expense, pay interest on the Notes by wire transfer or by mailing a check to the registered account of the holder details of which appear in the register of Notes. Payments of the principal amount of the Notes at maturity or the principal amount (or redemption price) to be prepaid upon redemption or repayment in full, together with accrued interest due at maturity, redemption or repayment, as the case may be, will be made to the registered holder thereof against presentation and surrender of the Notes at the specified office of the paying agent. Any payments of principal of, premium, if any, and interest on the Notes to be made on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue as a result of such delayed payment.

The Issuer has initially designated Citibank, N.A., London Branch to act as its paying agent (the “Paying Agent”), transfer agent (the “Transfer Agent”) and registrar (the “Registrar”). The Paying Agent, Transfer Agent and Registrar are each referred to as an “Agent,” and together, the “Agents.” The Issuer may, however, change the Paying Agent or Registrar without prior notice to the holders.

Payment of the principal of, premium, if any, and interest on the Notes held through the DTC will be credited to the respective accounts of holders of the Notes with DTC or its participants, including Euroclear and Clearstream. See “— Book-Entry; Delivery and Form.”

## Ranking

The Notes will constitute senior unsecured obligations of the Issuer. The Notes will rank senior in right of payment to all of the Issuer's existing and future obligations expressly subordinated in right of payment to the Notes and rank at least equal in right of payment with all of the Issuer's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Notes will be effectively subordinated to all of the Issuer's existing and future secured obligations, to the extent of the value of the assets serving as security therefor, and be structurally subordinated to all existing and future obligations and other liabilities of the Issuer's Controlled Entities.

## Issuance of Additional Notes

The Issuer may, from time to time, without the consent of the holders of the Notes, issue additional Notes having the same terms and conditions as the previously outstanding Notes in all respects (or in all respects except for the issue date, the issue price and the first payment of interest) (the "Additional Notes"). Additional Notes issued in this manner may be consolidated with the previously outstanding Notes to constitute a single series of the Notes. We will not issue any additional Notes with the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Notes unless the additional Notes are fungible with the outstanding Notes for U.S. federal income tax purposes.

## Optional Redemption

The Issuer may at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Notes (which notice shall be irrevocable) and the Trustee, redeem the Notes at any time prior to July 28, 2030, in whole or in part, at a redemption amount equal to the greater of:

- 100% of the principal amount of the Notes to be redeemed; and
- the make-whole amount, which means the amount determined on the fifth Business Day before the redemption date equal to the sum of (i) the present value of the principal amount of the Notes to be redeemed, assuming a scheduled repayment thereof on the stated maturity date, plus (ii) the present value of the remaining scheduled payments of interest to and including the stated maturity date, in each case discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed) at the Treasury Yield plus 35 basis points,

plus, in each case, accrued and unpaid interest on the Notes to be redeemed, if any, to, but not including, the redemption date; provided that the principal amount of a Note remaining outstanding after redemption in part shall be US\$200,000 or an integral multiple of US\$1,000 in excess thereof.

Each of the Trustee and the Agents shall not be responsible to any person for determining or verifying the make-whole amount.

The Issuer may, at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Notes (which notice shall be irrevocable) and the Trustee, redeem the Notes at any time on or after July 28, 2030, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest on the Notes to be redeemed, if any, to (but not including) the date of redemption; *provided* that the principal amount of the Notes remaining outstanding after redemption in part shall be US\$200,000 or an integral multiple of US\$1,000 in excess thereof.

The notice of redemption will be mailed at least 30 but not more than 60 days before the redemption date to the Trustee and each holder of record of the Notes to be redeemed at its registered address. The notice of redemption for the Notes will state, among other things, the amount of Notes to be redeemed, the redemption date, the manner in which the redemption price will be calculated and the place or places that payment will be made upon presentation and surrender of Notes to be redeemed. Unless we default in the payment of the redemption price, interest will cease to accrue on any Notes that have been called for redemption at the redemption date. If less than all of the Notes are to be redeemed, the Notes for redemption

will be selected as follows: (i) if the Notes are listed on a securities exchange then in compliance with the rules of such securities exchange and if the Notes are held through the clearing systems then in compliance with the rules and procedures of the clearing systems, or (ii) if the Notes are not listed on a securities exchange or held through the clearing systems, then pro rata by lot or such other method as the Trustee shall deem to be fair and appropriate in its sole and absolute discretion or as otherwise required by applicable law.

### **Tax Redemption**

The Issuer may redeem the Notes at any time, in whole but not in part, upon written notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, if (i) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (or, in the case of Additional Amounts payable by a successor Person to the Issuer, the applicable Successor Jurisdiction), or any change in the official application or official interpretation of, or the stating of an official position with respect to, such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the issue date of the Notes (or, in the case of Additional Amounts payable by a successor Person to the Issuer that is not organized or tax resident in a jurisdiction that was already a Relevant Jurisdiction prior to the date of succession, after the date on which such successor Person to the Issuer became a successor to the Issuer pursuant to the applicable provisions of the Indenture) (a "Tax Change"), the Issuer or any such successor Person to the Issuer is, or would be, obligated to pay Additional Amounts upon the next payment of principal, premium (if any) or interest in respect of such Notes and (ii) such obligation cannot be avoided by the Issuer or any such successor Person to the Issuer taking reasonable measures available to it, *provided* that changing the Issuer's or such successor Person's jurisdiction is not a reasonable measure for purposes of this section.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Issuer or any such successor Person to the Issuer shall deliver to the Trustee (i) a notice of such redemption election, (ii) an opinion of external legal counsel or an opinion of an independent tax consultant to the effect that the Issuer or any such successor Person to the Issuer is, or would become, obligated to pay such Additional Amounts as the result of a Tax Change and (iii) an officers' certificate from the Issuer or any such successor Person to the Issuer, stating that such amendment or change has occurred, and stating that such requirement cannot be avoided by the Issuer or any such successor Person to the Issuer taking reasonable measures available to it. The Trustee shall be entitled to rely conclusively upon such certificate and opinion as sufficient evidence of the conditions precedent described above, in which event it shall be conclusive and binding on the relevant holders.

Notice of redemption of the Notes as provided above shall be given to the holders and the Trustee not less than 30 nor more than 60 days prior to the date fixed for redemption; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or any such successor Person to the Issuer would be required to pay Additional Amounts if a payment in respect of such Notes was then due. Notice having been given, the Notes shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, at the place or places of payment and in the manner specified in the Notes. From and after the redemption date, if moneys for the redemption of such Notes shall have been made available as provided in the Indenture for redemption on the redemption date, the Notes shall cease to bear interest, and the only right of the holders of such Notes shall be to receive payment of the redemption price and accrued and unpaid interest, if any, to, but not including, the date fixed for redemption.

### **Repurchase Upon Triggering Event**

If a Triggering Event occurs, unless the Issuer has exercised our right to redeem the Notes as described under the heading "Tax Redemption" or under the heading "Optional Redemption" above, the Issuer will be required to make an offer to repurchase all or, at the holder's option, any part (equal to US\$200,000 or multiples of US\$1,000 in excess thereof), of each holder's Notes pursuant to the offer described below (the "Triggering Event Offer") on the terms set forth in the Indenture and the Notes. In the Triggering Event Offer, the Issuer will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, if any, on the Notes repurchased to, but not including, the date of purchase (the "Triggering Event Payment").

Within 30 days following a Triggering Event, the Issuer will be required to mail a notice to holders of the Notes, with a copy to the Trustee and the Paying Agent, describing the transaction or transactions that constitute the Triggering Event and offering to repurchase the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the "Triggering Event Payment Date"), pursuant to the procedures required by the Notes and described in such notice.

On the Triggering Event Payment Date, the Issuer will be required, to the extent lawful, to:

- accept for payment all Notes or portions of Notes properly tendered pursuant to the Triggering Event Offer;
- deposit with a tender agent one Business Day prior to the Triggering Event Payment Date an amount of cash in U.S. dollars equal to the Triggering Event Payment in respect of all Notes or portions of Notes properly tendered; and
- deliver or cause to be delivered to the Paying Agent the Notes properly accepted together with an officers' certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The tender agent will be required to promptly mail, to each holder who properly tendered the Notes, the purchase price for such Notes properly tendered, and the Trustee will be required to as soon as reasonably practicable authenticate and mail (or cause to be transferred by book-entry) to each such holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each new Note will be in a principal amount of US\$200,000 or a multiple of US\$1,000 in excess thereof.

The Issuer will not be required to make a Triggering Event Offer upon a Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Issuer and such third party purchases all Notes properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults on its offer, the Issuer will be required to make a Triggering Event Offer treating the date of such termination or default as though it were the date of the Triggering Event.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws and regulations thereunder in connection with the repurchase of the Notes as a result of a Triggering Event. To the extent that the provision of any such securities laws or regulations conflicts with the Triggering Event Offer provisions of the Notes, the Issuer will comply with those securities laws and regulations and will not be deemed to have breached its obligations under the Triggering Event Offer provisions of the Notes by virtue of any such conflict.

There can be no assurance that the Issuer will have sufficient funds available at the time of a Triggering Event to consummate a Triggering Event Offer for all Notes then outstanding (or all Notes properly tendered by the holders of such Notes) and pay the Triggering Event Payment. The Issuer may also be prohibited by terms of other indebtedness or agreements from repurchasing the Notes upon a Triggering Event, which would require the Issuer to repay the relevant indebtedness or terminate the relevant agreement before it can proceed with a Triggering Event Offer, and there can be no assurance that it will be able to effect such repayment or termination.

The Trustee shall not be required to take any steps to ascertain whether a Triggering Event or any event which could lead to a Triggering Event has occurred and shall not be liable to any persons for any failure to do so.



## Payment of Additional Amounts

All payments of principal, premium and interest made by the Issuer in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”) imposed or levied by or within the Cayman Islands, Hong Kong, the PRC or any jurisdiction where the Issuer or the paying agent are otherwise considered by a taxing authority to be a resident for tax purposes (in each case, including any political subdivision or any authority therein or thereof having power to tax) (the “Relevant Jurisdiction”), unless such withholding or deduction of such Taxes is required by law. If such withholding or deduction is so required, the Issuer will pay such additional amounts (“Additional Amounts”) as will result in receipt by each holder of any Notes of such amounts as would have been received by such holder had no such withholding or deduction of such Taxes been required, except that no such Additional Amounts shall be payable:

- (i) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection (whether present or former) between the holder or beneficial owner of a Note and the Relevant Jurisdiction other than merely holding such Note or receiving principal, premium (if any) or interest in respect thereof (including such holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein);
- (ii) in respect of any Note presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period. For this purpose, the “relevant date” in relation to any Note means the later of (a) the due date for such payment or (b) the date such payment was made or duly provided for;
- (iii) in respect of any Taxes that would not have been imposed, deducted or withheld but for a failure of the holder or beneficial owner of a Note to comply with a timely request by the Issuer addressed to the holder to provide information concerning such holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such holder;
- (iv) in respect of any Taxes imposed as a result of a Note being presented for payment (where presentation is required) in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
- (v) in respect of any estate, inheritance, gift, sale, transfer, personal property or similar Taxes;
- (vi) to any holder of a Note that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the holder thereof;
- (vii) with respect to any withholding or deduction that is imposed in connection with Sections 1471-1474 of the U.S. Internal Revenue Code of 1986, as amended, and current or future U.S. Treasury regulations thereunder (“FATCA”), any agreement with the Internal Revenue Service implementing or relating to FATCA, any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA or any non-U.S. law, regulation or other official guidance enacted or issued in any jurisdiction implementing FATCA or any intergovernmental agreement with respect thereto;



(viii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Note; or

(ix) any combination of Taxes referred to in the preceding items (i) through (viii) above.

In the event that any withholding or deduction for or on account of any Taxes is required and Additional Amounts are payable with respect thereto, at least 10 Business Days prior to each date of payment of principal of, premium (if any) or interest on the Notes, the Issuer will furnish to the Trustee and the Paying Agent, if other than the Trustee, an officers' certificate specifying the amount required to be withheld or deducted on such payments to such holders, certifying that the Issuer shall pay such amounts required to be withheld to the appropriate governmental authority and certifying to the fact that the Additional Amounts will be payable and the amounts so payable to each holder, and that the Issuer will pay to the Trustee or the Paying Agent the Additional Amounts required to be paid; *provided* that no such officers' certificate will be required prior to any date of payment of principal of, premium (if any) or interest on such Notes if there has been no change with respect to the matters set forth in a prior officers' certificate. The Trustee and the Paying Agent shall be entitled to rely on the fact that any officers' certificate contemplated by this paragraph has not been furnished as evidence of the fact that no withholding or deduction for or on account of any Taxes is required. The Issuer covenants to indemnify the Trustee and the Paying Agent for and to hold them harmless against any loss, liability or incurred expense without fraudulent activity, gross negligence or willful misconduct on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any such officers' certificate furnished pursuant to this paragraph or on the fact that any officers' certificate contemplated by this paragraph has not been furnished.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Note, such mention shall be deemed to include the payment of Additional Amounts provided for in the Indenture, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

The foregoing provisions shall apply in the same manner with respect to the jurisdiction in which any successor Person to the Issuer or its paying agent is organized or resident for tax purposes or any authority therein or thereof having the power to tax (a "Successor Jurisdiction"), substituting such Successor Jurisdiction for the Relevant Jurisdiction.

Our obligation to make payments of Additional Amounts under the terms and conditions described above will survive any termination, defeasance or discharge of the Indenture.

### **Open Market Purchases**

The Issuer or any of its Controlled Entities may, in accordance with all applicable laws and regulations, at any time purchase the Notes issued under the Indenture in the open market or otherwise at any price, so long as such purchase does not otherwise violate the terms of the Indenture. The Notes so purchased, while held by or on behalf of the Issuer or any of its Controlled Entities, shall not be deemed to be outstanding for the purposes of determining whether the holders of the requisite principal amount of outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder.

### **Modification and Waiver**

The Indenture contains provisions permitting us and the Trustee, without the consent of the holders of the Notes, to execute supplemental indentures for certain enumerated purposes in the Indenture and, with the consent of the holders of not less than a majority in aggregate principal amount of the Notes then outstanding under the Indenture, to add, change, eliminate or modify in any way the provisions of the Indenture or any supplemental indentures or to change or modify in any manner the rights of the holders of such Notes. The Issuer and the Trustee may not, however, without the consent of each holder of the Notes affected thereby:

(i) change the Stated Maturity of any Note;

(ii) reduce the principal amount of, payments of interest on or stated time for payment of interest on any Note;

- (iii) change any obligation of the Issuer to pay Additional Amounts with respect to any Note;
- (iv) change the currency of payment of the principal of, premium (if any) or interest on any Note;
- (v) impair the right to institute suit for the enforcement of any payment due on or with respect to any Note;
- (vi) reduce the above stated percentage of outstanding Notes necessary to modify or amend the Indenture;
- (vii) reduce the percentage of the aggregate principal amount of outstanding Notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (viii) modify the provisions of the Indenture with respect to modification and waiver;
- (ix) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes in a manner which adversely affects the holders of such Notes;
- (x) reduce the amount of the premium payable upon the redemption or repurchase of the Notes or change the time at which such Notes may be redeemed or repurchased as described above under “— Tax Redemption”; or
- (xi) reduce the amount of the premium payable upon the redemption or repurchase of the Notes or change the time at which any such Notes may be redeemed or repurchased as described above under “— Optional Redemption” or “— Repurchase Upon Triggering Event” whether through an amendment or waiver of provisions in the covenants, definitions or otherwise (except through amendments to the definition of “Triggering Event”).

The holders of not less than a majority in aggregate principal amount of the Notes then outstanding may on behalf of all holders of the Notes waive any existing or past Default or Event of Default and its consequences under the Indenture, except a continuing Default or Event of Default (i) in the payment of principal of, premium (if any) or interest on (or Additional Amount payable in respect of) the Notes then outstanding, in which event the consent of all holders of the Notes then outstanding affected thereby is required, or (ii) in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each Note then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Notes, whether or not they have given consent to such waivers, and on all future holders of such Notes, whether or not notation of such waivers is made upon such Notes. Any instrument given by or on behalf of any holder of the Notes in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Notes.

Notwithstanding the foregoing, without the consent of any holder of the Note, the Issuer and the Trustee may amend the Indenture and the relevant Notes to, among other things:

- (i) cure any ambiguity, omission, defect or inconsistency contained in the Indenture or in any supplemental indenture; *provided*, however, that such amendment does not materially and adversely affect the rights of holders;
- (ii) in the case of a merger or consolidation, evidence the succession of another corporation to the Issuer, or successive successions, and the assumption by such successor of the covenants and obligations of the Issuer contained in the Notes and in the indenture or any supplemental indenture;
- (iii) comply with the rules of any applicable depository;
- (iv) secure the Notes;

- (v) add to the covenants and agreements of the Issuer, to be observed thereafter and during the period, if any, in such supplemental indenture or indentures expressed, and to add Events of Default, in each case for the protection or benefit of the holders of the Notes, or to surrender any right or power herein conferred upon the Issuer;
- (vi) make any change in the Notes that does not adversely affect the legal rights under the Indenture of any holder of such Notes in any material respect;
- (vii) evidence and provide for the acceptance of an appointment under the Indenture of a successor trustee; *provided* that the successor trustee is otherwise qualified and eligible to act as such under the terms thereof;
- (viii) make any amendment to the provisions of the Indenture relating to the transfer and legending of Notes as permitted by the Indenture, including, but not limited to, facilitating the issuance and administration of the Notes or, if incurred in compliance with the Indenture, additional Notes; *provided*, however, that (A) compliance with the Indenture as so amended would not result in the Notes being transferred in violation of any applicable securities law and (B) such amendment does not materially and adversely affect the rights of holders to transfer Notes;
- (ix) change or eliminate any of the provisions of the Indenture; *provided* that any such change or elimination shall become effective only when there is no outstanding Note created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision and as to which such supplemental indenture would apply;
- (x) add guarantors or co-obligors with respect to the Notes;
- (xi) establish the form and terms of Notes as permitted under the Indenture, or to provide for the issuance of additional Notes in accordance with the limitations set forth in the Indenture, or to add to the conditions, limitations or restrictions on the authorized amount, terms or purposes of issue, authentication or delivery of the Note, as herein set forth, or other conditions, limitations or restrictions thereafter to be observed; or
- (xii) conform the text of the Indenture or the Notes to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture or the Notes as evidenced by an officers’ certificate.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment, supplement or waiver. It is sufficient if such consent approves the substance of the proposed amendment or supplement. A consent to any amendment, supplement or waiver under the Indenture by any holder given in connection with a tender of such holder’s Notes will not be rendered invalid by such tender. After an amendment, supplement or waiver under the Indenture becomes effective, the Issuer is required to give to the holders a notice briefly describing such amendment, supplement or waiver. However, the failure to give such notice to all the holders, or any defect in the notice will not impair or affect the validity of the amendment, supplement or waiver.

### **Limitation on Liens**

So long as any Note remains outstanding, the Issuer will not create or have outstanding, and will ensure that none of its Principal Controlled Entities will create or have outstanding, any Lien upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) securing any Relevant Indebtedness or create or have outstanding any guarantee or indemnity in respect of any Relevant Indebtedness either of the Issuer or of any of its Principal Controlled Entities, without (i) at the same time or prior thereto securing or guaranteeing the Notes equally and ratably therewith or (ii) providing such other security or guarantee for the Notes as shall be approved by an act of the holders of the Notes holding at least a majority of the principal amount of the Notes then outstanding.

The foregoing restriction will not apply to:

- (i) any Lien arising or already arisen automatically by operation of law which is timely discharged or disputed in good faith by appropriate proceedings;
- (ii) any Lien in respect of the obligations of any Person which becomes a Principal Controlled Entity or which merges with or into the Issuer or a Principal Controlled Entity after the date of the Indenture which is in existence at the date on which it becomes a Principal Controlled Entity of the Issuer or merges with or into the Issuer or a Principal Controlled Entity; *provided* that any such Lien was not incurred in anticipation of such acquisition or of such Person becoming a Principal Controlled Entity or being merged with or into the Issuer or a Principal Controlled Entity;
- (iii) any Lien created or outstanding in favor of the Issuer;
- (iv) any Lien in respect of Relevant Indebtedness of the Issuer or any Principal Controlled Entity with respect to which the Issuer or such Principal Controlled Entity has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Issuer or such Principal Controlled Entity in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full);
- (v) any Lien created in connection with Relevant Indebtedness of the Issuer or any Principal Controlled Entity denominated in RMB and initially offered, marketed or issued primarily to Persons resident in the PRC;
- (vi) any Lien created in connection with a project financed with, or created to secure, Non-recourse Obligations; or
- (vii) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by the foregoing clauses (ii), (v), (vi) or this clause (vii); provided that such Relevant Indebtedness is not increased beyond the principal amount thereof (together with the costs of such refinancing, extension, renewal or refunding) and is not secured by any additional property or assets.

### **Consolidation, Merger, and Sale of Assets**

The Issuer may not, directly or indirectly, consolidate with or merge into any other Person in a transaction or a series of transactions in which the Issuer is not the surviving entity, or convey, transfer, or lease our properties and assets substantially as an entirety to, any Person unless:

- (i) the Issuer shall be the continuing Person or, if it is not the continuing Person, any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the Cayman Islands or Hong Kong;
- (ii) such Person expressly assumes by indentures supplemental to the Indenture all of the Issuer's obligations under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, and will, if required by law to effectuate the assumption, execute a supplemental indenture which will be delivered to the Trustee and will be in form and substance reasonably satisfactory to the Trustee;
- (iii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and
- (iv) the Issuer has delivered to the Trustee an officers' certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indentures comply with the Indenture and that all conditions precedent therein relating to such transaction have been complied with.

## **Payments for Consent**

The Issuer will not, and will not permit any of the Issuer's Controlled Entities to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

## **NDRC Post-issue Filing**

The Issuer will notify the Trustee if it does not file or cause to be filed with the National Development and Reform Commission of the PRC (the "NDRC") the requisite information and documents required to be filed with the NDRC within 10 PRC Business Days after the closing date in accordance with the Registration Certificate of Enterprise Foreign Debt Filing issued by the General Office of the NDRC on December 9, 2019 pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations issued by the NDRC on September 14, 2015, the Approval of Foreign Debt Quota Administration Reform Trial Enterprise (Second Batch) for 2017 issued by the NDRC on March 22, 2017, and any implementation rules as issued by the NDRC as in effect at such time (the "Post-Issuance Filing"). Such notification to the Trustee will be made within 10 PRC Business Days after such failure to complete the Post-Issuance Filing.

The Trustee shall have no obligation or duty to monitor or ensure or to assist with the Post-Issuance Filing on or before the relevant deadline or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the Post-Issuance Filing and/or the relevant documents evidencing the Post-Issuance Filing or to give notice to the Holders confirming the completion of the Post-Issuance Filing, and shall not be liable to Holders or any other person for not doing so.

"PRC Business Day" means a day other than a Saturday, Sunday or a day on which banking institutions in the PRC are authorized or obligated by law, regulation or executive order to remain closed.

## **Events of Default**

Under the terms of the Indenture, each of the following constitutes an Event of Default for the Notes:

- (i) failure to pay principal or premium in respect of any Notes by the due date for such payment;
- (ii) failure to pay interest on any Notes within 30 days after the due date for such payment;
- (iii) the Issuer defaults in the performance of or breach its obligations under the "— Consolidation, Merger, and Sale of Assets" covenant;
- (iv) the Issuer defaults in the performance of or breach any covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (i), (ii) or (iii) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the holders of 25% or more in aggregate principal amount of the Notes then outstanding;
- (v) (1) there occurs with respect to any indebtedness of the Issuer or any of the Issuer's Principal Controlled Entities, whether such indebtedness now exists or shall hereafter be created, (A) an event of default that has resulted in the holder thereof declaring the principal of such indebtedness to be due and payable prior to its stated maturity or (B) a failure to make a payment of principal, interest or premium when due (after giving effect to the expiration of any applicable grace period therefor, a "Payment Default") and, in each case, such default continues for more than 30 days after the expiration of any grace period or extension of time for payment applicable thereto; provided that any such Event of Default shall be deemed cured and not

continuing upon payment of such indebtedness, rescission of such declaration of acceleration, or waiver or with consent of the applicable lender; and (2) the outstanding principal amount of such indebtedness, together with the outstanding principal amount of any other indebtedness of the Issuer or any of the Issuer's Principal Controlled Entities under which there has been a Payment Default or the maturity of which has been so accelerated, is equal to or exceeds the greater of (x) US\$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Issuer's Total Equity;

- (vi) one or more final judgments or orders for the payment of money are rendered against the Issuer or any of the Issuer's Principal Controlled Entities and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against the Issuer or any of the Issuer's Principal Controlled Entities (net of any amounts that our insurance carriers have paid or agreed to pay with respect thereto under applicable policies) to exceed the greater of (x) US\$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Issuer's Total Equity, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (vii) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer or any of the Issuer's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or (ii) a decree or order adjudging the Issuer or any of the Issuer's Principal Controlled Entities bankrupt or insolvent, or approving as final and nonappealable a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Issuer or any of the Issuer's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of the Issuer's Principal Controlled Entities or of any substantial part of their respective property, or ordering the winding up or liquidation of their respective affairs (or any similar relief granted under any foreign laws), and in any such case the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive calendar days;
- (viii) the commencement by the Issuer or any of the Issuer's Principal Controlled Entities of a voluntary case or proceeding under any applicable federal, state or foreign bankruptcy, insolvency or other similar law or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by the Issuer or any of the Issuer's Principal Controlled Entity to the entry of a decree or order for relief in respect of the Issuer or any of the Issuer's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or the commencement of any bankruptcy or insolvency case or proceeding against the Issuer or any of the Issuer's Principal Controlled Entity, or the filing by the Issuer or any of the Issuer's Principal Controlled Entity of a petition or answer or consent seeking reorganization or relief with respect to the Issuer or any of the Issuer's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or the consent by the Issuer or any of the Issuer's Principal Controlled Entity to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of the Issuer's Principal Controlled Entities or of any substantial part of their respective property pursuant to any such law, or the making by the Issuer or any of the Issuer's Principal Controlled Entities of a general assignment for the benefit of creditors in respect of any indebtedness as a result of an inability to pay such indebtedness as it becomes due, or the admission by the Issuer or any of the Issuer's Principal Controlled Entities in writing of their inability to pay the debts generally as they become due, or the taking of corporate action by the Issuer or any of the Issuer's Principal Controlled Entities that resolves to commence any such action; and
- (ix) the Notes or the Indenture is or becomes or is claimed by the Issuer to be unenforceable, invalid or ceases to be in full force and effect otherwise than is permitted by the Indenture.



However, a default under clause (iv) of the preceding paragraph will not constitute an Event of Default until the Trustee or the holders of 25% or more in aggregate principal amount of the then outstanding Notes provide written notice to us of the default and we do not cure such default within the time specified in clause (iv) of the preceding paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clauses (vii) and (viii) above) shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer (and to the Trustee if such notice is given by the holders) as provided in the Indenture, may, and the Trustee shall, upon instructions from holders of at least 25% in aggregate principal amount of the Notes then outstanding and subject to receipt of pre-funding, security and/or indemnity to its satisfaction, declare the unpaid principal amount of such Notes and any accrued and unpaid interest and premium (if any) thereon (and any Additional Amount payable in respect thereof) to be due and payable immediately upon receipt of such notice. If an Event of Default in clause (v) above shall occur, the declaration of acceleration of the Notes shall be automatically annulled if the default triggering such Event of Default pursuant to clause (v) shall be remedied or cured by the Issuer or waived by the holders of the relevant indebtedness within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium (if any) or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived. If an Event of Default in clauses (vii) or (viii) above shall occur, the unpaid principal amount of all the Notes then outstanding and any accrued and unpaid interest thereon will automatically, and without any declaration or other action by the Trustee or any holder of such Notes, become immediately due and payable. After a declaration of acceleration but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of at least a majority in aggregate principal amount of the Notes then outstanding may, under certain circumstances, waive all past defaults and rescind and annul such acceleration if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium, if any, or interest on such Notes that became due solely because of the acceleration of such Notes, have been cured or waived. For information as to waiver of defaults, see “— Modification and Waiver.”

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of the trusts or powers vested in it by the Indenture or enforce any provisions of the Indenture at the request, order or direction of any of the holders of Notes, unless the requisite number of holders shall have instructed the Trustee in writing and offered to the Trustee pre-funding, security and/or indemnity satisfactory to it against the costs, expenses, and liabilities which may be incurred therein or thereby. Subject to certain provisions, including those requiring pre-funding, security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Notes then outstanding will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. No holder of any Note will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Notes, (ii) the holders of at least 25% in aggregate principal amount of the Notes then outstanding have made written request to the Trustee to institute such proceeding, (iii) such holder or holders have offered pre-funding, security and/or indemnity satisfactory to the Trustee and (iv) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Notes then outstanding a written direction inconsistent with such request, within 60 days after such notice, request, and offer. However, such limitations do not apply to a suit instituted by a holder of a Note for the enforcement of the right to receive payment of the principal of, premium (if any) or interest on such Note on or after the applicable due date specified in such Note. The Trustee may refuse to follow any direction that conflicts with the law, regulation or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of holders not joining in the giving such direction received from such holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that reimbursement or satisfactory indemnification and/or security is assured to it.

## Legal Defeasance and Covenant Defeasance

The Indenture will provide that the Issuer may at its option and at any time elect to have all of its obligations discharged with respect to the outstanding Notes (“Legal Defeasance”) except for:

- (i) the rights of holders of the Notes that are then outstanding to receive payments in respect of the principal of, or interest or premium on such Notes when such payments are due from the trust referred to below;
- (ii) the Issuer’s obligations with respect to the Notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (iii) the rights, powers, trusts, duties and immunities of the Trustee for the Notes, and the Issuer’s obligations in connection therewith; and
- (iv) the Legal Defeasance and Covenant Defeasance (as defined below) provisions of the Indenture for the Notes.

The Indenture will provide that, the Issuer may, at its option and at any time, elect to have its obligations with respect to the outstanding Notes released with respect to certain covenants (including their obligations under the headings “Consolidation, Merger, and Sale of Assets” and “Reports”) that are described in the Indenture (“Covenant Defeasance”) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under the caption “— Events of Default” will no longer constitute an Event of Default.

The Indenture will also provide that, in order to exercise either Legal Defeasance or Covenant Defeasance:

- (i) the Issuer must irrevocably deposit with the Trustee or the paying agent, in trust, for the benefit of the holders of all Notes subject to Legal Defeasance or Covenant Defeasance, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants to pay the principal of, or interest and premium on such notes that are then outstanding on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must specify whether such Notes are being defeased to maturity or to a particular redemption date;
- (ii) in the case of Legal Defeasance, the Issuer must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that (1) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (2) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of external legal counsel will confirm that, the beneficial owners of the then outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (iii) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that the beneficial owners of the then outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

- (iv) no Default or Event of Default with respect to the Notes must have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);
- (v) the Issuer must deliver to the Trustee an officers' certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of Notes over other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding such creditors or others; and
- (vi) the Issuer must deliver to the Trustee an officers' certificate and an opinion of external legal counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect with respect to Notes when:

- (i) either:
  - (1) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Paying Agent for cancellation; or
  - (2) all Notes that have not been delivered to the Paying Agent for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer has irrevocably deposited or caused to be deposited with the Trustee (or its agent) as trust funds in trust solely for the benefit of the holders of the Notes, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient (in the case of a deposit not entirely in cash, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants), without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on such Notes not delivered to the Paying Agent for cancellation for principal, premium and accrued interest to the date of maturity or redemption;
- (ii) no Default or Event of Default under the Indenture has occurred and is continuing with respect to the Notes on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer is a party or by which the Issuer is bound;
- (iii) the Issuer has paid or caused to be paid all sums payable by it under the Indenture with respect to the Notes; and
- (iv) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, the Issuer shall deliver an officers' certificate and an opinion of external legal counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

### **No Sinking Fund**

The Notes will not be subject to, nor entitled to the benefit of, any sinking fund.

## **Book-Entry; Delivery and Form**

The Notes will be represented by one or more global notes that will be deposited with Citibank, N.A., London Branch for The Depository Trust Company, New York, New York (“DTC”) and registered in the name of Cede & Co., as nominee of DTC, for the accounts of its participants, including Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). The Issuer will not issue certificated Notes, except in the limited circumstances described below. Transfers of ownership interests in the global notes will be effected only through entries made on the books of DTC participants acting on behalf of beneficial owners. You will not receive written confirmation from DTC of your purchase. The direct or indirect participants through whom you purchased the Notes should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The direct and indirect participants are responsible for keeping accurate account of the holdings of their customers like you. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the global notes.

You, as the beneficial owner of Notes, will not receive certificates representing ownership interests in the global notes, except in the following limited circumstances: (1) DTC notifies the Issuer that it is unwilling or unable to continue as depository or if DTC ceases to be eligible under the Indenture and a successor depository is not appointed within 90 days; or (2) an event of default with respect to the Notes will have occurred and be continuing and a holder requests the Issuer to issue a certificated Note. These certificated Notes will be registered in such name or names as DTC will instruct the Trustee and the Registrar. It is expected that such instructions may be based upon directions received by DTC from participants with respect to ownership of beneficial interests in global notes.

So long as DTC or its nominee is the registered owner and holder of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the global notes for all purposes under the Indenture relating to the Notes. Except as provided above, you, as the beneficial owner of interests in the global notes, will not be entitled to have Notes registered in your name, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owner or holder thereof under the Indenture. Accordingly, you, as the beneficial owner, must rely on the procedures of DTC and, if you are not a DTC participant, on the procedures of the DTC participants through which you own your interest, to exercise any rights of a holder under the Indenture.

Neither the Issuer, the Trustee, nor any other agent of the Issuer or agent of the Trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in global notes or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests. DTC’s practice is to credit the accounts of DTC’s direct participants with payment in amounts proportionate to their respective holdings in principal amount of beneficial interest in a security as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payment date. The initial purchasers will initially designate the accounts to be credited. Beneficial owners may experience delays in receiving distributions on their Notes because distributions will initially be made to DTC and they must be transferred through the chain of intermediaries to the beneficial owner’s account. Payments by DTC participants to you will be the responsibility of the DTC participant and not of DTC, the Trustee, any agent or us. Accordingly, the Issuer, the Trustee and any paying agent will have no responsibility or liability for: any aspect of DTC’s records relating to, or payments made on account of, beneficial ownership interests in the Notes represented by a global securities certificate; any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a global securities certificate held through those participants; or the maintenance, supervision or review of any of DTC’s records relating to those beneficial ownership interests.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Issuer has been informed that, under DTC's existing practices, if the Issuer requests any action of holders of senior notes, or an owner of a beneficial interest in a global security such as you desires to take any action which a holder of the Notes is entitled to take under the Indenture, DTC would authorize the direct participants holding the relevant beneficial interests to take such action, and those direct participants and any indirect participants would authorize beneficial owners owning through those direct and indirect participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Clearstream and Euroclear have provided the Issuer with the following information:

### ***Clearstream***

Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance, and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream participants include underwriters, securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations and may include the underwriters. Clearstream's U.S. participants are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to the Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the U.S. depository for Clearstream.

### ***Euroclear***

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear performs various other services, including securities lending and borrowing and interacts with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV under contract with Euroclear plc, a U.K. corporation. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator is a Belgian bank. As such it is regulated by the Belgian Banking and Finance Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific clearance accounts. The Euroclear operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the U.S. depository for Euroclear.



Euroclear has further advised us that investors who acquire, hold and transfer interests in the Notes by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities certificates.

### ***Global Clearance and Settlement Procedures***

Initial settlement for the Notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC's Same Day Funds Settlement System. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering or receiving Notes through DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to their respective U.S. depositories.

Because of time zone differences, credits of the Notes received through Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Euroclear participants or Clearstream participants on such Business Day. Cash received in Clearstream or Euroclear as a result of sales of the Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither the Issuer nor the Trustee nor the paying agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants of their obligations under the rules and procedures governing their operations.

### **Concerning the Trustee and Agents**

The Trustee under the Indenture is Citicorp International Limited. Pursuant to the Indenture, Citibank, N.A., London Branch, a banking corporation organized and existing under the laws of the States of New York with limited liability, will be designated by the Issuer as the initial paying and transfer agent and registrar for the Notes. The corporate trust office of the Trustee is currently located at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The Indenture provides that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture or the Notes, and no implied covenants or obligations will be read into the Indenture, the Notes, or the agent appointment letter with respect to the Agents. If an Event of Default has occurred and is continuing, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.



Whenever the Trustee shall have discretion or permissive power in accordance with the Indenture or the law, the Trustee may decline to exercise the same in the absence of approval by the requisite number of holders and shall have no obligation to exercise the same unless the requisite number of holders instructed the Trustee in writing and the Trustee has received pre-funding, been indemnified and/or provided with security to its satisfaction against all actions, proceedings, claims, actions or demands to which it may render itself liable and all costs, damages, charges, expenses, and liabilities which it may incur by so doing. The Trustee and the Agents shall in no event be responsible for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit, goodwill or opportunity), whether or not foreseeable, even if the Trustee has been advised of the possibility of such loss or damage and regardless of the form of action.

Subject to the terms of the Indenture, the Trustee is permitted to engage in other transactions with the Issuer and its affiliates and can profit there from without being obliged to account for such profit; and the Trustee shall not be under any obligation to monitor any conflict of interest, if any, which may arise between itself and such other parties. The Trustee may have interest in, or may be providing, or may in the future provide financial services to other parties.

Furthermore, each holder of the Notes, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of, and investigation into, all risks arising under or in connection with the Notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

### **Currency Indemnity**

To the fullest extent permitted by law, the Issuer's obligations to any holder of Notes under the Indenture or the Notes shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Issuer agrees, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder or the Trustee, such holder or the Trustee, as the case may be, agrees to pay to or for their respective account such excess, provided that such holder shall not have any obligation to pay any such excess as long as a Default by the Issuer in its obligations under the Indenture or the Notes has occurred and is continuing, in which case such excess may be applied by such holder to such obligations.

### **Notices**

Notices to holders of Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register.

### **Governing Law and Consent to Jurisdiction**

The Indenture and the Notes will be governed by and will be construed in accordance with the laws of the State of New York. The Issuer has agreed that any action arising out of or based upon the Indenture may be instituted in any U.S. federal or New York State court located in the Borough of Manhattan, The City of New York, and has irrevocably submitted to the non-exclusive jurisdiction of any such court in any such action. The Issuer has appointed Law Debenture Corporate Services Inc., located at 801 2nd Avenue, Suite 403, New York, NY 10017, as its agent upon which process may be served in any such action.

The Issuer has agreed that, to the extent that the Issuer is or becomes entitled to any sovereign or other immunity, it will waive such immunity in respect of its obligations under the Indenture.

## Certain Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

“Business Day” means a day other than a Saturday, Sunday or a day on which banking institutions or trust companies in the City of New York, London, Hong Kong or Beijing (or in the city where the relevant paying agent is located) are authorized or obligated by law, regulation or executive order to remain closed.

“Capital Stock” of any Person means any and all shares, interests, rights to purchase, warrants, options, participations, or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Shares and limited liability or partnership interests (whether general or limited), but excluding any debt securities convertible or exchangeable into such equity.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if we obtain fewer than three such Reference Treasury Dealer Quotations, the average of all quotations obtained.

“Consolidated Affiliated Entity” of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under IFRS 10: *Consolidated Financial Statements*, IFRS 11: *Joint Arrangements* and IFRS 12: *Disclosure of Interests in Other Entities* issued by the International Accounting Standards Board (including any changes, amendments or supplements thereto) or, if such Person prepares its financial statements in accordance with accounting principles other than IFRS, the equivalent of IFRS 10: *Consolidated Financial Statements*, IFRS 11: *Joint Arrangements* and IFRS 12: *Disclosure of Interests in Other Entities* issued by the International Accounting Standards Board under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Issuer.

“Controlled Entity” of any Person means a Subsidiary or a Consolidated Affiliated Entity of such Person.

“Default” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“Exchange Act” means the Securities Exchange Act of 1934.

“Group” means the Issuer and its Controlled Entities.

“holder” in relation to a Note, means the Person in whose name a Note is registered in the security register for the registration and the registration of transfer or of exchange of the applicable series of securities.

“IFRS” means the International Financial Reporting Standards as issued by the International Accounting Standards Board.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us.

“Lien” means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

“Non-listed Controlled Entities” means the Controlled Entities other than (i) any Controlled Entities with shares of common stock or other common equity interests listed on an internationally recognized stock exchange; and (ii) any Subsidiaries or Consolidated Affiliated Entities of any Controlled Entity referred to in clause (i) of this definition.

“Non-recourse Obligation” means indebtedness or other obligations substantially related to (i) the acquisition of assets (including any person that becomes a Controlled Entity) not previously owned by the Issuer or any of the Issuer’s Controlled Entities or (ii) the financing of a project involving the purchase, development, improvement or expansion of properties of the Issuer or any of the Issuer’s Controlled Entities, as to which the obligee with respect to such indebtedness or obligation has no recourse to the Issuer or any of the Issuer’s Controlled Entities or to the Issuer or any such Controlled Entity’s assets other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof).

“Person” means any individual, corporation, firm, limited liability company, partnership, joint venture, undertaking, association, joint stock company, trust, unincorporated organization, trust, state, government or any agency or political subdivision thereof or any other entity (in each case whether or not being a separate legal entity).

“PRC” means the People’s Republic of China, excluding, for purposes of this definition, the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan.

“PRC Business Day” means a day other than a Saturday, Sunday or a day on which banking institutions in China are authorized or obligated by law, regulation or executive order to remain closed.

“Preferred Shares” as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends upon liquidation, dissolution or winding up.

“Principal Controlled Entities” at any time shall mean one of the Issuer’s Non-Listed Controlled Entities

(i) as to which one or more of the following conditions is/are satisfied:

- (a) its total revenue or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated total revenue attributable to the Issuer is at least 10% of our consolidated total revenue;
- (b) its net profit or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net profit attributable to the Issuer (in each case before taxation and exceptional items) is at least 10% of our consolidated net profit (before taxation and exceptional items); or
- (c) its net assets or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net assets attributable to the Issuer (in each case after deducting minority interests in Subsidiaries) are at least 10% of our consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of such Non-Listed Controlled Entity and the Issuer’s then latest audited consolidated financial statements;

provided that, in relation to paragraphs (a), (b) and (c) above:

- (1) in the case of a corporation or other business entity becoming a Non-Listed Controlled Entity after the end of the financial period to which the Issuer's latest consolidated audited accounts relate, the reference to the Issuer's then latest consolidated audited accounts and the Issuer's Non-Listed Controlled Entities for the purposes of the calculation above shall, until the Issuer's consolidated audited accounts for the financial period in which the relevant corporation or other business entity becomes a Non-Listed Controlled Entity are issued, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Non-Listed Controlled Entities adjusted to consolidate the latest audited accounts (consolidated in the case of a Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities) of such Non-Listed Controlled Entity in such accounts;
  - (2) if at any relevant time in relation to the Issuer or any Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities, no consolidated accounts are prepared and audited, total revenue, net profit or net assets of the Issuer and/or any such Non-Listed Controlled Entity shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;
  - (3) if at any relevant time in relation to any Non-Listed Controlled Entity, no accounts are audited, its net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Non-Listed Controlled Entity prepared for this purpose by or on behalf of the Issuer; and
  - (4) if the accounts of any Non-Listed Controlled Entity (not being a Non-Listed Controlled Entity referred to in proviso (1) above) are not consolidated with our accounts, then the determination of whether or not such Non-Listed Controlled Entity is a Principal Controlled Entity shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the Issuer's consolidated accounts (determined on the basis of the foregoing); or
- (ii) to which is transferred all or substantially all of the assets of a Controlled Entity which immediately prior to the transfer was a Principal Controlled Entity; *provided* that, with effect from such transfer, the Controlled Entity which so transfers its assets and undertakings shall cease to be a Principal Controlled Entity (but without prejudice to paragraph (i) above) and the Controlled Entity to which the assets are so transferred shall become a Principal Controlled Entity.

An officers' certificate of the Issuer delivered to the Trustee certifying in good faith as to whether or not a Non-Listed Controlled Entity is a Principal Controlled Entity shall be conclusive in the absence of manifest error and the Trustee shall be entitled to rely conclusively upon such officers' certificate (without further investigation or enquiry) and shall not be liable to any person for so accepting and relying on such officers' certificate.

"Relevant Indebtedness" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market, except (i) any indebtedness in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities initially offered, marketed or issued primarily to Persons resident in the PRC and dominated in Renminbi, and (ii) any Non-recourse Obligations.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. government securities dealer in the United States, selected by us in good faith.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the fifth Business Day before such redemption date.

“Securities Act” means the Securities act of 1933, as amended.

“Stated Maturity” means, when used with respect to any Note or any installment of interest thereon, the date specified in such Note as the fixed date on which the principal (or any portion thereof) of or premium, if any, on such Note or such installment of interest is due and payable.

“Subsidiary” of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or Persons performing similar functions) or (b) any partnership, joint venture limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), voting at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Issuer.

“Total Equity” as of any date, means the total equity attributable to shareholders of the Issuer on a consolidated basis determined in accordance with IFRS, as shown on the Issuer’s consolidated balance sheet for the most recent fiscal quarter.

“Treasury Yield” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the fifth Business Day before such redemption date) of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Triggering Event” means (A) any change in or amendment to the laws, regulations and rules of the PRC or the official interpretation or official application thereof (“Change in Law”) that results in (x) the Group (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the Issuer’s consolidated financial statements for the most recent fiscal quarter and (y) the Issuer being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in its consolidated financial statements for the most recent fiscal quarter and (B) the Issuer has not furnished to the Trustee, prior to the date that is twelve months after the date of the Change in Law, an opinion from an independent financial advisor or external legal counsel stating either (1) the Issuer is able to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law), taken as a whole, as reflected in its consolidated financial statements for the most recent fiscal quarter (including after giving effect to any corporate restructuring or reorganization plan of the Issuer) or (2) such Change in Law would not materially adversely affect the Issuer’s ability to make principal, premium (if any) and interest payments on the Notes when due.

The definition of Triggering Event includes a phrase relating to operating “substantially all” or deriving “substantially all” of the economic benefits from, the business operations conducted by the Group. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the applicability of the requirement that the Issuer offers to repurchase the Notes as a result of a Triggering Event may be uncertain.

“U.S. Government Obligations” means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.



## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes (or beneficial interests therein).

The Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) in the United States to Qualified Institutional Buyers as defined in Rule 144A under the Securities Act in compliance with Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

- (1) represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a Qualified Institutional Buyer, and is aware that the sale to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder; or (ii) is not a resident of the United States and is purchasing the Notes in an offshore transaction in accordance with Regulation S;
- (2) understand and acknowledge that the Notes are being offered only in a transaction not involving any public offering in the United States, within the meaning of the Securities Act, and the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;
- (3) agree that if it is a purchaser other than a purchaser outside the United States and if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(d) under the Securities Act with respect to such transfer, it will do so only (a) if such purchaser is an initial purchaser, (i) to the Issuer or any subsidiary thereof; (ii) inside the United States to a Qualified Institutional Buyer in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the Securities Act; (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (b) if such purchaser is a subsequent purchaser of an interest in the Restricted Global Note, as set forth in (a) above and, in addition, pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes otherwise than as described in (a)(i), (a)(ii) or (a)(iii) above or (c) below, the Issuer or the transfer agent may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act, and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction. It understands that no representation has been made as to the availability of Rule 144A or any other exemption under the Securities Act or any state securities laws for the offer, sale, resale, pledge or transfer of the Notes;
- (4) agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;
- (5) understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described under “Description of the 2025 Notes — Book-Entry; Delivery and Form” and “Description of the 2030 Notes — Book-Entry; Delivery and Form.” If it is a Qualified Institutional Buyer, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, charged or otherwise transferred to a person who is not a Qualified Institutional Buyer, the transferee will be required to provide the transfer agent with a written certification as to compliance with the transfer restriction referred to above;



- (6) understand that each Note sold within the United States will bear a legend substantially to the following effect unless otherwise agreed by us and the holder thereof in compliance with applicable law:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(D) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IF SUCH PURCHASER IS AN INITIAL PURCHASER, (I) TO THE ISSUER OR ANY SUBSIDIARY THEREOF; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); (B) IF SUCH PURCHASER IS A SUBSEQUENT INVESTOR OF AN INTEREST IN THE RESTRICTED GLOBAL NOTE, AS SET FORTH IN (2)(A) ABOVE AND, IN ADDITION, PURSUANT TO ANY AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY NOTES OTHERWISE THAN AS DESCRIBED IN (2)(A)(I), (2)(A)(II) OR (2)(A)(III) ABOVE OR (2)(C) BELOW, THE ISSUER, THE TRANSFER AGENT AND REGISTRAR MAY, IN CIRCUMSTANCES THAT ANY OF THEM DEEMS APPROPRIATE, REQUIRE EVIDENCE AS TO COMPLIANCE WITH ANY SUCH EXEMPTION); OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO TRANSFER AGENT. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURES CONTAIN A PROVISION REQUIRING THE TRANSFER AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS; and

- (7) acknowledge that the Issuer, the transfer agent, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Issuer, the transfer agent and the initial purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Indentures to effect exchanges of transfer of interests in the global notes and of the Notes in certificated form, see “Description of the 2025 Notes — Book-entry; Delivery and Form” and “Description of the 2030 Notes — Book-entry; Delivery and Form.”

## TAXATION

*The following summary of certain tax considerations of the ownership and disposition of the Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to own or dispose of the Notes and does not purport to deal with considerations applicable to all categories of investors, some of which may be subject to special rules. Persons considering the ownership of the Notes should consult their own tax advisors concerning the tax considerations of the ownership and disposition of the Notes, including any possible considerations under the laws of their country of citizenship, residence or domicile.*

### **Cayman Islands**

The Cayman Islands currently has no income, corporation, or capital gains tax and no estate duty, inheritance tax, or gift tax. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties which are applicable to any payments made by or to our Company.

Payments of interest and principal on our Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of our Notes, nor will gains derived from the disposal of our Notes be subject to Cayman Islands income or corporation tax.

No stamp duty is payable in respect of the issue of our Notes. Our Notes themselves will be stampable if they are executed in or brought into the Cayman Islands.

### **Mainland China**

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under the laws of foreign countries and regions whose “de facto management bodies” are within the territory of mainland China are treated as mainland China tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the relevant mainland China tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of mainland China, the Issuer may be treated as a mainland China tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% on its income from sources both within and outside mainland China. Although it is unclear under PRC tax law whether the Issuer has a “de facto management body” located in mainland China, the Issuer currently intends to take the position that it is not a tax resident enterprise for PRC tax purposes. If it is the case, interest paid on the Notes or gains from the sale of the Notes will not be subject to PRC tax. However, the Issuer cannot assure you that it will not be considered a “resident enterprise” by the PRC tax authorities. If the Issuer is determined to be a PRC resident enterprise, such interest payments and any gains from the sale of the Notes may be subject to PRC tax as discussed below.

### ***Income Taxation on Interest***

The EIT Law and its implementation regulations impose withholding tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on PRC-sourced interest income paid to a “non-resident enterprise” that does not have an establishment or place of business in mainland China or that has an establishment or place of business in mainland China but the relevant income is not effectively connected therewith. Pursuant to these provisions of the EIT Law and other applicable PRC tax laws and regulations, in the event the Issuer is considered to be a mainland China resident enterprise by the mainland China tax authorities in the future, interest paid to non-resident enterprise holders of the Notes may be treated as income derived from sources within mainland China and be subject to a 10% PRC withholding tax, which the Issuer would be obligated to withhold from payments to non-resident enterprise holders of the Notes. Further, in accordance with the Individual Income Tax Law of mainland China which was latest amended on August 31, 2018 and took effect on January 1, 2019 and its implementation regulations which was latest

amended on December 18, 2018 and took effect on January 1, 2019, if the Issuer is considered to be a mainland China tax resident enterprise, interest payable to nonresident individual holders of the Notes may be treated as income derived from sources within China and be subject to a 20% individual income tax, which the Issuer would be obliged to withhold from payments to non-resident individual holders of the Notes.

To the extent that mainland China has entered into arrangements relating to the avoidance of double-taxation of income with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes. However, it is unclear whether in practice non-resident holders of the Notes would be able to obtain the benefits of tax treaties between China and their countries.

### ***Taxation on Capital Gains***

The EIT Law and its implementation regulations impose a tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on income derived from sources within mainland China realized by a “non-resident enterprise” that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant gain is not effectively connected therewith. The Individual Income Tax Law and its implementation regulations impose a tax at the rate of 20% on income derived from sources within mainland China realized by non-resident individuals. If the Issuer is considered to be a mainland China resident enterprise by mainland China tax authorities in the future, and if the capital gains realized by holders of the Notes are treated as income derived from sources within China, such gains will be subject to the mainland China tax described above. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified non-resident holders of the Notes, if both the Issuer and the investors qualify for benefits under the applicable tax treaty. However, it is unclear whether in practice non-resident holders of the Notes would be able to obtain the benefits of tax treaties between China and their countries.

### ***Value-added Tax and Related Surtaxes***

Mainland China’s value-added tax and surtaxes may be withheld from the interest paid by the Issuer at a rate of 6.72% if the mainland China tax authority views such interest as interest income derived from the territory of mainland China. On March 23, 2016, the Ministry of Finance and the SAT issued the SAT Circular 36, which confirms that business tax will be completely replaced by VAT from May 1, 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT. According to the SAT Circular 36, the entities and individuals providing services within China are subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under the SAT Circular 36 that the “loans” refers to the activity of lending capital for another’s use and receiving the interest income thereon. Based on the definition of “loans” under the SAT Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the Company, which would be regarded as financial services subject to VAT.

### ***Stamp Duty***

No mainland China’s stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside mainland China. The Issuer intends to maintain the register of holders of the Notes outside mainland China.

### ***Hong Kong***

No Hong Kong taxes are required to be withheld from or chargeable on payments of principal, premium (if any) or interest in respect of the Notes. No Hong Kong stamp duty is payable on the sale and purchase or other disposal of bonds or notes denominated in a currency other than the Hong Kong dollar provided that the bonds or notes are not redeemable, and may not at the option of any person be redeemed, in Hong Kong dollars. Therefore, a sale and purchase or other disposal of the Notes will not be subject to

Hong Kong stamp duty. Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong, even if the moneys in respect of which the interest is received or accrues are made available outside of Hong Kong; or
- (iv) interest on the Notes is received by or accrues to a corporation (other than a financial institution) and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance), even if the moneys in respect of which the interest is received or accrues are made available outside Hong Kong.

Any capital gains from the sale of the Notes will not be subject to taxes in Hong Kong, except that Hong Kong profits tax may be chargeable in the case of owners of the Notes who carry on a trade, profession or business in Hong Kong and such gains form part of the revenue or profits of such trade, profession or business.

The preceding discussion of certain Hong Kong tax considerations is intended for general information only and does not constitute tax advice. Hong Kong holders are advised to consult their own tax advisors as to the Hong Kong tax considerations of the ownership and disposition of the Notes in their particular circumstances.

### **United States Federal Income Tax Considerations**

The following is a summary of United States federal income tax considerations generally applicable to the ownership and disposition of the Notes by a “U.S. holder” (as defined below) who acquires our Notes upon original issuance at their initial offering price and who holds the Notes as “capital assets” (generally, property held for investment) for United States federal income tax purposes, but it does not purport to be a complete analysis of all potential tax considerations. This summary is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules (e.g., banks or other financial institutions, insurance companies, broker-dealers, partnerships and their partners, tax-exempt organizations (including private foundations)), investors who are not U.S. holders, traders in securities that have elected the mark-to-market method of accounting, investors subject to the alternative minimum tax, real estate investment trusts, regulated investment companies, pension plans, cooperatives, investors who hold Notes as part of a straddle or other integrated security transaction, investors required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement, or investors whose functional currency is not the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not address any state, local, non-United States, or non-income tax (such as United States federal gift and estate tax) considerations or the Medicare surtax on net investment income. You are urged to consult your tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our Notes.

For purposes of this summary, a “U.S. holder” is a beneficial owner of our Notes that is, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation created in, or organized under the laws of, the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has an election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership or other entity treated as a partnership is a beneficial owner of our Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our Notes, you are urged to consult your tax advisors regarding the United States federal income tax considerations of an investment in our Notes.

### ***Payments of Interest***

Interest paid on the Notes will generally be taxable to a U.S. holder as ordinary income at the time it is paid or accrued in accordance with such holder’s method of accounting for United States federal income tax purposes and will include amounts withheld in respect of any foreign taxes and any Additional Amounts paid in respect thereof. Interest income on the Notes will generally constitute non-U.S. source income and will generally be treated as “passive category income” for foreign tax credit limitation purposes.

As described in “Taxation — Mainland China,” if we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, payments of interest in respect of the Notes may be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of interest includible in taxable income would include any amounts withheld in respect of PRC taxes. If withholding of PRC income taxes applies to interest paid to a U.S. holder with respect to the Notes, the U.S. holder may be able to obtain a reduced rate of PRC taxes under the U.S.-PRC Income Tax Treaty if certain requirements are met. In addition, subject to certain conditions and limitations, if any PRC income taxes were to be paid or withheld on interest and were nonrefundable under the U.S.-PRC Income Tax Treaty, a U.S. holder may be entitled to a foreign tax credit in respect of any such PRC income taxes. Alternatively, a U.S. holder may deduct any PRC taxes paid or withheld in computing its taxable income provided that such holder does not elect to claim a foreign tax credit for the relevant taxable year. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits or deductions in light of their particular circumstances.

### ***Sale, Exchange or Other Disposition of the Notes***

Upon the sale, exchange or other taxable disposition of a Note, a U.S. holder will generally recognize capital gain or loss equal to the difference between (1) the amount of cash proceeds and the fair market value of any property received on such sale, exchange or other disposition (other than to the extent, if any, attributable to accrued interest, which will generally be treated as ordinary interest income to the extent not already included in income by such holder) and (2) such holder’s adjusted tax basis in the Note. A U.S. holder’s adjusted tax basis in a Note will generally equal such holder’s cost of the Note.

Such gain or loss will generally be long-term capital gain or loss if such holder’s holding period of the Note is more than one year at the time of such sale, exchange or other disposition. Long-term capital gain of non-corporate taxpayers is generally subject to tax at a lower tax rate than the tax rate applicable to ordinary income. The deductibility of capital losses is subject to limitations.

As described in “Taxation — Mainland China,” if we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, gains from the disposition of the Notes may be subject to PRC income taxes. A U.S. holder may use foreign tax credits to offset only the portion of such holder’s U.S. tax liability considered to be attributable to foreign-source income. Generally, gain or loss from the disposition of the Notes will be U.S.-source for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits. However, if a U.S. holder is eligible for the benefits of the U.S.-PRC Income Tax Treaty, such holder may be able to elect to treat such gain as PRC-source income under the U.S.-PRC Income Tax Treaty. If a U.S. holder is not eligible for the benefits of the U.S.-PRC Income Tax Treaty or does not elect to treat any gain as PRC-source gain, then such holder would generally not be able to use any foreign credit arising from any PRC tax imposed on the disposition of the Notes, unless such credit can be applied against tax due on other income treated as derived from non-U.S. sources in the appropriate category. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. holders should consult their tax advisors regarding their eligibility for benefits under the U.S.-PRC Income Tax Treaty and the availability of foreign tax credits or deductions in light of their particular circumstances.

***The preceding discussion of certain U.S. federal income tax considerations is intended for general information only and does not constitute tax advice. Accordingly, U.S. holders should consult their own tax advisors as to the U.S. federal, state, local and non-U.S. tax considerations to them of the ownership and disposition of the Notes in their particular circumstances.***



## PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement relating to the Notes among the Issuer, Goldman Sachs (Asia) L.L.C., Merrill Lynch (Asia Pacific) Limited, UBS AG Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, BOCI Asia Limited, and CCB International Capital Limited, as representatives for the initial purchasers named below, the Issuer has agreed to sell to the initial purchasers, and each of the initial purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of the Notes set forth opposite its name below.

<b>Initial Purchasers</b>	<b>Principal Amount of the 2025 Notes</b>	<b>Principal Amount of the 2030 Notes</b>
Goldman Sachs (Asia) L.L.C. ....	US\$322,500,000	US\$537,500,000
Merrill Lynch (Asia Pacific) Limited .....	US\$315,000,000	US\$525,000,000
UBS AG Hong Kong Branch .....	US\$22,500,000	US\$37,500,000
The Hongkong and Shanghai Banking Corporation Limited ....	US\$22,500,000	US\$37,500,000
ICBC International Securities Limited .....	US\$22,500,000	US\$37,500,000
BOCI Asia Limited .....	US\$22,500,000	US\$37,500,000
CCB International Capital Limited .....	US\$22,500,000	US\$37,500,000
<b>Total .....</b>	<b>US\$750,000,000</b>	<b>US\$1,250,000,000</b>

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement. The purchase agreement also provides that the obligations of the initial purchasers to purchase the Notes are subject to, among other things, the receipt by the initial purchasers of documentation related to the issuance and sale of the Notes, officers' certificates and legal opinions and to other conditions.

The purchase agreement provides that the Issuer will pay the initial purchasers a customary commission.

The initial purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

The Issuer has agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

### **Notes Are Not Being Registered**

The Notes have not been registered under the Securities Act or any state securities laws. The initial purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales in reliance on the exemption provided by Rule 144A and Regulation S under the Securities Act. The initial purchasers will not offer or sell the Notes within the United States except to persons they reasonably believe to be Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act). Each of the initial purchasers has acknowledged and agreed that, except as permitted by the preceding sentence, it will not offer or sell Notes as part of its distribution at any time within the United States. In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

## **New Issue of the Notes**

The Notes are a new issue of securities with no established trading market. An application will be made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. We cannot assure you that the Notes will be or remain listed. The Issuer has been advised by the initial purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price that you receive when you sell your Notes will be favorable. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Company's operating performance and financial condition, general economic conditions and other factors.

## **Settlement**

The Issuer expects that delivery of the Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fourth business day following the date of this offering memorandum (such settlement being referred to as "T+4"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle on or about T+4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

## **No Sales of Similar Securities**

The Issuer has agreed that it will not, for a period of 30 days after the date of this offering memorandum, without first obtaining the prior written consent of the initial purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Issuer, any affiliate of the Issuer, or any person in privity with the Issuer or any affiliate of the Issuer, directly or indirectly, or announce the offering, of any non-Renminbi denominated debt securities, issued or guaranteed by the Issuer having a tenor of more than one year. The initial purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

## **Short Positions and Stabilizing Transactions**

In connection with the offering, any initial purchaser as the Stabilizing Manager, may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by the Stabilizing Managers of a greater principal amount of the Notes than they are required to purchase in the offering. The Stabilizing Managers must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Notes so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, the Stabilizing Managers' purchases to cover the syndicate short sales and stabilizing purchases may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Issuer or any of the initial purchasers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Issuer or any of the initial purchasers makes any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

### **PRIIPs Regulation/Prohibition of Sales to EEA and UK Retail Investors**

The Notes which are the subject of the offering contemplated by this offering memorandum in relation thereto have not been offered, sold or otherwise made available and will not be offered, sold or otherwise made available to any retail investor in the European Economic Area or the United Kingdom (each a “Relevant State”). For the purposes of this provision: the expression “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in a Relevant State has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in a Relevant State may be unlawful under the PRIIPs Regulation.

### **Notice to Prospective Investors in the United States**

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are being offered and sold outside of the United States in reliance on Regulation S. The purchase agreement provides that the initial purchasers may arrange for the offer and resale of the Notes within the United States only to Qualified Institutional Buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

To the extent the initial purchasers intend to make any offers or sales of the Notes in the United States, or to nationals or residents of the United States, they will do so only through one or more registered broker dealers in compliance with applicable securities laws and regulations, as well as with applicable laws of various states.

### **Notice to Prospective Investors in the European Economic Area and the United Kingdom**

Each initial purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this offering memorandum in relation thereto to any retail investor in the European Economic Area or in the United Kingdom.

For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

## **Notice to Prospective Investors in Hong Kong**

Each of the initial purchasers has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the “SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## **Notice to Prospective Investors in Japan**

The Notes have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, each of the initial purchasers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

## **Notice to Prospective Investors in Mainland China**

Each of the initial purchasers has represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in mainland China, except as permitted by applicable laws of mainland China.

## **Notice to Prospective Investors in Singapore**

Each of the initial purchasers has acknowledged that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the initial purchasers has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase, and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

**Singapore SFA Product Classification:** In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

#### **Notice to Prospective Investors in Australia**

No placement document, prospectus, product disclosure statement or other disclosure document (including as defined in the Corporations Act 2001 (Cth) ("Corporations Act")) has been or will be lodged with the Australian Securities and Investments Commission ("ASIC") or any other governmental agency, in relation to the offering. This offering memorandum does not constitute a prospectus, product disclosure statement or other disclosure document for the purposes of Corporations Act, and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act. No action has been taken which would permit an offering of the Notes in circumstances that would require disclosure under Parts 6D.2 or 7.9 of the Corporations Act.

The Notes may not be offered for sale, nor may application for the sale or purchase or any Notes be invited in Australia (including an offer or invitation which is received by a person in Australia) and neither this offering memorandum nor any other offering material or advertisement relating to the Notes may be distributed or published in Australia unless, in each case:

- (a) the aggregate consideration payable on acceptance of the offer or invitation by each offeree or invitee is at least A\$500,000 (or its equivalent in another currency, in either case, disregarding moneys lent by the person offering the Notes or making the invitation or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or 7.9 of the Corporations Act;
- (b) the offer, invitation or distribution complied with the conditions of the Australian financial services license of the person making the offer, invitation or distribution or an applicable exemption from the requirement to hold such license;

- (c) the offer, invitation or distribution complies with all applicable Australian laws, regulations and directives (including, without limitation, the licensing requirements set out in Chapter 7 of the Corporations Act);
- (d) the offer or invitation does not constitute an offer or invitation to a person in Australia who is a “retail client” as defined for the purposes of Section 761 G of the Corporations Act; and
- (e) such action does not require any document to be lodged with ASIC or the ASX.

#### **Notice to Prospective Investors in Switzerland**

Neither the offering memorandum nor any other document relating to the sale of the Notes constitutes a prospectus within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither the offering memorandum nor any other document relating to the Notes may be publicly distributed or otherwise made publicly available in or from Switzerland. The offering memorandum is not intended as an offer or solicitation with respect to the purchase or sale of the Notes by the public and may be distributed only on a private placement basis, without any public distribution, offering or marketing in, or from, Switzerland; *provided* that any such distribution does not occur as a result of, or in connection with, public solicitation or marketing with respect to the purchase or sale of the Notes.

#### **Notice to Prospective Investors in Taiwan**

The Notes have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes in Taiwan.

#### **Notice to Prospective Investors in Canada**

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation; *provided* that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to Section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.



## Other Relationships

The initial purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking and financial advisory and investment banking services, for the Issuer and its affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. The Issuer and its affiliates may enter into hedging or other derivative transactions as part of their risk management strategy with one or more of the initial purchasers, which may include transactions relating to its obligations under the Notes. The Issuer's obligations under these transactions may be secured by cash or other collateral.

In connection with the offering of the Notes, each initial purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the initial purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Company or its affiliates. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views with respect to such securities or financial instruments and may hold, or recommend to clients that they acquire long and/or short positions in such securities and instruments.

The initial purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchaser or any affiliate of the initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that initial purchaser or its affiliate on behalf of the Issuer in such jurisdiction.

## RATINGS

The Notes are expected to be assigned a rating of “BBB-” by S&P, “BBB” by Fitch and “Baa3” by Moody’s. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agency, if, in each rating agency’s judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating on the Notes, on any other of our securities, or on us. See “Risk Factors — Risks Relating to the Notes — The ratings of the Notes and the corporate rating of the Issuer may be lowered, suspended or withdrawn; changes in such credit rating may adversely affect the value of the Notes.”

## LEGAL MATTERS

Certain legal matters in connection with this offering as to Hong Kong law and United States federal and New York law will be passed upon for the Issuer by Skadden, Arps, Slate, Meagher & Flom LLP and for the initial purchasers as to United States federal and New York law by Davis Polk & Wardwell. Certain legal matters in connection with this offering as to the laws of mainland China will be passed upon for the Issuer by Han Kun Law Offices and for the initial purchasers by JunHe LLP. Certain legal matters in connection with this offering as to Cayman Islands law will be passed upon for the Issuer by Maples and Calder (Hong Kong) LLP. Skadden, Arps, Slate, Meagher & Flom LLP may rely upon Maples and Calder (Hong Kong) LLP with respect to matters governed by Cayman Islands law and Han Kun Law Offices with respect to matters governed by PRC law. Davis Polk & Wardwell may rely upon JunHe LLP with respect to matters governed by PRC law.

## INDEPENDENT AUDITOR

Our consolidated financial statements as of and for the years ended December 31, 2018 and 2019, which are included in this offering memorandum, have been audited by PricewaterhouseCoopers, the Company's independent auditor, as stated in its reports appearing herein. Our interim condensed consolidated financial information as of and for the six months ended June 30, 2019 and 2020, which are included in this offering memorandum, has been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board, as stated in its reports appearing herein.

## GENERAL INFORMATION

### Authorizations

The Issuer has obtained all necessary consents, approvals, and authorizations in connection with the issue and performance of the Notes and the indentures. The issue of the Notes was authorized by resolutions of the Board of directors of the Issuer passed on July 10, 2020.

### Clearing Systems and Settlement

The Legal Entity Identifier (LEI) Code of the Issuer is 21380033K525E5JLIA77. The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream, and DTC. Certain trading information with respect to the Notes is set forth below:

<b>The 2025 Notes sold under</b>	<b>Rule 144A</b>	<b>Regulation S</b>
CUSIP.....	58533E AB9	G59669 AB0
ISIN.....	US58533EAB92	USG59669AB07
Common Code.....	225034656	225026963

<b>The 2030 Notes sold under</b>	<b>Rule 144A</b>	<b>Regulation S</b>
CUSIP.....	58533E AC7	G59669 AC8
ISIN.....	US58533EAC75	USG59669AC89
Common Code.....	225034745	225026874

Only Notes evidenced by a global note have been accepted for clearance through Euroclear, Clearstream, or DTC, as the case may be.

### Listing of Notes

A confirmation of the eligibility of the listing of the Notes has been received from the SEHK. Application will be made to the SEHK for the listing of the Notes by way of debt issues to Professional Investors only. Notes to be listed on the SEHK are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

### Documents Available

For so long as any of the Notes are outstanding, copies of the indentures governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the corporate trust office of the trustee.

For so long as any of the Notes are outstanding, copies of our audited consolidated financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the principal offices of the Issuer.

### No Material Adverse Change

There has been no material adverse change, or any development reasonably likely to involve an adverse change, in the financial or trading position, prospects or results of operations of the Company since June 30, 2020.

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<sup>1</sup> The audited consolidated financial statements and unaudited consolidated interim financial information set forth herein have been reproduced from the Company's annual reports for the years ended December 31, 2018 and 2019 and the Company's interim reports for the six months ended June 30, 2019 and 2020, respectively. The page references are references to pages set forth in such annual report or interim report.

**To the shareholders of Meituan Dianping**  
*(incorporated in the Cayman Islands with limited liability)*

### OPINION

#### What we have audited

The consolidated financial statements of Meituan Dianping (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 123 to 252, which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“**ISAs**”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

#### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“**IESBA Code**”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Impairment assessments of goodwill

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### *Revenue recognition*

Refer to Notes 2.27, 4.5, 4.8 and 6 to the consolidated financial statements

Our procedures in relation to the revenue recognition included:

The Group provides an e-commerce platform that enables merchants to sell their services or products to transacting users through the platform. The Group mainly generates revenue in the way of transaction commission, online marketing fees and others.

We understood and tested management's process and controls in respect of revenue recognition and calculation derived from different services.

We focused on this area as significant efforts were spent on auditing the accuracy of revenue recognition due to the magnitude of revenue amount and the huge volume of revenue transactions recorded in the operating systems and then interfaced with the financial system.

We discussed with management and evaluated their judgements made in determining the method and timing of revenue recognition and calculation.

We tested the general control environment and automated controls of the information technology systems used in the transaction processes. We tested the interface between the operating and financial systems.

We tested, on a sample basis, transactions by checking the cash receipt, reviewing the underlying contracts, identifying the key terms and attributes from the contracts and checking them against the underlying data from the system used in the transaction processes, and then recalculating the revenue amount.

Based on the procedures performed, we found that the Group's revenue recognition was supported by the evidence obtained.

**Key Audit Matter**

*Impairment assessments of goodwill*

Refer to Notes 2.9, 2.10, 4.4 and 16 to the consolidated financial statements

As at December 31, 2018, the net carrying amount of goodwill amounted to RMB27.7 billion.

Under International Accounting Standards ("IAS") 36 Impairment of Assets, the Group is required to perform goodwill impairment assessment both annually and whenever there is an indication that a cash-generating unit ("CGU") to which goodwill has been allocated may be impaired.

The Group engaged an independent external valuer to prepare the goodwill impairment testing. The recoverable amounts of CGUs were determined based on the value-in-use calculations using cash flow projections.

We focused on this area due to (a) the magnitude of the carrying amount of goodwill; and (b) the process of goodwill impairment assessment was complex and involved significant judgements and estimates which included assumptions such as annual revenue growth rate for the 5-year period, gross profit, terminal revenue growth rate and pre-tax discount rate.

**How our audit addressed the Key Audit Matter**

Our procedures in relation to the impairment assessments of goodwill included:

We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information.

We understood and tested management's process and controls in respect of the impairment assessments, including the implementation of impairment standard, the determination of appropriate valuation models and assumptions and the calculation of impairment provisions.

We evaluated the independent valuer's objectivity and competency. We assessed the reasonableness of the basis that management used to identify separate group of CGUs for the allocation of goodwill.

We assessed the appropriateness of the valuation models, with the involvement of our internal valuation experts.

We performed retrospective assessment through comparing historical results to the budgeted results, to assess the reliability of the management's forecast.

We assessed the key assumptions adopted including annual revenue growth rate for the 5-year period and gross profit rate by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period taking into consideration of market trends and our industry knowledge. We assessed terminal revenue growth rate and pre-tax discount rate with the involvement of our internal valuation experts.

## INDEPENDENT AUDITOR'S REPORT

### Key Audit Matter

### How our audit addressed the Key Audit Matter

We independently tested, on a sample basis, the accuracy of mathematical calculation applied in the valuation models and the calculation of impairment charges.

We evaluated the reasonableness of management's forecast performance and assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, would result in the goodwill being impaired.

Based on the procedures performed, we considered that the key assumptions adopted by management in the assessment of goodwill impairment are supported by the evidence obtained.

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## INDEPENDENT AUDITOR'S REPORT

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit committee are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



## INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jack Li.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, March 11, 2019

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended December 31,	
		2018 RMB'000	2017 RMB'000
Revenues	6	65,227,278	33,927,987
Cost of revenues	7	<u>(50,122,320)</u>	<u>(21,708,483)</u>
<b>Gross profit</b>		<b>15,104,958</b>	12,219,504
Selling and marketing expenses	7	<b>(15,871,901)</b>	(10,908,688)
Research and development expenses	7	<b>(7,071,900)</b>	(3,646,634)
General and administrative expenses	7	<b>(5,831,692)</b>	(2,171,408)
Fair value changes on investments measured at fair value through profit or loss	19	<b>1,836,382</b>	472,874
Other gains, net	9	<u>748,356</u>	<u>208,260</u>
<b>Operating loss</b>		<b>(11,085,797)</b>	(3,826,092)
Finance income	10	294,047	60,885
Finance costs	10	<b>(44,732)</b>	(19,214)
Fair value changes of convertible redeemable preferred shares	28	<b>(104,606,058)</b>	(15,138,824)
Share of losses of investments accounted for using equity method	12	<u>(48,267)</u>	<u>(10,418)</u>
<b>Loss before income tax</b>		<b>(115,490,807)</b>	(18,933,663)
Income tax expenses	13	<u>(1,888)</u>	<u>(54,218)</u>
<b>Loss for the year</b>		<b><u>(115,492,695)</u></b>	<b><u>(18,987,881)</u></b>
Loss for the year attributable to:			
Equity holders of the Company		<u>(115,477,171)</u>	(18,916,617)
Non-controlling interests		<u>(15,524)</u>	<u>(71,264)</u>
		<b><u>(115,492,695)</u></b>	<b><u>(18,987,881)</u></b>
<b>Loss per share for loss for the year attributable to the equity holders of the Company</b>			
Basic and diluted loss per share (RMB)	14	<u>(42.40)</u>	<u>(12.37)</u>

The notes on pages 131 to 252 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Year ended December 31,	
		2018	2017
		RMB'000	RMB'000
	Note		
<b>Other comprehensive (loss)/income:</b>			
<i>Items that may not be reclassified to profit or loss</i>			
Currency translation differences	26	(7,617,689)	3,429,486
Preferred shares fair value change due to own credit risk	28	<u>(186,013)</u>	<u>—</u>
<b>Other comprehensive (loss)/income for the year, net of tax</b>		<u>(7,803,702)</u>	<u>3,429,486</u>
<b>Total comprehensive loss for the year</b>		<u>(123,296,397)</u>	<u>(15,558,395)</u>
<b>Total comprehensive loss for the year attributable to:</b>			
Equity holders of the Company		(123,281,091)	(15,487,131)
Non-controlling interests		<u>(15,306)</u>	<u>(71,264)</u>
		<u>(123,296,397)</u>	<u>(15,558,395)</u>

The notes on pages 131 to 252 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of December 31,	
		2018	2017
		RMB'000	RMB'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	3,978,815	915,682
Intangible assets	16	33,876,004	19,852,974
Deferred tax assets	18	445,041	243,263
Investments accounted for using the equity method	12	2,103,403	1,952,175
Financial assets at fair value through profit or loss	19	6,241,972	5,919,594
Prepayments, deposits and other assets	21	866,884	312,340
		<u>47,512,119</u>	<u>29,196,028</u>
<b>Current assets</b>			
Inventories	22	400,244	88,374
Trade receivables	23	466,340	432,494
Financial assets at fair value through profit or loss	19	—	25,099
Prepayments, deposits and other assets	21	9,064,945	4,186,391
Short-term investments	20	41,829,964	25,838,177
Restricted cash	24	4,256,120	4,458,761
Cash and cash equivalents	24	17,043,692	19,408,839
Assets classified as held for sale	31	88,087	—
		<u>73,149,392</u>	<u>54,438,135</u>
<b>Total assets</b>		<u><b>120,661,511</b></u>	<u><b>83,634,163</b></u>
<b>EQUITY</b>			
Share capital	25	384	98
Share premium	25	258,284,687	9,338,529
Other reserves	26	(5,741,347)	466,103
Accumulated losses		<u>(166,039,390)</u>	<u>(50,363,846)</u>
<b>Equity attributable to equity holders of the Company</b>		<b>86,504,334</b>	<b>(40,559,116)</b>
<b>Non-controlling interests</b>		<u><b>5,438</b></u>	<u><b>57,734</b></u>
<b>Total equity</b>		<u><b>86,509,772</b></u>	<u><b>(40,501,382)</b></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of December 31,	
		2018	2017
		RMB'000	RMB'000
	Note		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	18	1,195,869	1,050,119
Deferred revenues	27	624,999	833,500
Convertible redeemable preferred shares	28	—	101,418,292
Other non-current liabilities		35,759	316,264
Borrowings	32	470,056	—
		<u>2,326,683</u>	<u>103,618,175</u>
<b>Current liabilities</b>			
Trade payables	29	5,340,963	2,666,799
Payables to merchants		7,596,388	9,363,873
Advance from transacting users		3,226,407	2,290,160
Other payables and accruals	30	7,361,630	3,920,323
Borrowings	32	1,800,000	162,000
Deferred revenues	27	3,102,882	2,114,215
Deposit from transacting users	2.14	3,341,276	—
Liabilities directly associated with assets classified as held for sale	31	55,510	—
		<u>31,825,056</u>	<u>20,517,370</u>
<b>Total liabilities</b>		<u><b>34,151,739</b></u>	<u><b>124,135,545</b></u>
<b>Total equity and liabilities</b>		<u><b>120,661,511</b></u>	<u><b>83,634,163</b></u>

The notes on pages 131 to 252 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 123 to 252 were approved by the Board on March 11, 2019 and were signed on its behalf:

Wang Xing  
*Director*

Mu Rongjun  
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company						
Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000	
	98	9,338,529	466,103	(50,363,846)	(40,559,116)	57,734	(40,501,382)	
As of January 1, 2018								
Adjustment on adoption of IFRS9, net of tax	2.1.1	—	—	(423,731)	411,371	—	(12,360)	
As of January 1, 2018		98	9,338,529	42,372	(49,952,475)	(40,571,476)	57,734	
<b>Comprehensive loss</b>								
Loss for the year		—	—	(115,477,171)	(115,477,171)	(15,524)	(115,492,695)	
<b>Other comprehensive loss</b>								
<i>Items that may not be classified to profit or loss</i>								
Preferred shares fair value change due to own credit risk		—	—	(186,013)	(186,013)	—	(186,013)	
Currency translation differences		—	—	(7,617,907)	(7,617,907)	218	(7,617,689)	
<b>Total comprehensive loss</b>		—	—	(7,803,920)	(115,477,171)	(15,306)	(123,296,397)	
<b>Transaction with owners in their capacity as owners</b>								
Issue of shares		283	248,944,408	609,744	(609,744)	—	248,944,691	
Business combinations	36	—	—	231,736	—	—	231,736	
Repurchase of ordinary shares	25	(2)	(811,142)	—	(811,144)	—	(811,144)	
Share-based compensation expenses	33	—	—	1,816,453	1,816,453	—	1,816,453	
Exercise of option and RSU vesting		5	842,199	(685,701)	156,503	—	156,503	
Cancellation of ordinary shares		—	(29,307)	—	(29,307)	—	(29,307)	
Dividends		—	—	—	—	(4,000)	(4,000)	
Transaction with non-controlling interests		—	—	47,969	47,969	(32,990)	14,979	
<b>Total transaction with owners in their capacity as owners</b>		286	248,946,158	2,020,201	(609,744)	(36,990)	250,319,911	
<b>As of December 31, 2018</b>		<b>384</b>	<b>258,284,687</b>	<b>(5,741,347)</b>	<b>(166,039,390)</b>	<b>86,504,334</b>	<b>5,438</b>	



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Note	Share	Share	Other	Accumulated	Sub-total	Non-	Total
		capital	premium	reserves	losses	RMB'000	RMB'000	controlling
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	interests	RMB'000
As of January 1, 2017		93	8,567,622	(2,742,872)	(31,447,229)	(25,622,386)	47,035	(25,575,351)
<b>Comprehensive loss</b>								
Loss for the year		—	—	—	(18,916,617)	(18,916,617)	(71,264)	(18,987,881)
<b>Other comprehensive loss</b>								
<i>Items that may not be classified to profit or loss</i>								
Currency translation differences		—	—	3,429,486	—	3,429,486	—	3,429,486
<b>Total comprehensive loss</b>		—	—	3,429,486	(18,916,617)	(15,487,131)	(71,264)	(15,558,395)
<b>Transaction with owners in their capacity as owners</b>								
Business combinations		—	—	—	—	—	12,948	12,948
Repurchase of ordinary shares	25	(1)	(526,738)	—	—	(526,739)	—	(526,739)
Share-based compensation expenses	33	—	—	746,465	—	746,465	—	746,465
Exercise of option and RSU vesting		6	1,297,645	(1,070,615)	—	227,036	—	227,036
Share of equity movement in an associate		—	—	82,829	—	82,829	—	82,829
Disposal of a subsidiary		—	—	—	—	—	1,363	1,363
Transaction with non-controlling interests		—	—	20,810	—	20,810	67,652	88,462
<b>Total transaction with owners in their capacity as owners</b>		5	770,907	(220,511)	—	550,401	81,963	632,364
As of December 31, 2017		98	9,338,529	466,103	(50,363,846)	(40,559,116)	57,734	(40,501,382)

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31,	
		2018 RMB'000	2017 RMB'000
<b>Cash flows from operating activities</b>			
Cash used in operations	37	(8,981,189)	(291,640)
Income tax paid		(198,629)	(18,560)
Net cash flows used in operating activities		<u>(9,179,818)</u>	<u>(310,200)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,210,249)	(737,680)
Proceeds from disposals of property, plant and equipment		24,698	3,731
Purchase of intangible assets		(69,712)	(8,251)
Proceeds from disposals of intangible assets		3,897	173
Payments for business combinations, net of cash acquired		(7,260,087)	(320,801)
Purchase of short-term investments		(91,205,155)	(65,566,920)
Proceeds from disposals of short-term investments		75,235,650	51,407,015
Acquisition of investments accounted for using the equity method		(163,675)	(785,568)
Proceeds from disposal of investments accounted for using the equity method		887,906	887,885
Acquisition of investments measured at fair value		(1,599,549)	(379,577)
Proceeds from disposal of investments measured at fair value		2,566,010	13,185
Cash inflow/(outflow) arising from disposal of subsidiaries, net of cash disposed	11	231	(26,362)
Interest income received		533,068	346,375
Dividends received		65,954	11,989
Increase in prepayments for investments		(247,673)	(2,284)
Net cash flows used in investing activities		<u>(23,438,686)</u>	<u>(15,157,090)</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31,	
		2018 RMB'000	2017 RMB'000
<b>Cash flows from financing activities</b>			
Proceeds from borrowings, excluding asset-backed securities ("ABS")		2,305,000	312,000
Repayments of borrowings, excluding ABS		(1,057,000)	(151,000)
Proceeds from ABS, net		470,000	—
Finance costs paid		(62,043)	(9,783)
Proceeds from issuance of ordinary shares, net		28,516,174	—
Proceeds from issuance of convertible redeemable preferred shares		—	25,802,523
Exercise of option and RSU vesting		158,054	170,251
Repurchase of ordinary shares		(854,630)	(651,300)
Proceeds from disposals of non-controlling interests		—	60,000
Payment for acquisitions of non-controlling interests		(176,261)	(24,910)
Dividends paid		(4,000)	—
Net cash flows generated from financing activities		<u>29,295,294</u>	<u>25,507,781</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,323,210)</b>	<b>10,040,491</b>
Cash and cash equivalents at the beginning of the year		19,408,839	9,376,575
Exchange gain/(loss) on cash and cash equivalents		1,009,587	(8,227)
Cash and cash equivalents included in the assets classified as held for sale		<u>(51,524)</u>	<u>—</u>
<b>Cash and cash equivalents at the end of the year</b>	24	<u><u>17,043,692</u></u>	<u><u>19,408,839</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

### 1.1 General information

Meituan Dianping (formerly known as China Internet Plus Holdings Ltd. and then Internet Plus Holdings Ltd.) (“the Company”) was incorporated in the Cayman Islands on September 25, 2015 as an exempted company with limited liability. The registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”), provides platform which uses technology to connect consumers and merchants and offers diversified daily services, including food delivery, in-store dining, hotel and travel booking and other services.

The Company’s shares have been listed on the Main Board of the Stock Exchange since September 20, 2018 (the “Listing”).

The Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The principal accounting policies applied in the preparation of the consolidated financial statements which are in accordance with the International Financial Reporting Standards (“IFRS”), issued by International Accounting Standards Board (“IASB”) are set out below. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 Changes in accounting policies

##### (a) New and amended standards adopted by the Group

The Group has applied IFRS 9 Financial Instruments for the first time commencing January 1, 2018.

IFRS 9 replaces the provisions of IAS 39 Financial Instruments (“IAS39”) that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; and impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments — Disclosures. The accounting policies were changed to comply with IFRS 9.

In accordance with the transitional provision in IFRS 9, comparative figures have not been restated. Any adjustments to carrying amounts of financial assets or liabilities are recognized at the beginning of the current reporting period, with the difference recognized in opening retained earnings and other reserves.

##### (i) Classification and measurement of financial instruments

The total impact on the Group’s accumulated losses due to classification and measurement of financial instruments as of January 1, 2018 is as follows:

	Note	RMB'000
<b>Opening accumulated losses — IAS 39</b>		50,363,846
Increase in provision for loan receivables, net of tax	(ii)	12,360
Increase in provision for trade receivables, net of tax	(ii)	—
Increase in provision for prepayments, deposits and other assets (excluding tax prepayments and loan receivables), net of tax	(ii)	—
Reclassify preferred shares fair value change due to own credit risk from accumulated losses to other comprehensive income		(423,731)
<b>Opening accumulated losses — IFRS 9</b>		<u>49,952,475</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### 2.1.1 Changes in accounting policies *(Continued)*

###### *(a) New and amended standards adopted by the Group (Continued)*

###### *(i) Classification and measurement of financial instruments (Continued)*

Management has assessed the business models and the contractual terms of the cash flows applying to the financial assets held by the Group at the date of initial application of IFRS 9 (January 1, 2018) and has classified its financial instruments into the appropriate IFRS 9 categories. There is no changes to the classification of the Group's financial assets measured at fair value through profit or loss ("FVPL") or amortized cost under IFRS 9.

###### *(ii) Impairment of financial assets*

The Group has three types of financial assets at amortized cost subject to IFRS 9's new expected credit loss model:

- loan receivables
- trade receivables
- prepayments, deposits and other assets (excluding tax prepayments and loan receivables)

The Group revised its impairment methodology under IFRS 9 for each of these classes of assets. Although cash and cash equivalents, restricted cash and short-term investments measured at amortized costs are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### 2.1.1 Changes in accounting policies *(Continued)*

###### (a) *New and amended standards adopted by the Group (Continued)*

###### (ii) *Impairment of financial assets (Continued)*

###### (a) Loan receivables

For loan receivables outstanding at January 1, 2018, adjustments of RMB12.4 million of provisions for loan receivables were recognized in the opening accumulated losses. Impairment methodology applied has been described in Note 3.1(b).

###### (b) Trade receivables

For trade receivables, the Group applies the simplified approach to measure expected credit losses ('ECL') prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. The impact is not material applying the ECL model for those trade receivables as of January 1, 2018.

###### (c) Prepayments, deposits and other assets (excluding tax prepayments and loan receivables)

For prepayments, deposits and other assets (excluding tax prepayments and loan receivables) already in place at January 1, 2018, the Group applies a three stage approach to measure ECL prescribed by IFRS 9. The impact is not material applying the ECL model for those other receivables as of January 1, 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### 2.1.1 Changes in accounting policies *(Continued)*

###### *(b) New standards and amendments not yet adopted by the management of the Group*

A number of new standards and amendments to existing standards have been issued but are not yet effective for the financial year beginning January 1, 2018, and have not been early adopted by the Group's management. These new standards and amendments are set out below:

	Effective for financial year beginning on or after
IAS19 - Employee benefits on plan amendment, curtailment or settlement	January 1, 2019
IFRS 16 - Leases	January 1, 2019
IFRIC 23 - Uncertainty over income tax treatments	January 1, 2019
Amendments to IAS 28 - 'Investments in associates', on long term interests in associates and joint ventures	
IFRS 17 - Insurance contracts Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019
Amendment to IFRS 9 - Financial instruments on prepayment features with negative compensation	January 1, 2019
Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Except as disclosed below, the Group is in the process of assessing potential impact of the above other new standards and amendments to standards that is relevant to the Group upon initial application. According to the preliminary assessment made by the Directors, management does not anticipate any significant impact on the Group's financial positions and results of operations upon adopting the above new standards amendments to existing standards. The management of the Group plans to adopt these new standards and amendments to existing standards when they become effective.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### 2.1.1 Changes in accounting policies *(Continued)*

###### *(b) New standards and amendments not yet adopted by the management of the Group (Continued)*

###### *(i) IFRS 16*

IFRS 16, “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The Group is a lessee of various properties which are currently classified as operating leases. The Group’s current accounting policy for such leases is set out in Note 2.30. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group’s consolidated statements of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation.

The Group has set up a project team which has reviewed all leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group’s operating leases.

As of December 31, 2018, the Group has non-cancellable operating lease commitments of RMB2.1 billion, see note 35.

The Group expects to recognize right-of-use assets of approximately RMB2.0 billion on January 1, 2019, lease liabilities of RMB1.8 billion (after adjustments for prepayments and accrued lease payments recognized as of December 31, 2018).

Operating cash flows will increase and financing cash flows will decrease by approximately RMB611.7 million as repayment of the lease liabilities will be classified as cash flows from financing activities.

The Group’s activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required in 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement (including structured entities) with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

#### *2.2.1 Subsidiaries controlled through Contractual Arrangements*

In order to comply with the People's Republic of China (the "PRC") laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its website and other restricted businesses in the PRC through certain PRC operating entities, whose equity interests are held by certain management members of the Group ("**Nominee Shareholders**"). Historically, the Group obtained control over these PRC operating entities via a series of the Contractual Arrangements signed ("**Old Contractual Arrangements**") between certain indirectly held subsidiaries of the Company in the PRC, PRC operating entities operating restricted business and their respective Nominee Shareholders (collectively, "**VIE parties**"). In preparation for listing in Hong Kong, on August 21, 2018, the VIE parties entered into a series of Contractual Arrangements (the "**Revised Contractual Arrangements**") which replaced the Old Contractual Arrangements. The Revised Contractual Arrangements, includes exclusive business cooperation agreements, exclusive option agreements, equity pledge agreements, loan agreements and powers of attorney, which enables those indirectly held subsidiaries of the Company in the PRC, and the Group to:

- govern the financial and operating policies of the PRC operating entities,
- exercise equity holder's voting rights of the PRC operating entities,
- receive substantially all of the economic interest returns generated by the PRC entities in consideration of the exclusive business cooperation agreements,

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### 2.2.1 Subsidiaries controlled through Contractual Arrangements *(Continued)*

- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in the PRC operating entities at any time and from time to time, for considerations equivalents to the respectively outstanding loans to each Nominee Shareholders, and
- obtain a pledge over all of its equity interests from its respective Nominee Shareholders as collaterals for all of the PRC entities' payments due to the Group to secure performance of entities' obligation under the Old Contractual Arrangements and the Revised Contractual Arrangements.

As a result of the Old Contractual Arrangements and Revised Contractual Arrangements, the Group has rights to exercise power over these PRC operating entities, receive variable returns from its involvement with these entities, has the ability to affect those returns through its power over the entities and is considered to control the entities. Consequently, the Company regarded these PRC operating entities and their subsidiaries as controlled structured entities and the financial position and results of operations of these entities have been consolidated by the Company.

Nevertheless, there are still uncertainties regarding the interpretation and application of current and future PRC laws and regulations. The Directors of the Group, based on the advice of its legal counsel, consider that the use of both the Old Contractual Arrangements and New Contractual Arrangements does not constitute a breach of the relevant laws and regulations.

#### 2.2.2 Business combinations

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### 2.2.2 Business combinations *(Continued)*

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

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss. Amounts classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

#### 2.2.3 Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

#### 2.2.4 Disposal of subsidiaries

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. The Group's investments in associates in the form of redeemable instruments are financial assets designated at fair value through profit or loss. All investments in associates in the form of ordinary shares with significant influence are accounted for using the equity method of accounting, after initially being recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an investment accounted for using the equity method equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount in "Other gains, net" in the consolidated income statement.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

#### 2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.4 Joint arrangements *(Continued)*

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### 2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### 2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive Directors.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.7 Foreign currency translation

##### *2.7.1 Functional and presentation currency*

Items included in the Historical Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is USD as its key activities and transactions are denominated in USD. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. The Group's presentation currency is RMB.

##### *2.7.2 Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in consolidated income statement on a net basis within "Other gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in consolidated income statement as part of the "Fair value changes on investments measured at fair value through profit or loss".

##### *2.7.3 Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Foreign currency translation *(Continued)*

#### 2.7.3 Group companies *(Continued)*

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified into income statement, as part of "Other gains, net".

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### 2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

- |  |  |
|--|--|
| • computer equipment (including servers) | 3 years  |
| • furniture and appliances               | 5 years  |
| • leasehold improvements                 | lesser of the term of the lease or<br>the estimated useful lives of the assets |
| • bike and vehicle                       | 2-4 years  |

Property, plant and equipment arising from business acquisition is depreciated over the remaining useful life.

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognized in "Other gains, net" in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.9 Intangible assets

#### 2.9.1 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the aggregate purchase consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

#### 2.9.2 Other intangible assets

Other intangible assets mainly include trade name, user generated content, software purchased from third parties, online payment license, technology and licenses, user list and supplier relationship. They are initially recognized and measured at cost or fair value if they are acquired in business combinations. Other intangible assets are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

• trade name	2 - 25 years
• user generated content	5 years
• software and others	3 - 10 years
• online payment license	15 years
• technology and licenses	2 - 5 years
• user list	5 years
• supplier relationship	2 - 8 years

When determining the length of useful life of an intangible asset, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.9 Intangible assets *(Continued)*

##### 2.9.3 Research and development

Research expenditures are recognized as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2018 and 2017.

#### 2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### 2.11 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments, and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.12 Financial assets

##### 2.12.1 Accounting policies applied from January 1, 2018

###### (i) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI"). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

###### (ii) Recognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset.

###### (iii) Derecognition

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.12 Financial assets *(Continued)*

##### 2.12.1 Accounting policies applied from January 1, 2018 *(Continued)*

###### *(iii) Derecognition (Continued)*

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss or retained earnings:

- the carrying amount of the financial asset transferred, and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liabilities is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial asset are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration paid for the derecognized portion shall be recorded in profit or loss.

###### *(iv) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.12 Financial assets (Continued)

##### 2.12.1 Accounting policies applied from January 1, 2018 (Continued)

###### (iv) Measurement (Continued)

###### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within "Other gains, net" in the period in which it arises.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.12 Financial assets *(Continued)*

##### 2.12.1 Accounting policies applied from January 1, 2018 *(Continued)*

###### *(iv) Measurement (Continued)*

###### *Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the group's right to receive payments is established.

Changes in the fair value of financial assets measured at FVPL are recognized in other gains in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

###### *(v) Impairment*

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group has three types of financial assets that are subject to IFRS 9's new ECL model (Note 3.1 (b)):

- loan receivables
- trade receivables
- prepayments, deposits and other assets (excluding tax prepayment and loan receivables)

While cash and cash equivalents, restricted cash and short-term investments measured at amortized costs are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.12 Financial assets *(Continued)*

##### 2.12.2 Accounting policies applied before January 1, 2018

###### *(i) Classification*

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss
- loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

###### *(a) Financial assets at fair value through profit or loss*

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e., are held for trading. The Group has investments in certain ordinary shares with preferential rights or convertible redeemable preferred shares issued by investee companies, which are hybrid instruments with embedded derivatives not closely related to the host contract. The Group designated the whole instruments as financial assets at fair value through profit or loss instead of bifurcating the embedded derivatives from the host contract.

The Group also has interests in certain investees in the form of ordinary shares without significant influence. The Group managed and evaluated their performance on a fair value basis. The Group designated these instruments as financial assets at fair value through profit or loss.

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. Assets in this category are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

###### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If the loans and receivables are expected to be collected within 1 year, they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade receivables, prepayments, deposits and other assets, cash and cash equivalents, restricted cash and short-term investments measured at amortized cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.12 Financial assets *(Continued)*

##### 2.12.2 Accounting policies applied before January 1, 2018 *(Continued)*

###### *(ii) Recognition and derecognition*

Regular purchases and sales of financial assets are recognized on trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

###### *(iii) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized in the consolidated income statement within "Fair value changes on investments measured at fair value through profit or loss".

Dividends on financial assets at fair value through profit or loss are recognized in "Other gains, net" in the consolidated income statement, when the Group's right to receive payments is established.

###### *(iv) Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.12 Financial assets *(Continued)*

##### 2.12.2 Accounting policies applied before January 1, 2018 *(Continued)*

###### *(iv) Impairment (Continued)*

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

#### 2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

#### 2.14 Deposit from transacting users

Deposit from transacting users are the deposits received from transacting users of bike-sharing services, which are redeemable at any time upon the requests from transacting users.

#### 2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.16 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business.

Trade and other receivables are generally due for settlement within 1 year and therefore are all classified as current.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.17 Cash and cash equivalents and restricted cash

Cash and cash equivalents includes cash in hand, deposits held at call with banks within three months, certain amounts of cash held in accounts managed by other financial institutions in connection with the provision of services and sale of goods.

Cash that restricted from withdrawal, use or pledged as security is reported separately on the face of the consolidated statement of financial position, and is not included in the total cash and cash equivalents in the consolidated statement of cash flows.

#### 2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds. Convertible redeemable preferred shares are classified as liabilities (Note 28).

#### 2.19 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

#### 2.20 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### 2.21 Convertible redeemable preferred shares ("Preferred Shares")

Holders of Series A, B, and C Preferred Shares issued by the Company are redeemable upon occurrence of certain future events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering of the Company, or when agreed by majority of the holders as detailed in Note 28.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.21 Convertible redeemable preferred shares (“Preferred Shares”) *(Continued)*

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. Before January 1, 2018, all fair value changes is recognized profit or loss under IAS 39. From January 1, 2018, the component of fair value changes relating to the company’s own credit risk is recognized in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognized in profit or loss.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand the Company to redeem the Preferred Shares within 12 months after the end of the reporting period.

All of Preferred Shares were converted to Class B ordinary shares upon completion of the Listing on September 20, 2018. The fair value of each of Preferred Shares is equal to the fair value of each of ordinary shares on the conversion date, which is the offer price in the Listing.

#### 2.22 Redemption liability

Redemption liability arises from put options granted by the Group, where the counterparties have the right to request the Group to purchase the equity instrument held by the counterparty for cash or other financial assets when certain conditions are met. As the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put options, the Group recognized a financial liability at the present value of the estimated future cash outflows of the redemption obligation. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect the present value of revised estimated future cash outflows at the financial instrument’s original effective interest rate, and the adjustments will be recognized as “Other gains, net” in the consolidated income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified to equity. The redemption liabilities are classified as current liabilities unless the put options can only be exercised 12 months after the end of the reporting period.

#### 2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.23 Current and deferred income tax *(Continued)*

##### 2.23.1 *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### 2.23.2 *Deferred income tax*

###### *(a) Inside basis differences*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

###### *(b) Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the subsidiaries and associates' undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.23 Current and deferred income tax *(Continued)*

##### 2.23.2 *Deferred income tax (Continued)*

###### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 2.24 Employee benefits

##### 2.24.1 *Employee leave entitlement*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

##### 2.24.2 *Pension obligations and other social welfare benefits*

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

##### 2.24.3 *Bonus plan*

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonuses as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonuses are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.25 Share-based payments

The Group has operated share incentive plans including share option schemes and share award schemes. The Internet Plus Holdings Ltd. 2015 Share Incentive Plan (or the “2015 Share Incentive Plan”) was administered until the initial public offering, after which it was replaced by the Meituan Dianping Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. Share-based compensation benefits are provided to employees via the 2015 Share Incentive Plan, the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme. The Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and RSUs) of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense in the consolidated income statement.

##### 2.25.1 Share options

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing models:

- including any market performance conditions
- excluding the impact of any service and non-market performance vesting conditions, and
- including the impact of any non-vesting conditions

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

##### 2.25.2 RSUs

For grant of RSUs, the total amount to be expensed is determined by reference to the fair value of the Company’s shares at the grant date.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.25 Share-based payments *(Continued)*

##### 2.25.3 Modifications and Cancellations

The Group may modify the terms and conditions on which share incentive awards were granted. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognized for the services received over the remainder of the vesting period.

A grant of share incentive awards, that is cancelled or settled during the vesting period, is treated as an acceleration of vesting. The Group immediately recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

#### 2.26 Provisions

Provisions for service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

#### 2.27 Revenue recognition

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.27 Revenue recognition *(Continued)*

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities were mainly resulted from the business cooperation agreement with Tianjin Maoyan Culture Media Co., Ltd. (the "Maoyan"), and online marketing services, which is recorded as deferred revenue.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.27 Revenue recognition *(Continued)*

##### 2.27.1 *The accounting policy for the Group's principal revenue sources*

###### *(a) Commissions*

The Group provides an e-commerce platform that enables merchants to sell their services or products to transacting users through the platform. The Group generates revenue from commission fees, generally charged as a percentage of the value of transactions placed by transacting users on the Group's platform. They are detailed as follows.

###### *On-demand delivery services (including food and non-food delivery)*

The on-demand delivery services offer food and non-food ordering and delivery service through the Group's platform. Merchants pay commissions based on a percentage of the value of transactions placed by transacting users through the Group's platform. Transacting users pay the price for food or other goods, and also the delivery service fee. Merchants can choose to either provide delivery service on their own or engage the Group to provide delivery service.

In instances where the Group is not responsible for delivery, it identifies only the merchant as the customer for platform service. The Group only earns commission revenue from merchants for the provision of the platform service and recognizes platform commission revenue when the orders are placed online and payments are received from transacting users.

When the Group is responsible for delivery, merchants pay an aggregated fee both for platform and delivery services. Transacting users also pay a delivery fee. In this instance, the Group identifies both merchants and transacting users as its customers for the platform service and delivery service. The Group performs two obligations: (a) platform service to display the food or other goods information to transacting users; and (b) delivery service. As the two performance obligations are satisfied at the same time, the Group determined it is not necessary to allocate the transaction price to each performance obligation, and therefore, the Group recognizes both aggregated commission from the merchant and delivery fee charged to transacting users as revenues once a transaction is completed.

Upon the completion of a transaction, the amounts to be remitted to third-party merchants are recorded as payable to merchants, after netting the amount attributable to revenue from the cash payments received from transacting users.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.27 Revenue recognition *(Continued)*

##### 2.27.1 *The accounting policy for the Group's principal revenue sources (Continued)*

###### *(a) Commissions (Continued)*

###### *In-store, hotel & travel services*

The Group's in-store, hotel & travel services provides merchants platform to sell vouchers and make reservations for services or hotel accommodations. Transacting users purchase the vouchers or make reservations via the Group's platform, and redeem the vouchers or reservations for underlying goods or services at the merchants' sites. The Group identifies merchants as the customer for such services.

The Group recognizes commission revenues when the vouchers and reservations are redeemed by transacting users to enjoy the goods or services. For hotel reservations, commission revenues are recognized upon room check-in. Commission revenues from sale of packaged tours are recognized on the departure date of the tour.

Under all circumstances, cash payments received from transacting users are initially recorded as advances from transacting users, as unredeemed vouchers can be returned by users at any time. When revenues are recognized at the point in time as determined above, the amounts to be remitted to third-party merchants are recorded as payables to merchants.

###### *(b) Online marketing services*

The Group generates online marketing revenue through all the aforementioned services primarily by delivering marketing services on its platform.

The Group identifies merchants or marketers as the customers for online marketing services. Some of the customers pay the Group for performance-based marketing, which means that a marketer pays the Group only when a user clicks on marketer's link on the Group's websites or/and mobile applications, or when the advertisement is viewed by a pre-determined number of users. For these customers, the Group recognizes revenue each time a user clicks on the marketer's link or when the customers' information is viewed by pre-determined amount of users.

The Group also offers display-based marketing services in the form of key words search, banners, and textual or graphical marketer's link. Customers pay the Group based on the period their advertisements are displayed on the Group's websites and/or mobile applications. For these customers, revenue is recognized on a pro-rata basis over the contractual service period, starting on the date when the advertisement is first displayed on the Group's websites and/or mobile applications.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.27 Revenue recognition *(Continued)*

##### 2.27.1 The accounting policy for the Group's principal revenue sources *(Continued)*

###### *(b) Online marketing services (Continued)*

For a number of merchants, the Group provides marketing services under an annual plan, and charges an annual fee for the plan. The Group recognizes revenue as the marketing services are provided over the plan period.

For arrangements where consideration is paid in advance of the marketing service period, the Group records a contract liability (deferred revenue) when the payment is received.

###### *(c) Other services and sales*

Other services and sales comprise primarily revenue generated from Restaurant Management System ("RMS"), supply chain solutions to merchants, integrated payment systems, micro loan business, local transportation services and other products or services. The Group recognizes revenues when the respective services are rendered, or when the control of the products are transferred to the customers.

Through the Group's platform, the Group assists with offering loans to merchants or individuals who utilize its online platform. In certain cases, the Group facilitates loans funded by certain financing partners to these merchants or individuals. In such instances, the Group does not record financing receivables arising from these loans nor loans payable to the financing partners. For these transactions, the Group earns loan facilitation fees from the customers. In other cases, the Group directly funds loans to its customers without involving a third-party financing partner, and accordingly records these as on-balance sheet loans. The Group generates interest income from these on-balance sheet loans.

The Group's local transportation services mainly provide car-hailing and bike-sharing services to its transacting users. Currently, for car-hailing service related to private cars and bike-sharing services, the Group recognizes revenues for the fees collected from transacting users. As to the transportation services relating to the taxi services, the Group acts as an agent by connecting transacting users with taxi drivers, and does not earn any fee from either party, and therefore recognize no revenue. Please refer to the below section for further details on the principal versus agent consideration in these transactions.

The Group also generate other revenue from a long-term business cooperation agreement with Maoyan, which provides that Maoyan shall be our exclusive business partner for the movie ticketing business. Through this cooperation agreement, we provide Maoyan with user traffic and other sources over the cooperation period. Please refer to Note 27 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.27 Revenue recognition *(Continued)*

##### 2.27.2 *Principal versus agent considerations*

In accordance with the principal versus agent considerations prescribed by IFRS 15, the Group determines whether it acts as the principal or agent in each of its revenue streams. The principal is the entity that has promised to provide goods or services to its customers. An agent arranges for goods or services to be provided by the principal to its end customer. An agent normally receives a commission or fee for these activities.

As noted above, the Group earns commissions by providing an online platform that enables third-party merchants to sell their services or products to transacting users. The Group generally does not promise to provide the underlying goods or services to the transacting users; instead, the Group performs its role as an agent to connect third-party merchants with transacting users.

For the food delivery services and in-store, hotel and travel services, the Group enters into arrangements with certain business partners (“**Business Partners**”) for certain regions within the PRC. In these arrangements, the Business Partners are held responsible for operating the Group’s online platform and provide delivery service, as applicable within these designated regions. The Business Partners are also responsible for the business development and customer relationship with merchants in these regions. Having considered the relevant facts and circumstances, related revenue is presented net the amount retained by the Business Partners.

For car-hailing services related to private cars and bike-sharing services, the Group is primarily responsible for fulfilling the services and has discretion in establishing prices. Accordingly, the Group acts as a principal, and the related service revenue is presented on a gross basis.

##### 2.27.3 *Incentives*

The Group provides various types of incentives to transacting users and delivery riders, including coupons and direct payment discounts. The major accounting policy for incentives is described as follows:

###### *(a) On-demand delivery services (including food and non-food delivery)*

Since the Group identifies transacting users as one of its customers for on-demand delivery services when the Group is responsible for the delivery service, the incentives offered to transacting users are considered as payment to customers and recorded as reduction of revenue on a transaction by transaction basis, to the extent of the delivery fees collected from the transacting users. The amount in excess of the revenue earned from the transacting users is recorded as selling and marketing expenses.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.27 Revenue recognition *(Continued)*

##### 2.27.3 Incentives *(Continued)*

###### *(a) On-demand delivery services (including food and non-food delivery) (Continued)*

When incentives are provided to transacting users where the Group is not responsible for delivery, the transacting users are not considered as customers of the Group, and such incentives are recorded as selling and marketing expenses.

The Group offers a crowdsourcing delivery system, which connects merchants with crowdsourced delivery riders. The Group currently does not charge merchants a separate fee for the use of the system. The system is also used by the Group to crowdsource delivery riders to fulfil delivery services for which the Group is responsible. The Group provides incentives to these delivery riders. In situations where the Group is not responsible for the delivery service, the incentive is recognized as a reduction of revenue because the merchant is the Group's customer and the delivery rider is the merchant's vendor, and accordingly the incentive represents a payment on behalf of a customer. In situations where the Group is responsible for the delivery service, the incentive is recognized as cost of revenue as it is part of the Group's fulfilment costs for completion of the delivery performance obligation.

###### *(b) In-store, hotel & travel services*

For this revenue stream, transacting users are not the Group's customer, and therefore the incentives offered to Transacting Users are not considered as payment to customer but as selling and marketing expenses instead.

###### *(c) New initiatives and others*

In connection with local transportation services, the Group provides incentives to both drivers and transacting users of the car-hailing service related to private cars and bike-sharing services. For this type of service, as transacting users are considered as the Group's customer, incentives to them are considered as a payment to customer and therefore recorded as a reduction of revenue. Drivers are the Group's vendor, and accordingly, incentives paid to drivers are recorded as cost of revenue.

For all the business lines, the Group may facilitate cash refunds or incentives to its transacting users for unsatisfactory goods or services rendered by the merchants, but merchants are contractually responsible and liable for the quality of the goods or services. The Group also holds the contractual right to claim reimbursements from merchants. For those which are not refunded by merchants, the refunds or incentives from the Group to transacting users are recorded as a reduction of revenue unless there are objective evidence that they are not paid on behalf of merchants.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.27 Revenue recognition *(Continued)*

##### 2.27.3 *Incentives (Continued)*

###### *(c) New initiatives and others (Continued)*

The accounting treatment for incentives to transacting users occurs when the incentives are applied to purchases.

The total incentives recorded as selling and marketing expenses have been included in Note 7- Transacting user incentives.

##### 2.27.4 *Practical Expedients and Exemptions*

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been 1 year or less. The only contract terms that are greater than 1 year come from the Group's micro loan business, which do not have any significant customer acquisition costs. Accordingly, the Group does not capitalize any incremental costs to obtain a contract.

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of 1 year or less. The unsatisfied performance obligation related to the Maoyan cooperation agreement has been included in deferred revenue (Note 27).

#### 2.28 Interest income

##### 2.28.1 *Accounting policies applied since January 1, 2018*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in "Other gains, net".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.28 Interest income *(Continued)*

##### *2.28.2 Accounting policies applied before January 1, 2018*

Interest income is recognized using the effective interest method. When the loan receivables are impaired, the Group reduces the carrying amount to their recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

#### 2.29 Dividend income

Dividends are recognized when the right to receive payment is established.

#### 2.30 Lease

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognized as income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

#### 2.31 Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Shareholders or Directors, where appropriate.

#### 2.32 Government subsidies

Subsidies from the government are recognized at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions. Under these circumstances, the subsidies are recognized as income or matched with the associated costs which the subsidies are intended to compensate.

### 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### 3.1 Financial risk factors

(a) *Market risk*

i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of the Company is USD whereas functional currency of the subsidiaries operating in the PRC is RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

The Group operates mainly in the PRC with most of the transactions settled in RMB, management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Group are denominated in the currencies other than the respective functional currencies of the Group's entities.

ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, restricted cash and short-term investments measured at amortized cost, and details of which have been disclosed in Note 24 and Note 20, respectively.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which has been disclosed in Note 32. Borrowings carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

As of December 31, 2018, the Group's borrowings were borrowings that carried at fixed rates, which did not expose the Group to cash flow interest rate risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(a) Market risk (Continued)*

##### iii) Price risk

The Group is exposed to price risk in respect of financial assets at fair value through profit or loss and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

##### *(b) Credit risk*

The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, short-term investment measured at amortized cost, trade receivables, prepayments, deposits and other assets, and financial assets at fair value through profit or loss. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. The Group is also exposed to credit risk in relation to its financial guarantee contracts.

To manage risk arising from cash and cash equivalents, restricted cash, short-term investments measured at amortized cost, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are immaterial.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 150 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, to measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(b) Credit risk (Continued)*

For prepayments, deposits and other assets (excluding loan receivables, tax prepayments), management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables and prepayments to merchants based on historical settlement records and past experiences.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations
- actual or expected significant changes in the operating results of the counter party
- significant increases in credit risk on other financial instruments of the same counter party
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the counter party, including changes in the payment status and operating results of the counter party.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

Category	Group definition of category		Basis for recognition of expected credit loss provision
	Other receivables excluding loan receivables and prepayments to merchants	Prepayment to merchants	
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows		12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	There is a significant increase in credit risk is presumed if repayment are 30 days past due	The Group terminate its corporation with merchants	Lifetime expected losses
Non-performing	Repayments are 90 days past due	The Group terminate its corporation with merchants for more than 60 days	Lifetime expected losses
Write-off	Repayments are 180 days past due and there is no reasonable expectation of recovery	The Group terminate its corporation with merchants for more than 180 days and there is no reasonable expectation of recovery	Asset is write-off

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

To manage risk arising from loan receivables and financial guarantee contracts, standardized credit management procedures are performed. For pre-approval investigation, the Group optimizes the review process by using big data technology through its platform and system, including credit analysis, assessment of collectability of borrowers, monitoring the cash flow status of the merchants, possibility of misconduct and fraudulent activities. In terms of credit examining management, specific policies and procedures are established to assess loans offering. For subsequent monitoring, the Group monitor the cash flow and operation status of each borrowers. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, the Group establishes risk monitoring alert system through periodical monitoring. The estimation of credit exposure for risk management purposes is complex and requires use of models as the exposure varies with changes in market conditions, expected cash flows and passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default corrections between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is consistent with the general approach used for the purposes of measuring ECL under IFRS 9. The maximum credit risk from financial guarantee contracts as of December 31, 2018 was RMB791 million, the majority of which were not credit-impaired on initial recognition and not significant increase in credit risk subsequently. The Group has recognized guarantee liability at each of the reporting date.

##### i) ECL model for loan receivables, as summarized below:

- The loan receivables that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.
- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.
- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.
- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(b) Credit risk (Continued)*

##### i) ECL model for loan receivables, as summarized below: *(Continued)*

The impairment of loan receivables was provided based on the ‘three-stages’ model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

##### (1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is past due more than 1 day on its contractual payments.

##### (2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

##### (3) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month (“12M”) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD, and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(b) Credit risk (Continued)*

##### i) ECL model for loan receivables, as summarized below: *(Continued)*

##### (4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

##### (5) Grouping of instruments for losses measured on a collective basis

For ECL provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

##### ii) Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stage 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the period;
- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### ii) Loss allowance (Continued)

The gross carrying amount of the loan receivables explains their significance to the changes in the loss allowance as discussed above:

	Stage 1 12-month ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Gross carrying amount as of December 31, 2017	1,726,744	38,764	10,171	1,775,679
Transfers:				
Transfer from Stage 1 to Stage 2	(90,490)	90,490	—	—
Transfer from Stage 1 to Stage 3	(117,430)	—	117,430	—
Transfer from Stage 2 to Stage 1	532	(532)	—	—
Transfer from Stage 2 to Stage 3	—	(28,645)	28,645	—
Transfer from Stage 3 to Stage 1	—	—	—	—
Transfer from Stage 3 to Stage 2	—	—	—	—
Loan receivables derecognized during the period other than write-off	(6,839,372)	(18,419)	(6,240)	(6,864,031)
New loan receivables originated/purchased	9,190,832	—	—	9,190,832
Write-off	—	—	(114,410)	(114,410)
Gross carrying amount as of December 31, 2018	<u>3,870,816</u>	<u>81,658</u>	<u>35,596</u>	<u>3,988,070</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(b) Credit risk (Continued)*

##### ii) Loss allowance *(Continued)*

The following tables explain the changes in the loss allowance for loan receivables between the beginning and the end of the period due to these factors:

	Stage 1 12-month ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Loss allowance as of December 31, 2017	(19,230)	(27,673)	(10,171)	(57,074)
Transfers:				
Transfer from Stage 1 to Stage 2	1,091	(65,500)	—	(64,409)
Transfer from Stage 1 to Stage 3	1,401	—	(117,430)	(116,029)
Transfer from Stage 2 to Stage 1	(6)	406	—	400
Transfer from Stage 2 to Stage 3	—	21,993	(28,645)	(6,652)
Transfer from Stage 3 to Stage 1	—	—	—	—
Transfer from Stage 3 to Stage 2	—	—	—	—
Loan receivables derecognized during the period other than write-off	81,430	14,055	6,240	101,725
New loan receivables originated/purchased	(109,426)	—	—	(109,426)
Write-off	—	—	114,410	114,410
Accrual and reversal	(4,324)	(9,611)	—	(13,935)
Loss allowance as of December 31, 2018	<u>(49,064)</u>	<u>(66,330)</u>	<u>(35,596)</u>	<u>(150,990)</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### iii) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write-off loan receivables that are still subject to enforcement activity.

##### iv) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

##### (c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements.

The table below analyzes the Group's non-derivative financial liabilities. The amount disclosed in the table is the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Total RMB'000
<b>As of December 31, 2018</b>				
Trade payables	5,340,963	—	—	5,340,963
Payables to merchants	7,596,388	—	—	7,596,388
Advance from transacting users	3,226,407	—	—	3,226,407
Deposit from transacting users	3,341,276	—	—	3,341,276
Other payables and accruals (excluding salaries and benefits payable, and tax payable)	4,019,881	—	—	4,019,881
Borrowings	1,800,000	470,056	—	2,270,056
Other non-current liabilities	—	3,336	32,760	36,096
Financial guarantee contracts (Note 2.11)	769,230	22,164	—	791,394
	<u>26,094,145</u>	<u>495,556</u>	<u>32,760</u>	<u>26,622,461</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(c) Liquidity risk (Continued)*

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Total RMB'000
<b>As of December 31, 2017</b>				
Trade payables	2,666,799	—	—	2,666,799
Payables to merchants	9,363,873	—	—	9,363,873
Advance from transacting users	2,290,160	—	—	2,290,160
Other payables and accruals (excluding salaries and benefits payable, and tax payable)	1,400,989	—	—	1,400,989
Borrowings	162,000	—	—	162,000
Redemption liabilities	—	—	399,275	399,275
Financial guarantee contracts (Note 2.11)	1,235,097	88,804	—	1,323,901
	<u>17,118,918</u>	<u>88,804</u>	<u>399,275</u>	<u>17,606,997</u>

#### 3.2 Capital management

The Group's objectives when managing capital are to:

- Safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital (including share capital, share premium and preferred shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. In the opinion of the Directors, the Group's capital risk is low.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Fair value estimation

##### 3.3.1 Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The table below analyses the Group's financial instruments carried at fair value as of December 31, 2018 and 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>As of December 31, 2018</b>				
<b>Financial assets</b>				
Short-term investments at fair value through profit or loss (Note 20)	—	—	15,067,960	15,067,960
Financial assets at fair value through profit or loss (Note 19)	1,337,725*	—	4,904,247	6,241,972
	<u>1,337,725*</u>	<u>—</u>	<u>19,972,207</u>	<u>21,309,932</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.3 Fair value estimation *(Continued)*

##### 3.3.1 Fair value hierarchy *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>As of December 31, 2017</b>				
<b>Financial assets</b>				
Short-term investments at fair value through profit or loss (Note 20)	—	—	17,030,574	17,030,574
Financial assets at fair value through profit or loss (Note 19)	1,839,373*	—	4,105,320	5,944,693
	<u>1,839,373*</u>	<u>—</u>	<u>21,135,894</u>	<u>22,975,267</u>
<b>Financial liabilities</b>				
Convertible redeemable preferred shares (Note 28)	—	—	101,418,292	101,418,292
	<u>—</u>	<u>—</u>	<u>101,418,292</u>	<u>101,418,292</u>

\* This presents an investment of listed company with observable quoted price.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

##### 3.3.2 Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments; and
- The discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- The latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Fair value estimation (Continued)

##### 3.3.2 Valuation techniques used to determine fair values (Continued)

There were no change to valuation techniques during the year ended December 31, 2018.

All of the resulting fair value estimates are included in level 3, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

##### 3.3.3 Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including short-term investments at fair value through profit or loss, investments in unlisted companies, put and call option for Maoyan and contingent consideration for the year ended December 31, 2018 and 2017.

	Short-term investments at fair value through profit or loss RMB'000	Financial assets at fair value through profit or loss			Total RMB'000
		Investments in unlisted companies RMB'000	Contingent consideration RMB'000		
As of January 1, 2018	17,030,574	4,080,221	25,099		21,135,894
Acquisitions	61,352,377	1,616,220	—		62,968,597
Business combinations	380,000	12,880	—		392,880
Disposals and transfers/Settlements	(63,714,108)	(3,204,736)	(29,307)		(66,948,151)
Change in fair value	306,954	2,338,030	4,208		2,649,192
Currency translation differences	(287,837)	61,632	—		(226,205)
<b>As of December 31, 2018</b>	<b>15,067,960</b>	<b>4,904,247</b>	<b>—</b>		<b>19,972,207</b>
Net unrealized gains for the year	107,609	1,190,333	—		1,297,942

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.3 Fair value estimation *(Continued)*

##### 3.3.3 Fair value measurements using significant unobservable inputs (level 3) *(Continued)*

	Short-term	Financial assets at fair value			Total RMB'000
	investments	through profit or loss			
	at fair value	Investments	Put and	Contingent	
	through	in unlisted	call option	consideration	
	profit or loss	companies	for Maoyan		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2017	12,607,872	3,227,965	624,000	—	16,459,837
Acquisitions	56,382,550	647,921	—	—	57,030,471
Business combinations	7,000	—	—	—	7,000
Disposals and					
transfers/Settlements	(51,651,590)	(14,500)	(563,000)	—	(52,229,090)
Change in fair value	329,348	351,422	(61,000)	25,099	644,869
Currency translation differences	(644,606)	(132,587)	—	—	(777,193)
<b>As of December 31, 2017</b>	<b>17,030,574</b>	<b>4,080,221</b>	<b>—</b>	<b>25,099</b>	<b>21,135,894</b>
Net unrealized gains for the year	83,241	351,422	—	25,099	459,762

##### 3.3.4 Valuation process, inputs and relationships to fair value

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included Preferred Shares (Note 28), contingent consideration (Note 19), short-term investments at fair value through profit or loss (Note 20) and investments at fair value through profit or loss (Note 19). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach. Major assumptions used in the valuation for Preferred Shares are presented in Note 28.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Fair value estimation (Continued)

##### 3.3.4 Valuation process, inputs and relationships to fair value (Continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements except Preferred Shares which present in Note 28.

Description	Fair value at December 31,		Unobservable inputs	Range of inputs at December 31,		Relationship of unobservable inputs to fair value
	2018	2017		2018	2017	
	RMB'000	RMB'000				
Investment in unlisted companies	4,904,247	4,080,221	Expected volatility	35%-50%	40%-48%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	10%-28%	10%-20%	The higher the DLOM, the lower the fair value
			Risk-free rate	2.01%-8.10%	2.01%-3.86%	The higher the risk-free rate, the higher the fair value
Short-term investments at fair value through profit or loss	15,067,960	17,030,574	Expected rate of return	2.1%-6.6%	1.62%-4.9%	The higher the expected rate of return, the higher the fair value
Contingent consideration	—	25,099	Discount rate	N/A	28%	The higher the discount rate, the lower the fair value
			Risk-free rate	N/A	2.5%	The higher the risk-free rate, the lower the fair value
			DLOM	N/A	13%	The higher the DLOM, the lower the fair value
			Expected Volatility	N/A	40%	The higher the expected volatility, the lower the fair value

If the fair values of financial assets at fair value through profit or loss held by the Group had been 10% higher/lower, the loss before income tax for the years ended December 31, 2018 and 2017 would have been approximately RMB624 million lower/higher and RMB594 million lower/higher, respectively.

Fair value of Preferred Shares is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 10% with all other variables held constant, the loss before income tax for the year ended December 31, 2017 would have been approximately RMB10.1 billion higher/lower.

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2018 and 2017.

The carrying amount of the Group's financial assets, including cash and cash equivalents, restricted cash, trade receivables, prepayments, deposits and other assets, short-term investments at amortized cost and the Group's financial liabilities, including borrowings, trade payables, payables to merchants, deposit from transacting users, advance from transacting users, other payables and accruals, redemption liabilities, and other non-current liabilities, approximate their fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### 4.1 Recognition of share-based compensation expenses

The Group set up the 2015 Share Incentive Plan, Post-IPO Share Option Plan and Post-IPO Share Award Plan and granted restricted share units and options to employees and other qualifying participants. The fair value of the options and restricted share units are determined by the Black-Sholes option-pricing model at the grant date, and is expected to be expensed over the respective vesting period. Significant estimate on assumptions, including underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by the Directors and third-party valuers.

The Group has also authorized the repurchase of ordinary shares from certain employees, founders, and shareholders of the Company. Judgment is required to determine whether the repurchase establishes "past practice" for which the Group has now created an obligation to settle in cash, and accordingly reclassify all outstanding awards to cash-settled. The Group has determined that no valid expectation for the Company to settle such share-based awards in cash is created, such that all awards remain equity-settled awards.

#### 4.2 Estimation of the fair value of financial assets and financial liabilities

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### 4.3 Impairment provision for trade receivables and prepayments, deposits and other assets

The loss allowances for trade receivables and prepayments, deposits and other assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Noted 3.1(b).

#### 4.4 Recoverability of non-financial assets

The Group tests whether goodwill and trademark of Mobike have suffered any impairment, in accordance with the accounting policy stated in Note 2.9 and Note 2.10. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period.

Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated in Note 16. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 16.

#### 4.5 Incentives

As disclosed in Note 2.27, the Group provides incentives to its transacting users in various forms including coupons and direct payment discounts. All incentives given to the accounting customers are recorded as a reduction of revenue to the extent of the revenue earned from that customer on a transaction by transaction basis. For certain other incentives, management judgment is required to determine whether the incentives are in substance a payment on behalf of customers and should therefore be recorded as a reduction of revenue or selling and marketing expenses. Some of the factors considered in management's evaluation if such incentives are in substance a payments on behalf of customers include whether the incentives are given at the Group's discretion and the objectives, business strategy and design of the incentive programs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### 4.6 Business combinations

Business combinations are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

#### 4.7 Useful lives and amortization of intangible assets

The Group's management determines the estimated useful lives and related amortization for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortization charges where useful lives are different from that of previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

#### 4.8 Principal versus agent considerations

Determining whether the Group is acting as a principal or as an agent in the provision of certain services to its customers requires judgment and consideration of all relevant facts and circumstances. In evaluation of the Group's role as a principal or agent, the Group considers, individually or in combination, whether the Group controls the specified good or service before it is transferred to the customer, is primarily responsible for fulfilling the contract, is subject to inventory risk, and has discretion in establishing prices.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### 4.9 Current and deferred income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences tax losses are recognized when management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. As of December 31, 2018, the Group did not recognize deferred income tax asset of RMB5,108 million in respect of cumulative tax losses. The outcome of their actual utilisation may be different from management's estimation.

#### 4.10 Presentation and measurement of investments in associates

The Group made certain investments in the form of convertible redeemable preferred shares or ordinary shares with preferential rights of investee companies. As the Group has significant influence on these investee companies, judgement is required in determining whether these investments are in substance existing ownership interests, they are accounted for as hybrid financial instruments, which should be measured at fair value through profit or loss. Different conclusions around these judgements may affect how these investments presented and measured in the consolidated statement of financial position of the Group.

### 5 SEGMENT REPORTING

#### 5.1 Segment reporting

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive Directors that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

The CODM assesses the performance of the operating segments mainly based on segment revenues and cost of revenues of each operating segment. Thus, segment result would present revenues, cost of revenues and gross profit for each segment, which is in line with CODM's performance review.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 5 SEGMENT REPORTING (Continued)

#### 5.1 Segment reporting (Continued)

##### *Food delivery*

The food delivery segment offers food ordering and delivery service through the Group's platform. Revenues from the food delivery segment are primarily derived from (a) platform service to merchants to display the food information and connect transacting users; (b) delivery service; (c) online marketing services in various advertising formats provided to merchants.

##### *In-store, hotel & travel*

The in-store, hotel & travel segment offers merchants to sell vouchers, coupons, tickets and reservations on the Group's platform. Revenues from the in-store, hotel & travel segment are primarily derived from (a) commissions from merchants for vouchers, coupons, tickets and reservations sold on our platform; (b) online marketing services to merchants, including performance-based and display-based marketing services, as well as marketing services provided under annual plans.

##### *New initiatives and others*

Revenues from the new initiatives and other segments are primarily derived from (a) RMS; (b) supply chain solutions to merchants; (c) integrated payment services; (d) micro loan business; (e) local transportation services; (f) non-food delivery services; (g) other products and services.

The CODM assesses the performance of operating segments mainly based on segment revenues and segment cost of revenues. The revenues from external customers reported to CODM are measured as segment revenues, which is the revenues derived from customers in each segment.

The Group's cost of revenues for the food delivery segment primarily consists of (a) food delivery rider costs; (b) payment processing costs; (c) employee benefits expenses; (d) depreciation of property, plant and equipment; (e) bandwidth and server custody fees.

The Group's cost of revenues for the in-store, hotel & travel segment primarily consists of (a) payment processing costs; (b) depreciation of property, plant and equipment; (c) employee benefits expenses; (d) online traffic costs; (e) bandwidth and server custody fees.

The Group's cost of revenues for the new initiatives and others segment primarily consists of (a) car-hailing driver related costs; (b) depreciation of property, plant and equipment; (c) cost of goods sold; (d) other outsourcing labor costs; (e) payment processing costs.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The revenue is mainly generated in China.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 5 SEGMENT REPORTING (Continued)

#### 5.1 Segment reporting (Continued)

The segment information provided to the Group's CODM for the reportable segments for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018			Total RMB'000
	Food delivery RMB'000	In-store, hotel & travel RMB'000	New initiatives and others RMB'000	
Commission	35,719,208	9,042,303	2,250,738	47,012,249
Online marketing services	2,334,999	6,734,901	321,506	9,391,406
Other services and sales	88,876	63,157	8,671,590	8,823,623
Revenues in total	38,143,083	15,840,361	11,243,834	65,227,278
Cost of revenues	(32,874,886)	(1,745,006)	(15,502,428)	(50,122,320)
<b>Gross profit/(loss)</b>	<b>5,268,197</b>	<b>14,095,355</b>	<b>(4,258,594)</b>	<b>15,104,958</b>
<b>Gross margin</b>	<b>13.8%</b>	<b>89.0%</b>	<b>(37.9%)</b>	<b>23.2%</b>

	Year ended December 31, 2017			Total RMB'000
	Food delivery RMB'000	In-store, hotel & travel RMB'000	New initiatives and others RMB'000	
Commission	20,283,964	7,135,970	589,196	28,009,130
Online marketing services	710,203	3,649,996	341,476	4,701,675
Other services and sales	37,766	66,844	1,112,572	1,217,182
Revenues in total	21,031,933	10,852,810	2,043,244	33,927,987
Cost of revenues	(19,332,514)	(1,273,331)	(1,102,638)	(21,708,483)
<b>Gross profit</b>	<b>1,699,419</b>	<b>9,579,479</b>	<b>940,606</b>	<b>12,219,504</b>
<b>Gross margin</b>	<b>8.1%</b>	<b>88.3%</b>	<b>46.0%</b>	<b>36.0%</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 5 SEGMENT REPORTING *(Continued)*

#### 5.1 Segment reporting *(Continued)*

The reconciliation of gross profit to loss before income tax is shown in the consolidated income statement.

There is no concentration risk as no revenue from a single external customer was more than 10% of the Group's total revenues for the years ended December 31, 2018 and 2017.

#### 5.2 Segment assets

As of December 31, 2018 and 2017, substantially all of the non-current assets of the Group were located in the PRC.

### 6 REVENUES BY TYPE

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Commission	47,012,249	28,009,130
Online marketing services	9,391,406	4,701,675
Other services and sales	8,823,623	1,217,182
	<u>65,227,278</u>	<u>33,927,987</u>

Further disaggregation of revenues are included in Note 5.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 7 EXPENSES BY NATURE

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Food delivery rider costs	30,516,055	18,324,065
Employee benefits expenses (Note 8)	15,226,535	8,650,917
Transacting user incentives	5,400,781	4,208,921
Car-hailing driver related costs	4,463,320	293,306
Depreciation of property, plant and equipment	4,252,292	327,696
Promotion and advertising	3,272,934	2,277,969
Cost of goods sold	3,133,770	301,010
Other outsourcing labor costs	2,087,398	126,434
Payment processing costs	1,524,853	1,023,889
Impairment provision on Mobike tradename (Note i)	1,346,000	—
Amortization of intangible assets	1,114,509	516,619
Rental, facility and utilities	970,058	410,997
Bandwidth and server custody fees	484,494	265,177
Impairment provision and restructuring expense for Mobike restructuring plan (Note ii)	358,790	—
Professional fees	340,714	174,368
Provision for doubtful accounts	285,655	64,371
Online traffic costs	215,215	189,680
Tax surcharge expenses	215,178	216,208
Auditor's remuneration		
– Audit and audit-related services	48,770	25,718
– Non-audit services	3,899	—
Others (Note iii)	3,636,593	1,037,868
	<u>78,897,813</u>	<u>38,435,213</u>
Total cost of revenues, selling and marketing expenses, research and development expenses and general and administrative expenses	<u>78,897,813</u>	<u>38,435,213</u>

- (i) Impairment loss on Mobike tradename has been recognized based on management's further business plan change. The remaining carrying value amounted to RMB134 million of Mobike tradename would be amortized in the period of 3 years from 2019.
- (ii) Impairment provision and restructuring expense has been recognized due to Mobike oversea entities restructuring plan. The plan includes the sale or abandonment of the selected entities in 2019. Thereof, the assets and liabilities of certain entities to be sold out, have been reclassified as assets classified as held for sale and liabilities directly associated with assets classified as held for sale.
- (iii) Others mainly comprise travelling and entertainment expenses, message and verification fees, bike reallocation fees and bike maintenance fees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 8 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	10,695,178	6,163,000
Other employee benefits	1,602,448	899,364
Pension costs - defined contribution plans (Note i)	1,063,796	617,453
Share-based compensation expenses (Note 33)	1,865,113	971,100
	<b>15,226,535</b>	<b>8,650,917</b>

(i) Pension costs - defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on fixed percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(a) Share-based compensation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Cost of revenues	48,474	13,531
Selling and marketing expenses	184,628	105,567
Research and development expenses	664,068	333,438
General and administrative expenses	967,943	518,564
	<b>1,865,113</b>	<b>971,100</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 8 EMPLOYEE BENEFITS EXPENSES (Continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one and two Directors whose emoluments are reflected in the analysis shown in Note 8(c) for the years ended December 31, 2018 and 2017 respectively. All of these individuals have not received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office during the year ended December 31, 2018 and 2017. The emoluments payable to the remaining individuals for the years ended December 31, 2018 and 2017 are as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	18,141	5,810
Pension costs and other employee benefits	617	251
Share-based compensation expenses	283,524	174,871
	<u>302,282</u>	<u>180,932</u>

The emoluments fell within the following bands:

Emolument bands (in HK dollar)	Number of individuals Year ended 31 December,	
	2018	2017
HK\$50,000,001 - HK\$60,000,000	—	1
HK\$60,000,001 - HK\$70,000,000	1	—
HK\$70,000,001 - HK\$80,000,000	1	1
HK\$80,000,001 - HK\$90,000,000	—	1
HK\$100,000,001 - HK\$110,000,000	1	—
HK\$110,000,001 - HK\$120,000,000	1	—
	<u>4</u>	<u>3</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 8 EMPLOYEE BENEFITS EXPENSES (Continued)

#### (c) Directors' and chief executive's emoluments

The remuneration of every Director and the chief executive is set out below:

For the year ended December 31, 2018:

Name	Wages, salaries and bonuses		Pension costs and other employee benefits	Share-based compensation expenses	Total RMB'000
	Fees RMB'000	RMB'000	RMB'000	RMB'000	
Wang Xing	—	4,525	168	—	4,693
Zhang Tao	—	1,800	117	—	1,917
Mu Rongjun	—	4,072	154	35,261	39,487
Wang Huiwen	—	3,695	154	139,510	143,359
Ye Shuhong	—	4,072	133	—	4,205
Lau, Chi Ping Martin	—	—	—	—	—
Shen, Nanpeng Neil	—	—	—	—	—
Orr Gordon Robert Halyburton	141	—	—	601	742
Shum Heung Yeung Harry	141	—	—	601	742
Leng Xuesong	141	—	—	601	742
<b>Total</b>	<b>423</b>	<b>18,164</b>	<b>726</b>	<b>176,574</b>	<b>195,887</b>

For the year ended December 31, 2017:

Name	Wages, salaries and bonuses		Pension costs and other employee benefits	Share-based compensation expenses	Total RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	
Zhang Tao	1,800	—	104	—	1,904
Wang Huiwen	2,715	—	130	50,292	53,137
Ye Shuhong	2,305	—	104	45,924	48,333
Wang Xing	2,056	—	130	—	2,186
<b>Total</b>	<b>8,876</b>	<b>—</b>	<b>468</b>	<b>96,216</b>	<b>105,560</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 8 EMPLOYEE BENEFITS EXPENSES *(Continued)*

#### (c) Directors' and chief executive's emoluments *(Continued)*

##### i) Directors' termination benefits

No Director's termination benefit subsisted at the end of the year or at any time during the year ended December 31, 2018 and 2017.

##### ii) Consideration provided to third parties for making available Directors' services

No consideration provided to or receivable by third parties for making available Director's services subsisted at the end of the year or at any time during the year ended December 31, 2018 and 2017.

##### iii) Information about loans, quasi-loans and other dealings in favor of Directors, controlled bodies corporate by and connected entities with such Directors.

Except as disclosed in Note 38, there were no other loans, quasi-loans and other dealings in favor of Directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year ended December 31, 2018 and 2017.

##### iv) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2018 and 2017.

##### v) Waiver of Director's emoluments

The non-executive Directors have not received any remuneration for the year ended December 31, 2018. None of the other directors waived or has agreed to waive any emoluments during the year ended December 31, 2018 and 2017.

##### vi) Inducement to join the Group and compensation for loss of office

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office during the year ended December 31, 2018 and 2017.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 9 OTHER GAINS, NET

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Fair value changes of short-term investments measured at fair value through profit or loss (Note 3.3)	306,954	329,348
Interest income from short-term investments measured at amortized cost	226,114	17,027
Gains/(losses) from the disposal of investments	29,426	(144,482)
Gains from the disposal of subsidiaries (Note 11)	—	125,649
Dilution (loss)/gain (Note i) (Note 12)	(6,294)	104,758
Change in fair value from contingent consideration (Note 3.3)	4,208	25,099
Foreign exchange loss, net	(1,485)	(7,819)
Government subsidies	198,762	45,585
Losses from the cancellation of put and call option for Maoyan	—	(222,264)
Change in fair value from put and call option for Maoyan (Note 3.3.3)	—	(61,000)
Others	(9,329)	(3,641)
	<b>748,356</b>	<b>208,260</b>

- (i) In August 2017, the Group and Shanghai Enlight Investment Holdings Co., Ltd. entered into an amended Sale and Purchase Agreement, where the Group agreed to sell 19.7% equity interests in Maoyan for a total consideration of RMB1.8 billion in cash. The carrying value of the 19.7% disposed was RMB1.4 billion. At the same time, Maoyan received new financing from other investors which further diluted the Group's retained interest in Maoyan to 8.3%, resulting in a dilution gain of RMB103 million.

### 10 FINANCE INCOME/(COSTS)

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
<b>Finance income</b>		
Interest income from bank deposits	294,047	60,885
<b>Finance costs</b>		
Bank charges and others	(20,131)	(17,290)
Interest expense	(24,601)	(1,924)
Total	<b>(44,732)</b>	<b>(19,214)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 11 SUBSIDIARIES

The Company's major subsidiaries (including controlled and structured entities) during the year ended December 31, 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held (b)		Principal activities and place of operation
				As of December 31, 2018	2017	
<b>Subsidiaries</b>						
<b>Directly held:</b>						
Meituan Corporation	Cayman	July 29, 2010	USD50,000	100%	100%	Investment holding in Cayman
DianPing Holdings Limited ("DianPing")	Cayman	December 20, 2005	USD50,000	100%	100%	Investment holding in Cayman
Internet Plus (HongKong) Limited	Hong Kong	November 27, 2015	HKD1	100%	100%	Investment holding in Hong Kong
Kangaroo Technology Corporation	Cayman	April 1, 2016	USD50,000	100%	100%	Investment holding in Cayman
mobike Ltd ("Mobike")	Cayman	April 2, 2015	USD50,000	100%	NA	Investment holding in Cayman
<b>Indirectly held:</b>						
Beijing SanKuai On-line Technology Co., Ltd.	Beijing, the PRC	May 6, 2011	USD1,176,260,000	100%	100%	E-commerce service platform in the PRC
Beijing Kuxun Technology Co., Ltd.	Beijing, the PRC	April 27, 2006	USD54,665,694	100%	100%	Online hotel and travel services in the PRC
Hanghai Information Technology (Shanghai) Co., Ltd.	Shanghai, the PRC	March 16, 2006	USD195,000,000	100%	100%	Multimedia information technology services in the PRC
Tianjin Sankuai Technology Co., Ltd	Tianjin, the PRC	July 12, 2013	RMB1,090,000,000	100%	100%	E-commerce service platform in the PRC
Xiamen Sankuai On-line Technology Co., Ltd.	Xiamen, the PRC	March 25, 2014	USD549,049,120	100%	100%	E-commerce service platform in the PRC
Hucheng Information Technology (Shanghai) Co., Ltd.	Shanghai, the PRC	January 11, 2016	USD200,000,000	100%	100%	Multimedia information technology services in the PRC
Mobike (Beijing) Information Technology Co., Ltd.	Beijing, the PRC	January 12, 2016	USD99,000,000	100%	NA	Bike-sharing services in the PRC
Shanghai Sankuai Zhisong Technology Co., Ltd.	Shanghai, the PRC	November 27, 2018	USD320,000,000	100%	NA	Delivery services in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 11 SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held (b)		Principal activities and place of operation
				As of December 31, 2018	2017	
<b>Structured entities(a):</b>						
Beijing SanKuai Technology Co., Ltd.	Beijing, the PRC	April 10, 2007	RMB1,090,000,000	100%	100%	E-commerce service platform in the PRC
Shanghai SanKuai Technology Co., Ltd.	Shanghai, the PRC	September 19, 2012	RMB5,000,000	100%	100%	Online retail platform in the PRC
Beijing Sankuai Cloud Computing Technology Co., Ltd.	Beijing, the PRC	June 17, 2015	RMB10,000,000	100%	100%	RMS system and cloud computing in the PRC
Beijing Kuxun Interation Technology Co., Ltd.	Beijing, the PRC	March 29, 2006	RMB2,000,000	100%	100%	Multimedia information technology services in the PRC
Shanghai Hantao Information Consulting Co., Ltd.	Shanghai, the PRC	September 23, 2003	RMB10,000,000	100%	100%	Merchant information advisory services in the PRC
Beijing Qiandaobao Payment Technology Co., Ltd.	Beijing, the PRC	November 25, 2008	RMB404,000,000	100%	100%	Online payment services in the PRC

Note (a): As described in Note 2.2, the Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with these structured entities and their registered owners, the Company and its other legally owned subsidiaries has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as consolidated structured entities of the Company.

Note (b): The Effective interest held has no change after December 31, 2018 until the report date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 11 SUBSIDIARIES (Continued)

#### Disposal of subsidiaries

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Total consideration received or receivable		
– Cash consideration received	3,055	—
– Equity interests received	—	268,344
<b>Total disposal consideration</b>	<b>3,055</b>	<b>268,344</b>
<b>Total net assets disposed</b>	<b>3,055</b>	<b>142,695</b>
– Cash and cash equivalents	2,824	26,362
– Trade receivables	—	9,895
– Prepayments, deposits and other assets - current	239	24,019
– Inventories	—	514
– Property, plant and equipment	—	2,034
– Intangible assets		
– Trade name	—	1,715
– Technology	—	1,715
– Other	—	1,273
– Trade payables	(8)	—
– Other payables and accruals	—	(56,234)
– Deferred tax liabilities	—	(858)
– Goodwill	—	130,897
– Non-controlling interests disposed	—	1,363
<b>Gain on disposal before income tax</b>	<b>—</b>	<b>125,649</b>
Income tax expense on gain	—	—
<b>Gain on disposal after income tax (Note 9)</b>	<b>—</b>	<b>125,649</b>

During 2018, the Group disposed three subsidiaries.

In November 2017, the Group transferred all of its equity interests in its subsidiary Beijing Puzhao Tianxing Technology Co., Ltd. (“Tianzixing”) to one of its associates, Aoqiwei Information Technology (Beijing) Co., Ltd. (“Canxingjian”) in exchange of additional equity interest in Canxingjian at a fair value of RMB268 million. After the transaction, Tianzixing became a subsidiary of Canxingjian and the Group ultimately held 40% of equity interest of Canxingjian in form of preferred shares. Consequently, the Group derecognized the assets, including goodwill, and liabilities of Tianzixing and respective non-controlling interests at their carrying amount at the date of transfer, and recognized the additional equity interests in Canxingjian at fair value on the date of transfer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Associates	2,089,677	1,939,107
Joint ventures	<u>13,726</u>	<u>13,068</u>
	<u><u>2,103,403</u></u>	<u><u>1,952,175</u></u>

#### a) Investments in associates using the equity method

	As of December 31,	
	2018 RMB'000	2017 RMB'000
At the beginning of the year	1,939,107	2,384,674
Additions	163,675	772,500
Transfers (Note i)	50,000	—
Dilution (loss)/gain (Note ii)	(6,294)	104,758
Dividends from an associate	(14,675)	(11,989)
Disposals	(563)	(1,386,918)
Other reserves (Note iii)	—	82,829
Share of losses of investments accounted for using equity method	(48,267)	(6,747)
Currency translation differences	<u>6,694</u>	<u>—</u>
At the end of the year	<u><u>2,089,677</u></u>	<u><u>1,939,107</u></u>

(i): Certain contractual rights attached to an investment previously classified as financial assets at fair value through profit or loss have been changed, thus resulting in re-designation of such investment to an associate of the Group accounted for using the equity method. The management of the Group considered that the impact to the Group is not material had this investment been classified as an investment in an associate accounted for using the equity method since January 1, 2018.

(ii): Dilution gain in 2017 was mainly from Maoyan (Note 9).

(iii): Other reserves in 2017 arose from the equity pick up of the shareholder's contribution to Maoyan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

- b) The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial associates	2,089,677	1,939,107
Aggregate amounts of the Group's share of:		
– Loss from operations	(48,267)	(6,747)
– Share-based payment reserve	—	(3,671)
Share of losses of investments accounted for using equity method	<u>(48,267)</u>	<u>(10,418)</u>

### 13 TAXATION

- a) **Value Added Tax**

The Group is mainly subject to 6% VAT, and surcharges on VAT payments according to PRC tax law.

- b) **Income tax**

#### *Cayman Islands*

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

#### *British Virgin Islands*

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 13 TAXATION (Continued)

#### b) Income tax (Continued)

##### *Hong Kong*

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2018 and 2017.

##### *PRC corporate income tax ("CIT")*

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the years ended December 31, 2018 and 2017.

Certain subsidiaries of the Group in the PRC are subject to "high and new technology enterprises" and, accordingly, a preferential income tax rate of 15% for the years ended December 31, 2018 and 2017. In addition, certain PRC subsidiaries have registered as a software enterprise and are entitled to a two-year enterprise income tax exemption and a three-year preferential enterprise income tax rate of 12.5%. As a result, such PRC subsidiaries were eligible for a preferential enterprise income tax rate for their respective tax holiday.

##### *Withholding tax on undistributed dividends*

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from China effective from January 1, 2008. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied. For the year ended December 31, 2018 and 2017, the Group has incurred net accumulated operating losses and does not have any profit distribution plan.

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Current income tax	(251,390)	(18,560)
Deferred income tax (Note18)	249,502	(35,658)
Total income tax expenses - Net	(1,888)	(54,218)

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2018 and 2017, being the tax rate of the major subsidiaries of the Group.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 13 TAXATION (Continued)

#### b) Income tax (Continued)

The difference is analyzed as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Loss before tax	(115,490,807)	(18,933,663)
Tax calculated at statutory income tax rate of 25% in mainland China	28,872,702	4,733,416
Tax effects of:		
– Different tax rates available to different jurisdictions	(26,036,837)	(3,866,256)
– Preferential income tax rates applicable to subsidiaries	17,289	(20,456)
– Expenses not deductible for income tax purposes	(18,409)	(7,634)
– Super deduction for research and development expenses	97,397	37,471
– Utilization of previously unrecognized tax losses	213,025	144,808
– Tax losses for which no deferred income tax assets were recognized	(2,728,131)	(839,040)
– Temporary differences utilized/(for which no deferred income tax assets was recognized), net	(248,345)	(201,900)
– Withholding tax	(170,579)	(34,627)
Total income tax expenses	<u>(1,888)</u>	<u>(54,218)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 14 LOSS PER SHARE

- (a) Basic loss per share for the years ended December 31, 2018 and 2017 were calculated by dividing the loss attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2018	2017
Loss attributable to equity holders of the Company (RMB'000)	(115,477,171)	(18,916,617)
Weighted average number of shares in issue (thousand)	<u>2,723,795</u>	<u>1,528,826</u>
Loss per share	<u>(42.40)</u>	<u>(12.37)</u>

- (b) Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: Preferred Shares, share options and RSUs. As the Group incurred losses for the years ended December 31, 2018 and 2017, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the years ended December 31, 2018 and 2017 were the same as basic loss per share of the respective years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 15 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB'000	Furniture and appliances RMB'000	Bike and vehicle RMB'000	Leasehold improvements RMB'000	Assets under construction RMB'000	Total RMB'000
<b>Cost</b>						
At January 1, 2018	1,429,448	20,579	—	131,720	13,178	1,594,925
Additions	1,811,575	72,233	223,068	70,116	174,698	2,351,690
Business combinations (Note 36)	8,936	40,523	5,111,531	9,750	178,458	5,349,198
Disposal	(52,049)	(33,273)	(12,860)	(48,578)	(48,982)	(195,742)
Transfers	—	215	103,575	19,050	(122,840)	—
Currency translation differences	109	65	1,153	—	—	1,327
Assets classified as held for sale	—	—	(274,142)	—	—	(274,142)
At December 31, 2018	<u>3,198,019</u>	<u>100,342</u>	<u>5,152,325</u>	<u>182,058</u>	<u>194,512</u>	<u>8,827,256</u>
<b>Accumulated depreciation</b>						
At January 1, 2018	(602,067)	(17,230)	—	(59,946)	—	(679,243)
Depreciation	(649,209)	(39,518)	(3,543,866)	(19,699)	—	(4,252,292)
Disposal	19,601	9,414	6,670	1,666	—	37,351
Currency translation differences	33	5	(379)	—	—	(341)
Assets classified as held for sale	—	—	116,598	—	—	116,598
At December 31, 2018	<u>(1,231,642)</u>	<u>(47,329)</u>	<u>(3,420,977)</u>	<u>(77,979)</u>	<u>—</u>	<u>(4,777,927)</u>
<b>Impairment</b>						
At 1 January 2018	—	—	—	—	—	—
Addition	—	—	(212,464)	—	—	(212,464)
Assets classified as held for sale	—	—	141,950	—	—	141,950
At 31 December 2018	<u>—</u>	<u>—</u>	<u>(70,514)</u>	<u>—</u>	<u>—</u>	<u>(70,514)</u>
<b>Net carrying amount</b>						
At January 1, 2018	<u>827,381</u>	<u>3,349</u>	<u>—</u>	<u>71,774</u>	<u>13,178</u>	<u>915,682</u>
At December 31, 2018	<u>1,966,377</u>	<u>53,013</u>	<u>1,660,834</u>	<u>104,079</u>	<u>194,512</u>	<u>3,978,815</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Computer equipment RMB'000	Furniture and appliances RMB'000	Leasehold improvements RMB'000	Assets under construction RMB'000	Total RMB'000
<b>Cost</b>					
At January 1, 2017	732,839	19,730	119,196	4,158	875,923
Additions	714,568	1,349	8,585	13,178	737,680
Business combinations (Note 36)	53	5	175	—	233
Disposal	(18,012)	(505)	(394)	—	(18,911)
Transfers	—	—	4,158	(4,158)	—
At December 31, 2017	<u>1,429,448</u>	<u>20,579</u>	<u>131,720</u>	<u>13,178</u>	<u>1,594,925</u>
<b>Accumulated depreciation</b>					
At January 1, 2017	(312,265)	(16,004)	(36,424)	—	(364,693)
Depreciation	(302,780)	(1,394)	(23,522)	—	(327,696)
Disposal	12,978	168	—	—	13,146
At December 31, 2017	<u>(602,067)</u>	<u>(17,230)</u>	<u>(59,946)</u>	—	<u>(679,243)</u>
<b>Net carrying amount</b>					
At January 1, 2017	<u>420,574</u>	<u>3,726</u>	<u>82,772</u>	<u>4,158</u>	<u>511,230</u>
At December 31, 2017	<u>827,381</u>	<u>3,349</u>	<u>71,774</u>	<u>13,178</u>	<u>915,682</u>

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Cost of revenues	4,158,424	267,806
Selling and marketing expenses	19,475	7,065
Research and development expenses	39,361	29,556
General and administrative expenses	35,032	23,269
	<u>4,252,292</u>	<u>327,696</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 16 INTANGIBLE ASSETS

	Trade name	User generated content	Software and others	Online payment license	Technology and licenses	User list	Supplier relationship	Goodwill	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>									
At January 1, 2018	3,406,300	490,000	1,321,837	390,000	186,360	67,000	28,700	15,025,019	20,915,216
Additions	—	—	69,712	—	—	—	—	—	69,712
Business combinations (Note 36)	1,600,000	—	478,265	—	663,470	840,000	—	12,836,004	16,417,739
Disposal	—	—	(4,106)	—	—	—	—	—	(4,106)
Assets classified as held for sale	—	—	(20)	—	—	—	—	—	(20)
At December 31, 2018	<u>5,006,300</u>	<u>490,000</u>	<u>1,865,688</u>	<u>390,000</u>	<u>849,830</u>	<u>907,000</u>	<u>28,700</u>	<u>27,861,023</u>	<u>37,398,541</u>
<b>Accumulated amortization</b>									
At January 1, 2018	(309,145)	(220,500)	(201,111)	(36,833)	(100,812)	(30,150)	(3,433)	—	(901,984)
Amortization	(256,420)	(98,000)	(451,241)	(26,000)	(139,362)	(139,466)	(4,020)	—	(1,114,509)
Disposal	—	—	209	—	—	—	—	—	209
Assets classified as held for sale	—	—	5	—	—	—	—	—	5
At December 31, 2018	<u>(565,565)</u>	<u>(318,500)</u>	<u>(652,138)</u>	<u>(62,833)</u>	<u>(240,174)</u>	<u>(169,616)</u>	<u>(7,453)</u>	<u>—</u>	<u>(2,016,279)</u>
<b>Impairment</b>									
At January 1, 2018	(1,510)	—	—	—	(3,238)	—	(88)	(155,422)	(160,258)
Additions (Note 7 (l))	(1,346,000)	—	—	—	—	—	—	—	(1,346,000)
At December 31, 2018	<u>(1,347,510)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,238)</u>	<u>—</u>	<u>(88)</u>	<u>(155,422)</u>	<u>(1,506,258)</u>
<b>Net carrying amount</b>									
At January 1, 2018	<u>3,095,645</u>	<u>269,500</u>	<u>1,120,726</u>	<u>353,167</u>	<u>82,310</u>	<u>36,850</u>	<u>25,179</u>	<u>14,869,597</u>	<u>19,852,974</u>
At December 31, 2018	<u>3,093,225</u>	<u>171,500</u>	<u>1,213,550</u>	<u>327,167</u>	<u>606,418</u>	<u>737,384</u>	<u>21,159</u>	<u>27,705,601</u>	<u>33,876,004</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 16 INTANGIBLE ASSETS (Continued)

	Trade name RMB'000	User generated content RMB'000	Software and others RMB'000	Online payment license RMB'000	Technology and licenses RMB'000	User list RMB'000	Supplier relationship RMB'000	Goodwill RMB'000	Total RMB'000
<b>Cost</b>									
At January 1, 2017	3,408,400	490,000	34,244	390,000	188,460	67,000	7,300	15,096,924	19,682,328
Additions	—	—	1,289,400	—	—	—	—	—	1,289,400
Business combinations	—	—	—	—	—	—	21,400	58,992	80,392
Disposal	(2,100)	—	(1,807)	—	(2,100)	—	—	(130,897)	(136,904)
At December 31, 2017	<u>3,406,300</u>	<u>490,000</u>	<u>1,321,837</u>	<u>390,000</u>	<u>186,360</u>	<u>67,000</u>	<u>28,700</u>	<u>15,025,019</u>	<u>20,915,216</u>
<b>Accumulated amortization</b>									
At January 1, 2017	(172,640)	(122,500)	(10,728)	(10,833)	(52,443)	(16,750)	(602)	—	(386,496)
Amortization	(136,890)	(98,000)	(190,744)	(26,000)	(48,754)	(13,400)	(2,831)	—	(516,619)
Disposal	385	—	361	—	385	—	—	—	1,131
At December 31, 2017	<u>(309,145)</u>	<u>(220,500)</u>	<u>(201,111)</u>	<u>(36,833)</u>	<u>(100,812)</u>	<u>(30,150)</u>	<u>(3,433)</u>	<u>—</u>	<u>(901,984)</u>
<b>Impairment</b>									
At January 1, 2017	(1,050)	—	—	—	(2,433)	—	(88)	(143,421)	(146,992)
Additions	(460)	—	—	—	(805)	—	—	(12,001)	(13,266)
At December 31, 2017	<u>(1,510)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,238)</u>	<u>—</u>	<u>(88)</u>	<u>(155,422)</u>	<u>(160,258)</u>
<b>Net carrying amount</b>									
At January 1, 2017	<u>3,234,710</u>	<u>367,500</u>	<u>23,516</u>	<u>379,167</u>	<u>133,584</u>	<u>50,250</u>	<u>6,610</u>	<u>14,953,503</u>	<u>19,148,840</u>
At December 31, 2017	<u>3,095,645</u>	<u>269,500</u>	<u>1,120,726</u>	<u>353,167</u>	<u>82,310</u>	<u>36,850</u>	<u>25,179</u>	<u>14,869,597</u>	<u>19,852,974</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 16 INTANGIBLE ASSETS (Continued)

Amortization expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Selling and marketing expenses	656,729	281,389
General and administrative expenses	288,860	157,544
Cost of revenues	167,093	75,962
Research and development expenses	1,827	1,724
	<u>1,114,509</u>	<u>516,619</u>

The addition of the goodwill arose from the business combinations in each year. Majority of the Group's goodwill are related to the strategic transaction of Mobike in 2018 (Note 36). The Group entered into a 5-year strategic cooperation agreement with one platform in 2017 with a total consideration of USD200 million (equivalent to RMB1,307 million, of which RMB1,281 million was capitalized). The Group amortized the amount within the contract period.

#### Impairment of goodwill

The Group carries out its annual impairment test on goodwill by comparing the recoverable amounts of cash generating unit ("CGU") to the carrying amounts. The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period with a terminal value related to the future cash flows extrapolated using the estimated growth rates stated below beyond the 5-year period. The Group believes that it is appropriate to cover a 5-year period in its cash flow projection, because it captures the development stage of the Group's businesses during which the Group expects to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 16 INTANGIBLE ASSETS (Continued)

#### Impairment of goodwill (Continued)

Management reviews the business performance based on type of business and monitors the goodwill at the operating segment level. The following is a summary of goodwill allocation for each operating segment:

Year ended December 31, 2018	Opening RMB'000	Addition RMB'000	Reallocation RMB'000	Impairment RMB'000	Disposal RMB'000	Closing RMB'000
Food delivery	3,116,702	1,728,527	—	—	—	4,845,229
In-store, hotel & travel (Note a)	11,438,285	7,392,786	119,576	—	—	18,950,647
Bike-sharing services	—	3,707,427	—	—	—	3,707,427
New initiatives and others (excluding bike-sharing services)	314,610	7,264	(119,576)	—	—	202,298
	<u>14,869,597</u>	<u>12,836,004</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,705,601</u>

Year ended December 31, 2017	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Disposal RMB'000	Closing RMB'000
Food delivery	3,116,702	—	—	—	3,116,702
In-store, hotel & travel	11,438,285	—	—	—	11,438,285
New initiatives and others	398,516	58,992	(12,001)	(130,897)	314,610
	<u>14,953,503</u>	<u>58,992</u>	<u>(12,001)</u>	<u>(130,897)</u>	<u>14,869,597</u>

Note (a): In 2018, the Group decided to reallocate goodwill of one management system relating to hotel & travel business from new initiatives and others segment to in-store hotel and travel due to business structure adjustment.

The goodwill balance mainly arose from the strategic transaction of Meituan and Dianping and business combination of Mobike. Goodwill is attributable to the acquired transacting volume and economies of scale expected to be derived from combining with the operations of the Group.

Impairment review on the goodwill of the Group has been conducted by the management as at December 31, 2018 and 2017, according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a 5-year period.

The key assumptions used in the significant CGU value-in-use calculations are as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 16 INTANGIBLE ASSETS (Continued)

#### Impairment of goodwill (Continued)

As of December 31, 2018

	Food delivery	In-store, hotel & travel	Bike-sharing services
Annual revenue growth rate for the 5-year period (%)	5%-36%	5%-35%	10%-77%
Gross profit rate	16%-30%	87%-90%	(8%)-64%
Terminal revenue growth rate (%)	2.5%	2.5%	2.5%
Pre-tax discount rate (%)	30%	32%	30%

As of December 31, 2017

	Food delivery	In-store, hotel & travel
Annual revenue growth rate for the 5-year period (%)	10%-90%	15%-50%
Gross profit rate	15%-25%	85%-90%
Terminal revenue growth rate (%)	2.5%	2.5%
Pre-tax discount rate (%)	33%	33%

The budgeted gross margins used in the goodwill impairment testing, were determined by the management based on past performance and its expectation for market development. The expected revenue growth rate and gross profit rates are following the business plan approved by the Company. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

New initiatives and others includes different small CGUs. Those CGUs cover the business of RMS supply chain solutions to merchants and micro loan business. The discount rate used in the impairment testing for the CGUs in new initiatives and others segments is from 29% to 31%, while the terminal revenue growth rate is 2.5% for the years ended December 31, 2018 and 2017.

Impairment losses of RMB12 million has been charged in "General and administrative expenses" for the year ended December 31, 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 17 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	Note	As of December 31,	
		2018 RMB'000	2017 RMB'000
<b>Assets as per consolidated statement of financial position</b>			
Financial assets at fair value through profit or loss:			
– Financial assets at fair value through profit or loss	19	6,241,972	5,944,693
– Short-term investments at fair value through profit or loss	20	15,067,960	17,030,574
		<u>21,309,932</u>	<u>22,975,267</u>
Financial assets at amortized costs:			
– Trade receivables	23	466,340	432,494
– Prepayments, deposits and other assets (excluding tax prepayments)	21	6,895,162	3,669,072
– Short-term investments measured at amortized cost	20	26,762,004	8,807,603
– Restricted cash	24	4,256,120	4,458,761
– Cash and cash equivalents	24	17,043,692	19,408,839
– Assets classified as held for sale		88,087	—
		<u>55,511,405</u>	<u>36,776,769</u>
<b>Liabilities as per consolidated statement of financial position</b>			
Financial liabilities at fair value through profit or loss:			
– Convertible redeemable preferred shares	28	—	101,418,292
		—	<u>101,418,292</u>
Financial liabilities at amortized costs:			
– Trade payables	29	5,340,963	2,666,799
– Payables to merchants		7,596,388	9,363,873
– Advance from transacting users		3,226,407	2,290,160
– Deposit from transacting users		3,341,276	—
– Other payables (excluding salaries and benefits payable and other tax payable)	30	4,019,499	1,400,989
– Redemption liabilities		—	316,264
– Other non-current liabilities		35,759	—
– Borrowings	32	2,270,056	162,000
– Liabilities directly associated with assets classified as held for sale		55,510	—
		<u>25,885,858</u>	<u>16,200,085</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 18 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

#### (a) Deferred tax assets

	As of December 31,	
	2018 RMB'000	2017 RMB'000
The balance comprises temporary differences attributable to:		
– Tax losses	1,373,351	768,674
– Others	142,294	10,723
Total gross deferred tax assets	<u>1,515,645</u>	<u>779,397</u>
Set-off of deferred tax assets pursuant to set-off provisions	<u>(1,070,604)</u>	<u>(536,134)</u>
Net deferred tax assets	<u>445,041</u>	<u>243,263</u>

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
– to be recovered after 12 months	208,424	—
– to be recovered within 12 months	236,617	243,263
	<u>445,041</u>	<u>243,263</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 18 DEFERRED INCOME TAXES (Continued)

#### (b) Deferred tax liabilities

	As of December 31,	
	2018 RMB'000	2017 RMB'000
The balance comprises temporary differences attributable to:		
– Intangible assets arising from business combinations	(886,398)	(582,895)
– Investments using the equity method or at fair value	(416,830)	(418,791)
– Deferred revenue	(862,290)	(584,567)
– Others	(100,955)	—
Total gross deferred tax liabilities	<u>(2,266,473)</u>	<u>(1,586,253)</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	1,070,604	536,134
Net deferred tax liabilities	<u>(1,195,869)</u>	<u>(1,050,119)</u>

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Deferred tax liabilities:		
– to be recovered after 12 months	(839,227)	(1,050,119)
– to be recovered within 12 months	(356,642)	—
	<u>(1,195,869)</u>	<u>(1,050,119)</u>

The movement on the gross deferred income tax assets is as follows:

	Tax losses RMB'000	Others RMB'000	Total RMB'000
As of January 1, 2018	768,674	10,723	779,397
Business combinations	599,743	—	599,743
Credited to consolidated income statement	<u>4,934</u>	<u>131,571</u>	<u>136,505</u>
As of December 31, 2018	<u>1,373,351</u>	<u>142,294</u>	<u>1,515,645</u>
As of January 1, 2017	904,349	2,973	907,322
(Charged)/credited to the consolidated income statement	<u>(135,675)</u>	<u>7,750</u>	<u>(127,925)</u>
As of December 31, 2017	<u>768,674</u>	<u>10,723</u>	<u>779,397</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 18 DEFERRED INCOME TAXES (Continued)

The gross movement on the deferred income tax liabilities is as follows:

	Intangible assets RMB'000	Investments using the equity method or at fair value RMB'000	Deferred revenue RMB'000	Others RMB'000	Total RMB'000
As of January 1, 2018	(582,895)	(418,791)	(584,567)	—	(1,586,253)
Business combinations	(775,789)	—	(10,467)	—	(786,256)
Credited/(charged) to consolidated income statement	472,286	8,922	(267,256)	(100,955)	112,997
Charged to other comprehensive loss	—	(6,961)	—	—	(6,961)
<b>As of December 31, 2018</b>	<b>(886,398)</b>	<b>(416,830)</b>	<b>(862,290)</b>	<b>(100,955)</b>	<b>(2,266,473)</b>
As of January 1, 2017	(628,247)	(836,975)	(216,703)	—	(1,681,925)
Business combinations	(5,350)	—	—	—	(5,350)
Disposal of a subsidiary	858	—	—	—	858
Credited/(charged) to consolidated income statement	49,844	410,287	(367,864)	—	92,267
Credited to other comprehensive loss	—	7,897	—	—	7,897
<b>As of December 31, 2017</b>	<b>(582,895)</b>	<b>(418,791)</b>	<b>(584,567)</b>	<b>—</b>	<b>(1,586,253)</b>

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As of December 31, 2018 and 2017, the Group did not recognize deferred income tax assets of RMB5.1 billion and RMB2.9 billion in respect of cumulative tax losses amounting to RMB22.8 billion and RMB11.8 billion. These tax losses will expire from 2019 to 2023.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,	
	2018 RMB'000	2017 RMB'000
<b>Non-current</b>		
Investments at fair value through profit or loss (Note a)	<u>6,241,972</u>	<u>5,919,594</u>
<b>Current</b>		
Contingent consideration	<u>—</u>	<u>25,099</u>
	<u><u>6,241,972</u></u>	<u><u>5,944,693</u></u>

#### a) Investments at fair value through profit or loss

	Year ended of December 31,	
	2018 RMB'000	2017 RMB'000
At the beginning of the year	5,919,594	4,945,886
Additions	1,616,220	647,921
Business combinations (Note 36)	12,880	—
Change in fair value	1,836,382	472,874
Disposals and transfers (Note (i))	(3,204,736)	(14,500)
Currency translation differences	<u>61,632</u>	<u>(132,587)</u>
At the end of the year	<u><u>6,241,972</u></u>	<u><u>5,919,594</u></u>

- (i): During the year ended 31 December 2018, the Group disposed several investments at fair value through profit or loss with the aggregate amount of RMB3.2 billion. At the same time, the Group re-designated one investment at fair value through profit or loss to investments accounted for using the equity method amounted to RMB50 million as a result of change in contractual rights of the investment (Note 12(i)).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

#### a) Investments at fair value through profit or loss (Continued)

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Investments in associates at fair value through profit or loss (Note i)	2,015,957	1,608,298
Other investments at fair value through profit or loss (Note ii)	4,226,015	4,311,296
	<u>6,241,972</u>	<u>5,919,594</u>

#### (i) Investments in associates at fair value through profit or loss

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
At the beginning of the year	1,608,298	1,016,755
Additions	634,551	582,344
Business combinations	7,580	—
Change in fair value	(14,746)	22,455
Disposals and transfers	(227,982)	(6,250)
Currency translation differences	8,256	(7,006)
At the end of the year	<u>2,015,957</u>	<u>1,608,298</u>

For the years ended December 31, 2018 and 2017, the Group made investment in some convertible redeemable preferred shares or ordinary shares with preferential rights issued by private investee companies. The Group maintained significant influence in these companies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

#### a) Investments at fair value through profit or loss *(Continued)*

##### *(ii) Other investments at fair value through profit or loss*

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
At the beginning of the year	4,311,296	3,929,131
Additions	981,669	65,577
Business combinations	5,300	—
Change in fair value	1,851,128	450,419
Disposals and transfers	(2,976,754)	(8,250)
Currency translation differences	53,376	(125,581)
	<u>4,226,015</u>	<u>4,311,296</u>
At the end of the year	<u>4,226,015</u>	<u>4,311,296</u>

The Group also has interests in certain investee companies in the form of ordinary shares without significant influence, which are managed and their performance are evaluated on a fair value basis. The Group designated these instruments as financial assets at fair value through profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 20 SHORT-TERM INVESTMENTS

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Short-term investments measured at		
–Amortized cost	26,762,004	8,807,603
–Fair value through profit or loss	15,067,960	17,030,574
	<u>41,829,964</u>	<u>25,838,177</u>

a) **Short-term investments measured at amortized cost**

Short-term investments measured at amortized cost are USD zero coupon certificate of deposit and term deposit above 3 months and within 1 year. They were neither past due nor impaired as of December 31, 2018 and 2017.

b) **Short-term investments measured at fair value through profit or loss**

The short-term investments measured at fair value through profit or loss are wealth management products. The principal and returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are within level 3 of the fair value hierarchy (Note 3.3). Changes in fair value (realized and unrealized) of these financial assets had been recognized in “Other gains, net” in the consolidated income statement.

c) **Short-term investments are denominated in the following currencies:**

	As of December 31,	
	2018 RMB'000	2017 RMB'000
USD	34,050,792	22,132,640
RMB	7,340,865	3,705,537
HKD	438,307	—
	<u>41,829,964</u>	<u>25,838,177</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of December 31,	
	2018 RMB'000	2017 RMB'000
<b>Non-current</b>		
Receivables from investment disposal	282,919	—
Prepayments for investments	249,957	2,284
Rental deposits	147,678	85,785
Prepayments for fixed assets	97,920	—
Loan receivables (Note i)	74,625	137,968
Long term receivables	12,215	83,778
Others	1,570	2,525
	<b>866,884</b>	<b>312,340</b>
<b>Current</b>		
Loan receivables (Note i)	3,762,455	1,592,997
Tax prepayments	3,036,667	829,659
Prepayments for channel marketing fee	346,834	93,864
Prepayments to merchants (Note ii)	220,454	107,808
Amounts due from related parties (Note 38)	195,202	89,216
Deposits	155,826	83,285
Prepayments for rental	153,427	163,951
Receivables from third-party payment service providers	131,568	45,705
Receivables from investment disposal (Note iii)	130,362	887,885
Contract assets	105,630	47,078
Others	826,520	244,943
	<b>9,064,945</b>	<b>4,186,391</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS (Continued)

- (i) Loan receivables are derived from micro loan business. Loan receivables are recorded initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. The loan periods extended by the Group to the merchants or individuals generally range from 3 months to 18 months. Breakdown for loan receivables included both current and non-current portion as follows:

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Unsecured loan receivables	3,988,070	1,775,679
Less: allowance for impairment	<u>(150,990)</u>	<u>(44,714)</u>
	<u><u>3,837,080</u></u>	<u><u>1,730,965</u></u>

Movements on the Group's allowance for impairment of loan receivables are as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
At the beginning of the year	(57,074)	(3,314)
Provision	(208,326)	(55,014)
Receivables written off during the year as uncollectable	<u>114,410</u>	<u>13,614</u>
At the end of the year	<u><u>(150,990)</u></u>	<u><u>(44,714)</u></u>

For loan receivables outstanding at January 1, 2018, adjustments of RMB12.4 million of provisions for loan receivables was recognized in the opening accumulated losses (Note 2.1.1(a)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS *(Continued)*

- (ii) Prepayments to merchants are derived from in-store, hotel & travel services. The Group prepays the third-party merchants prior to their merchant's sales campaign of vouchers on the Group's online platform. The Group recognizes commission revenue from in-store, hotel & travel services when the vouchers and reservations are redeemed by transacting users to enjoy the goods or services. At each period end, prepayments to merchants are assessed for impairment to ensure the recoverability, by considering reliability of the assets and existence of advance from transacting users.

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Prepayments to merchants	298,128	385,390
Less: allowance for impairment(a)	(77,674)	(277,582)
	220,454	107,808

- (a) Majority of loss allowance are related to the non-performing balances for which 100% provision have been provided.

Movements on the Group's allowance for impairment of prepayments to merchants are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	(277,582)	(317,329)
Reversal	19,251	39,689
Receivables written off during the year as uncollectable	180,657	58
At the end of the year	(77,674)	(277,582)

- (iii) The total consideration receivable from the disposal of Maoyan in 2017 was RMB1.8 billion with RMB888 million received in 2017 and the rest RMB888 million was fully collected in 2018.

The remaining balances of prepayments, deposits and other assets which are subject to ECL model are all within performing stage with credit losses are limited to 12 months expected loss, which are not material (Note 3.1(b)).

As of December 31, 2018 and 2017, the carrying value of prepayments, deposits and other assets was primarily denominated in RMB.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 22 INVENTORIES

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Spare parts	51,814	—
Merchandise	<u>348,430</u>	<u>88,374</u>
	<u>400,244</u>	<u>88,374</u>

### 23 TRADE RECEIVABLES

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Trade receivables	590,409	461,955
Less: allowance for impairment	<u>(124,069)</u>	<u>(29,461)</u>
	<u>466,340</u>	<u>432,494</u>

As of December 31, 2017, individually significant receivables have been separately assessed for impairment. Allowance was set up against impaired receivables arising from credit default of several customers who are in financial difficulties.

Beginning from January 1, 2018, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 23 TRADE RECEIVABLES *(Continued)*

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	(29,461)	(47,693)
Provision	(131,472)	(23,173)
Assets classified as held for sale	14,600	—
Reversal	8,011	8,433
Receivables written off during the year as uncollectable	14,253	32,972
	<u>14,253</u>	<u>32,972</u>
At the end of the year	<u>(124,069)</u>	<u>(29,461)</u>

The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of December 31, 2018 and 2017.

The Group allows a credit period of 90 to 150 days to its customers. Aging analysis of trade receivables (net off allowance for impairment of trade receivables) based on invoice date is as follows:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	281,353	283,649
3 to 6 months	126,376	84,428
6 months to 1 year	56,574	56,958
Over 1 year	2,037	7,459
	<u>466,340</u>	<u>432,494</u>

The majority of the Group's trade receivables were denominated in RMB.

The maximum exposure to credit risk as of December 31, 2018 and 2017 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 24 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS

#### (a) Cash and cash equivalents

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Cash in hand and cash in bank	9,629,534	14,780,345
Term deposit with initial terms within three months	5,576,350	3,279,367
Cash held by financial institutions (Note i)	1,837,808	1,349,127
	<u>17,043,692</u>	<u>19,408,839</u>

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
USD	11,247,166	13,776,847
RMB	5,629,279	5,624,311
JPY	88,196	1,759
Others	79,051	5,922
	<u>17,043,692</u>	<u>19,408,839</u>

- (i) : The Group considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. Cash and cash equivalents of the Group primarily represent bank deposits and fixed deposits with maturities less than three months. As of December 31, 2018 and 2017, the Group had certain amounts of cash held in accounts managed by other financial institutions in connection with the provision of online and mobile commerce and related services in the amount of RMB1.8 billion and RMB1.3 billion, respectively, which have been classified as cash and cash equivalents on the consolidated statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 24 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS *(Continued)*

**(b) Restricted cash**

Restricted cash are dominated in the following currencies:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
RMB	3,628,619	4,451,442
USD	625,935	7,319
Others	1,566	—
	<b>4,256,120</b>	<b>4,458,761</b>

As of December 31, 2018, RMB178 million and USD85 million (equivalent to approximately RMB583.4 million) restricted deposits were held by bank as letter of guarantee. The USD85 million (equivalent to approximately RMB583.4 million) was pledged to China Merchants Bank Co., Ltd. for the loans of RMB300 million (Note 32).

As of December 31, 2017, RMB143.4 million and USD1.1 million (equivalent to approximately RMB7.3 million) restricted deposits were held by bank as letter of guarantee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 25 SHARE CAPITAL AND SHARE PREMIUM

As of December 31, 2018 and 2017, the authorised share capital of the Company comprises 10,000,000,000 ordinary shares with par value of USD0.00001 per share.

#### Issued:

	Number of ordinary shares '000	Nominal value of ordinary shares USD'000	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At January 1, 2018	1,548,664	15	98	9,338,529	9,338,627
Issuance of ordinary shares	4,136,806	41	283	248,944,408	248,944,691
Exercise of option and RSU vesting	67,649	1	5	842,199	842,204
Repurchase of ordinary shares	(24,667)	—	(2)	(811,142)	(811,144)
Cancellation of ordinary shares	(1,005)	—	—	(29,307)	(29,307)
<b>At December 31, 2018</b>	<b>5,727,447</b>	<b>57</b>	<b>384</b>	<b>258,284,687</b>	<b>258,285,071</b>
At January 1, 2017	1,483,996	14	93	8,567,622	8,567,715
Exercise of option and RSU vesting	86,664	1	6	1,297,645	1,297,651
Repurchase of ordinary shares	(21,996)	—	(1)	(526,738)	(526,739)
<b>At December 31, 2017</b>	<b>1,548,664</b>	<b>15</b>	<b>98</b>	<b>9,338,529</b>	<b>9,338,627</b>

#### Share Repurchases

During the year ended December 31, 2018 and 2017, the Group executed share repurchases from certain employees and shareholders of the Company. All repurchased shares were retired upon repurchase. The fair value of the repurchased shares are reflected as a reduction to share capital and share premium in the Company's consolidated balance sheet. Any incremental amount paid, i.e., the difference between the repurchase price and per share fair value of the underlying ordinary shares, is recorded as compensation expenses in the Group's consolidated income statement.

A tranche of 3,580,459 shares were repurchased between January 2017 and April 2017 at a per share price of USD3.86, while another tranche of 18,416,209 shares were repurchased in December 2017 at a weighted average per share fair value of USD5.47. The incremental amount paid of RMB223 million was recorded in compensation expenses for the year ended December 31, 2017.

A tranche of 24,667,064 shares were repurchased between January 2018 and April 2018 at a weighted average per share fair value of USD5.47. The incremental amount paid of RMB49 million was recorded in compensation expenses for the year ended December 31, 2018.

As of December 31, 2018, a total number of 234,731,722 shares which have been vested and exercised, are in the process of registration.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 26 OTHER RESERVES

	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Currency translation reserve RMB'000	Others RMB'000	Total RMB'000
<b>As of December 31, 2017</b>	20	1,232,234	(500,154)	(265,997)	466,103
Adjustment on adoption of IFRS9 (net of tax)	—	—	—	(423,731)	(423,731)
<b>As of January 1, 2018</b>	20	1,232,234	(500,154)	(689,728)	42,372
Issuance of ordinary shares	—	—	—	609,744	609,744
Business combinations	—	231,736	—	—	231,736
Share-based compensation expenses	—	1,816,453	—	—	1,816,453
Exercise of option and RSU vesting	—	(685,701)	—	—	(685,701)
Transaction with non-controlling interests	—	—	—	47,969	47,969
Preferred shares fair value change due to own credit risk	—	—	—	(186,013)	(186,013)
Currency translation differences	—	—	(7,617,907)	—	(7,617,907)
<b>As of December 31, 2018</b>	<b>20</b>	<b>2,594,722</b>	<b>(8,118,061)</b>	<b>(218,028)</b>	<b>(5,741,347)</b>
<b>As of January 1, 2017</b>	20	1,556,384	(3,929,640)	(369,636)	(2,742,872)
Share-based compensation expenses	—	746,465	—	—	746,465
Exercise of option and RSU vesting	—	(1,070,615)	—	—	(1,070,615)
Transaction with non-controlling interests	—	—	—	20,810	20,810
Share of equity movement in an associate (Note 12(a))	—	—	—	82,829	82,829
Currency translation differences	—	—	3,429,486	—	3,429,486
<b>As of December 31, 2017</b>	<b>20</b>	<b>1,232,234</b>	<b>(500,154)</b>	<b>(265,997)</b>	<b>466,103</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 27 DEFERRED REVENUE

	As of December 31,	
	2018 RMB'000	2017 RMB'000
<b>Non-Current</b>		
Business cooperation agreement with Maoyan	611,233	833,500
Others	13,766	—
	<u>624,999</u>	<u>833,500</u>
<b>Current</b>		
Online marketing services	2,856,343	1,891,948
Business cooperation agreement with Maoyan	222,267	222,267
Mobike monthly pass	24,221	—
Others	51	—
	<u>3,102,882</u>	<u>2,114,215</u>
	<u><u>3,727,881</u></u>	<u><u>2,947,715</u></u>

Movements on the Group's deferred revenues are as follows:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
At the beginning of the year	2,947,715	2,072,548
Add:		
Business cooperation agreement with Maoyan (Note i)	—	191,334
Receipt from online marketing customers	10,586,871	5,798,999
Receipt from Mobike monthly pass	515,620	—
Receipt from others	22,651	—
Less:		
Business cooperation agreement with Maoyan amortization	(222,267)	(235,567)
Online marketing revenue recognition	(9,627,170)	(4,879,599)
Mobike monthly pass revenue recognition	(491,398)	—
Other revenue recognition	(4,077)	—
Liabilities directly associated with assets classified as held for sale	(64)	—
<b>At the end of the year</b>	<u><u>3,727,881</u></u>	<u><u>2,947,715</u></u>

- (i) In July 2016, as part of the Group's disposal of Maoyan, the Group entered into a 5-year business cooperation agreement with Maoyan. Subsequently in September 2017, the agreement was extended for another 14 months. The Group recognizes the revenue over the contract period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On October 6, 2015, the Company issued a total of 1,954,217,809 shares of Series A-1 through A-11 Preferred Shares.

In November 2015, the Company issued Series B Preferred Shares at an issue price of USD3.86 per share. Series B Preferred Shares were continuously issued beginning from November 2015 to August 2016 and total 801,039,606 shares were issued.

In October 2017, the Company issued Series C Preferred Shares at an issue price of USD5.59 per share. Total of 733,575,936 shares were issued.

In April 2018, the Company issued 167,703,791 shares of Series A-12 Preferred Shares in connection with the acquisition of Mobike (Note 36).

Upon issuance of Series A-12 Preferred shares, a total of 2,121,921,600 shares were issued from Series A-1 through A-12 ("Series A Preferred Shares").

Upon the Listing on September 20, 2018, all outstanding Preferred Shares of the Company have been converted into ordinary shares.

The key terms of all series of Preferred Shares effective and applicable during the period ended September 20, 2018 are as follows:

#### Conversion

Each Preferred Share may, at the option of the holders, be converted at any time after the original issue date into fully-paid and non-assessable ordinary shares at an initial conversion ratio of 1:1 subject to (i) adjustment for share splits and combinations; (ii) adjustment for ordinary share dividends and distributions; (iii) adjustments for other dividends; and (iv) adjustment in Preferred Share conversion price for dilutive issuances.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

#### **Conversion *(Continued)***

In addition, each Preferred Share shall automatically be converted, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares based on the then-effective applicable conversion price upon the earlier of:

- (i) the closing of a Qualified IPO, or
- (ii) the date specified by written consent or agreement of holders of a majority of the outstanding Preferred Shares; provided, however, that (a) no Series B Preferred Shares can be converted into ordinary shares without the prior written consent or agreement of holders of a majority of the outstanding Series B Preference shares, voting as a separate class; and (b) no Series C Preferred Shares can be converted into ordinary shares without the prior written consent or agreement of holders of a majority of the outstanding Series C Preferred Shares, voting as a separate class.

“Qualified IPO” is defined as a firm underwritten initial public offering of the ordinary shares and the listing of such shares for trading on the New York Stock Exchange, NASDAQ Global Market, Main Board of the Hong Kong Stock Exchange or any other internationally recognized stock exchange as approved by the Company and the holders of at least a majority of voting power of all Preferred Shares (voting as a single class), with a minimum valuation of a certain amount on a fully diluted basis immediately prior to the consummation of the offering or agreed in writing by the holders of at least a majority of voting power of all outstanding Preferred Shares (voting as a single class), at least a majority of voting power of all outstanding Series C Preferred Shares (voting as a separate class), and a majority of voting power of all outstanding Series C Preferred Shares held by certain Series C shareholders.

Prior to the issuance of Series C Preferred Shares, specific conditions attached to above conversion rights in relation to Series C shareholders as summarized above were not applicable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

#### **Liquidation preference**

Upon Liquidation Event, whether voluntary or involuntary, before any distribution or payment shall be made to the ordinary shareholders, each holder of Series B and Series C Preferred Shares shall be entitled to receive an "Liquidation Preference Amount" equal to the greater of (i) 120% of the Series B or C issuance price plus all declared but unpaid dividends and (ii) amount each holder would have received had the Series B and C Preferred Shares been converted into ordinary shares immediately prior to the closing of such Liquidation Events, and each holder of Series A Preferred Shares shall be entitled to receive 100% of the issuance price, plus all declared but unpaid dividends.

If the assets of the Company shall be insufficient to make payment of the foregoing amounts in full on all the Preferred Shares, then such assets shall be distributed among the holders of Preferred Share, ratably in proportion to the full amounts to which they would otherwise be respectively entitled thereon. After distribution or payment in full of the amount distributable or payable on any Preferred Shares, the assets of the Company legally available for distribution shall be distributed pro-rata among the holders of the ordinary shares.

The Liquidation Events are defined to include: (i) any liquidation, winding-up, or dissolution of any group company (as defined in the share purchase agreement); (ii) any merger, acquisition, sale of voting control, amalgamation or consolidation of any group company, as a result of which the shareholders of the Company will cease to own a majority of the Equity Securities or voting power of the surviving entity; (iii) any sale of any group company or any sale or distribution of all or substantially all of the assets of any group company; (iv) the exclusive licensing of all or substantially all of the intellectual property of any group company to a third-party unaffiliated with any group company; or (v) any transfer in which a majority of the outstanding voting power of the Company is transferred; unless waived in writing by the holders of at least a majority of the then outstanding Preferred Shares. There is no liquidation events triggered throughout the period ended September 20, 2018.

#### **Redemption features**

Subject to the law and applicable provisions of these Articles, if any, the Company may purchase its own shares as the Directors may determine and agree with the shareholder. Under specific conditions as provided in the Article of Association, the holders of Series C Preferred Shares shall be entitled to sell their Series C Preferred Shares to the Company on the same terms and in the same manner on a pro rata basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

#### Dividends

Non-cumulative dividends of 8% per annum when and if declared by the Board with preference to Series C preferred shareholders, followed by series B preferred shareholders, followed by each tranche of Series A from A-12 until A-1, and then ordinary shares, in that order.

#### Voting rights

Each Preferred share has voting rights equivalent to the number of ordinary shares into which such Preferred shares could be then convertible.

The Group monitors Series A, B, and C Preferred Shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any embedded derivatives from the host instruments and designates entire instruments as a financial liability at fair value through profit or loss with the changes in the fair value recorded in the consolidated income statement.

The movements of the convertible redeemable preferred share are set out as below:

	RMB'000
<b>As of January 1, 2018</b>	<b>101,418,292</b>
Issuance of Series A-12 preferred shares	5,888,472
Change in fair value	104,792,071
<i>Includes: change in fair value due to own credit risk</i>	186,013
Currency translation differences	8,336,605
Transfer to ordinary shares	<u>(220,435,440)</u>
<b>As of December 31, 2018</b>	<u>—</u>
<b>As of January 1, 2017</b>	<b>63,687,007</b>
Issuance of Series C Preferred Shares	27,109,363
Change in fair value	15,138,824
Currency translation differences	<u>(4,516,902)</u>
<b>As of December 31, 2017</b>	<u>101,418,292</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

#### Voting rights *(Continued)*

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

	As of September 20, 2018	As of December 31, 2017
Discount rate	23%	28%
Risk-free interest rate	3%	2.5%
DLOM	4%	13%
Volatility	40%	40%

Discount rate was estimated by weighted average cost of capital as of each appraisal date. The Group estimated the risk-free interest rate based on the yield of US Treasury Strips with a maturity life equal to period from the respective appraisal dates to expected liquidation date. Volatility was estimated at the dates of appraisal based on average of historical volatilities of the comparable companies in the same industry for a period from the respective appraisal dates to expected liquidation date. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Series A, B, and C on each appraisal date.

### 29 TRADE PAYABLES

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Trade payables	5,340,963	2,666,799

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 29 TRADE PAYABLES (Continued)

As of December 31, 2018 and 2017, the aging analysis of the trade payables based on invoice date were as follows:

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Trade payables		
Up to 3 months	5,067,050	1,995,402
3 to 6 months	168,162	662,168
6 months to 1 year	102,764	2,523
Over 1 year	2,987	6,706
	<u>5,340,963</u>	<u>2,666,799</u>

The majority of the Group's trade payables were denominated in RMB.

### 30 OTHER PAYABLES AND ACCRUALS

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Salaries and benefits payable	2,598,340	1,691,320
Payables for acquisition	1,443,877	37,305
Deposits	1,183,676	665,013
Tax payable	743,791	828,014
Amounts due to related parties (Note 38)	407,248	212,984
Accrued expenses	347,315	239,217
Others	637,383	246,470
	<u>7,361,630</u>	<u>3,920,323</u>

Except for RMB1.4 billion payables for acquisition of Mobike, which is denominated in USD, the majority of other balances are denominated in RMB.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 31 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In December 2018, the directors of the Group decided to sell certain overseas Mobike entities. The sale is expected to be completed in 2019. The associated assets and liabilities were consequently presented as held for sale.

The following assets and liabilities were reclassified as held for sale as at December 31, 2018:

	As of December 31, 2018 RMB'000
Assets classified as held for sale	
Cash and cash equivalents	51,524
Restricted cash	271
Trade receivables	122
Prepayments, deposits and other assets	19,013
Property, plant and equipment	15,594
Intangible assets	15
Inventories	1,548
	88,087
Total assets classified as held for sale	88,087
Liabilities directly associated with assets classified as held for sale	
Trade payables	(24,127)
Advance from transacting users	(1,238)
Other payables and accruals	(12,257)
Deposit from transacting users	(17,824)
Deferred revenue	(64)
	(55,510)
Total liabilities directly associated with assets classified as held for sale	(55,510)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 32 BORROWINGS

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Bank loan - unsecured	1,200,000	—
Bank loan - secured	600,000	162,000
Asset-backed securities	470,056	—
	<u>2,270,056</u>	<u>162,000</u>

(a) Bank borrowings of RMB1.8 billion will be repayable in 2019 and bear annual average interest rate of 5.597% (2017: 4.785%).

- (i) The amount of RMB300 million are borrowed from China Merchants Bank Co., Ltd. and secured by domestic loan under overseas guarantee.
- (ii) The amount of RMB300 million are borrowed from China Everbright Bank Co., Ltd, guaranteed by Beijing Sankuai Online Technology Co., Ltd. and secured by the unexpired receivables of Chongqing Sankuai Micro-credit Co., Ltd.

For the year ended December 31, 2018, the weighted average effective interest rate was 5.980% (2017: 7.324%).

(b) The Group has securitized certain loan receivables and issued RMB500 million asset-backed securities (“ABS”) in 2018. During the year ended December 31, 2018, the Group issued ABS of RMB500 million, of which RMB471 million represented senior tranche and RMB29 million represented subordinate tranches, which were fully acquired by the Group. These ABS bore interest at 5.4%-6.2% per annum in 2018.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 33 SHARE-BASED PAYMENTS

On October 6, 2015, the Board approved the establishment of the Company's 2015 Share Incentive Plan ("2015 Share Incentive Plan"), an equity-settled share-based compensation plan with the purpose of attracting, motivating, retaining and rewarding certain employees, consultants, and Directors. The 2015 Share Incentive Plan is valid and effective for 10 years from the date of approval by the Board. The Group has reserved 598,483,347 ordinary shares under the 2015 Share Incentive Plan, and permits the awards of options and RSUs of the Company's ordinary shares.

On April 4, 2018, the Company and Mobike entered into a strategic transaction (Note 36), and the Group assumed all the outstanding incentive share awards of Mobike (the "Mobike option replacement"). The number and types of the shares issuable upon the exercise of the Mobike option replacement, and the applicable exercise price for share options were adjusted according to the same term as the 2015 Share Incentive Plan. After the replacement awards were issued, Mobike's original incentive plan ceased to operate.

A total of 21,290,122 share options were assumed by the Group in the acquisition of Mobike. The Mobike option replacement has been analysed to determine whether the awards relate to pre-combination or post-combination services or both. To the extent Mobike option replacement is for pre-combination services, a portion of the value of the awards has been allocated to the consideration transferred for the acquiree. To the extent the Mobike option replacement is for post-combination services, the value of the awards is recognized as compensation expenses attributable to post-combination services.

The incremental fair value, calculated as the difference between the fair value of share option award assumed by the Group in the Mobike option replacement and the fair value of the outstanding incentive share awards of Mobike as of the acquisition date, has been included in the measurement of the amount recognized for the services received over the remainder of the vesting period, and is recognized in the Group's consolidated income statement as share-based compensation expenses.

In addition, according to the merger agreement with Mobike, RSUs of the Company with a total valuation of USD60 million would be granted to current Mobike officers, directors, and employees, and subject to the Company's 2015 Share Incentive Plan. The Company recorded share-based compensation expenses over the service period based on its best estimate of the grant day fair value of related RSUs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 33 SHARE-BASED PAYMENTS *(Continued)*

As of August 30, 2018, the Group has authorised and reserved 683,038,063 ordinary shares under the 2015 Share Incentive Plan for awards of options and RSUs of the Company's ordinary shares. All the share options and RSUs under the 2015 Share Incentive Plan were granted between May 31, 2006 and August 2, 2018 and the Company will not grant further share options and RSUs under the 2015 Share Incentive Plan after the Listing.

On August 30, 2018, a new share option scheme ("Post-IPO Share Option Scheme") and a new share award scheme ("Post-IPO Share Award Scheme") had been approved by the shareholders of the Company. The total number of Class B Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 475,568,628 Class B Shares. The aggregate number of Class B Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 272,336,228 Shares without Shareholders' approval (the "Post-IPO Share Award Scheme Limit") subject to an annual limited of 3% of the total number of issued Shares at the relevant time.

#### Share options

Options granted typically expire in 10 years from the respective grant dates. For previously granted options that were near its expiration date (i.e., 10 years after grant date) in 2017 and 2018, their expiration date was extended to October 5, 2025. The options have graded vesting terms, and vest in tranches from the grant date over 4 years, on condition that employees remain in service without any performance requirements.

The options may be exercised at any time after they have vested subject to the terms of the award agreement and are exercisable for a maximum period of 10 years after the date of grant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 33 SHARE-BASED PAYMENTS *(Continued)*

#### Share options *(Continued)*

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of share options	Weighted average exercise price per share option (USD)
Outstanding as of December 31, 2017	121,961,415	1.94
Granted during the year	24,081,670	4.71
Mobike option replacement	21,290,122	1.34
Forfeited during the year	(9,581,909)	1.71
Exercised during the year	<u>(41,429,635)</u>	<u>0.60</u>
<b>Outstanding as of December 31, 2018</b>	<b>116,321,663</b>	<b>2.90</b>
Vested and exercisable as of December 31, 2018	<u>44,792,530</u>	<u>1.51</u>
<b>Outstanding as of December 31, 2016</b>	<b>159,405,915</b>	<b>1.14</b>
Granted during the year	31,381,500	3.86
Forfeited during the year	(6,876,245)	2.96
Exercised during the year	<u>(61,949,755)</u>	<u>0.72</u>
<b>Outstanding as of December 31, 2017</b>	<b>121,961,415</b>	<b>1.94</b>
Vested and exercisable as of December 31, 2017	<u>62,477,476</u>	<u>0.65</u>

The weighted average remaining contractual life of outstanding share options was 7 years and 7 years as of December 31, 2018 and 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 33 SHARE-BASED PAYMENTS *(Continued)*

#### Fair value of share options

Before the Listing on September 20, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted option-pricing model and equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Black-Scholes model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31,	
	2018	2017
Risk-free interest rates	3.2% - 3.8%	2.2%-3.1%
Expected term - years	2.8-6.8	5.9-6.4
Expected volatility	45.0% - 50.0%	40.0%-55.0%
Fair value of ordinary shares (USD)	5.18-6.21	2.87-3.85
Exercise price (USD)	0-5.18	3.86
Dividend yield	—	—

The weighted average fair value of granted options was USD3.69 and USD1.94 per share, for the years ended December 31, 2018 and 2017, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 33 SHARE-BASED PAYMENTS *(Continued)*

#### RSUs

The Company also grants RSUs to the Company's employees, consultants, and directors under the 2015 Share Incentive Plan and Post-IPO Share Awards Plan. The RSUs awarded vest in tranches from the grant date over a certain service period, on condition that employees remain in service without any performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

Movement in the number of RSUs granted and the respective weighted average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU (USD)
<b>Outstanding as of December 31, 2017</b>	<b>114,505,992</b>	<b>3.34</b>
Granted during the year	87,668,245	5.76
Vested during the year	(26,219,723)	2.95
Forfeited during the year	<u>(11,820,544)</u>	<u>4.77</u>
<b>Outstanding as of December 31, 2018</b>	<b><u>164,133,960</u></b>	<b><u>4.59</u></b>
<b>Outstanding as of December 31, 2016</b>	<b>71,260,265</b>	<b>2.39</b>
Granted during the year	80,815,301	3.71
Vested during the year	(24,714,694)	2.27
Forfeited during the year	<u>(12,854,880)</u>	<u>2.45</u>
<b>Outstanding as of December 31, 2017</b>	<b><u>114,505,992</u></b>	<b><u>3.34</u></b>

The fair value of each RSU at the grant dates is determined by reference to the fair value of the underlying ordinary shares on the date of grant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 33 SHARE-BASED PAYMENTS *(Continued)*

#### RSUs *(Continued)*

The total share-based compensation expenses recognized in the consolidated income statement are RMB1.9 billion and RMB971.1 million for the years ended December 31, 2018 and 2017, respectively. The following table sets forth a breakdown of the share-based compensation expenses by nature:

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Share options	373,874	141,055
RSUs	1,442,579	605,410
Incremental fair value for repurchase of ordinary shares (Note 25)	48,660	223,154
Others	—	1,481
	<u>1,865,113</u>	<u>971,100</u>

### 34 DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2018 and 2017.

### 35 COMMITMENTS

#### a) Capital commitments

	As of December 31,	
	2018 RMB'000	2017 RMB'000
Within 1 year	37,426	24,368
1 – 2 years	3,628	2,535
	<u>41,054</u>	<u>26,903</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 35 COMMITMENTS *(Continued)*

#### a) Capital commitments *(Continued)*

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Purchase of other property, plant and equipment	41,054	26,903

#### b) Operating lease commitments

The Group leases office under non-cancelable operating lease agreements. Future minimum lease payments under non-cancelable operating lease agreements with initial terms of 1 year or more consist of the following:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Within 1 year	605,723	268,529
1 – 5 years	1,281,789	529,647
Over 5 years	223,965	299,185
	2,111,477	1,097,361

### 36 BUSINESS COMBINATIONS

#### Acquisition of Mobike

On April 4, 2018, the Company and Tolan Holdings Limited (“Tolan Holdings”), a wholly owned subsidiary of the Company, completed a transaction to acquire 100% of the equity interests of mobike Ltd. (“Mobike”), an unlisted entity mainly operates in the PRC and connects users to dockless bikes via a mobile application.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 36 BUSINESS COMBINATIONS (Continued)

#### Acquisition of Mobike (Continued)

The goodwill of approximately RMB12.8 billion arising from the acquisition is attributable to business cooperation expected to be derived from combining with the operations of the Group. None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for the acquisition of Mobike, the fair value of identifiable assets acquired and liabilities assumed.

	April 4, 2018 RMB' 000
Cash Consideration	9,443,771
Issuance of preferred shares (167.7 million shares) (Note 28) (i)	5,888,472
Option replacement (ii)	231,736
<b>Total consideration paid by the Group</b>	<b>15,563,979</b>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	834,532
Restricted cash	392,374
Short-term investments	380,000
Inventories	159,115
Trade receivables	21,550
Financial assets at fair value through profit or loss	12,880
Intangible assets	
– Trade name	1,600,000
– User list	840,000
– Technology	660,000
– Others	478,265
Property, plant and equipment	5,349,198
Prepayments, deposits and other assets	1,918,191
Deferred tax assets	599,743
Trade payables	(414,715)
Borrowings	(390,000)
Advance from transacting users	(497,907)
Other payables and accruals	(246,945)
Other non-current liabilities	(8,080)
Deferred revenue	(35,176)
Deposit from transacting users	(8,125,057)
Deferred tax liabilities	(785,467)
<b>Total identifiable net assets</b>	<b>2,742,501</b>
Goodwill	12,821,478
	<b>15,563,979</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 36 BUSINESS COMBINATIONS *(Continued)*

#### **Acquisition of Mobike *(Continued)***

Note i) The share consideration paid by the Group for the acquisition of Mobike was comprised of the Company's Series A-12 preferred shares. The fair value of the share consideration was determined using the per share fair value of Series A-12 preferred share as of the acquisition date, using the option-pricing method and equity allocation model.

Note ii) Pursuant to the share purchase agreement for the acquisition of Mobike, all outstanding awards, vested or unvested, that were awarded under the Mobike's current incentive plan were assumed by the Group under the 2015 Share Incentive Plan. This represents the portion of the awards related to precombination services and were therefore allocated to consideration paid by the Company.

The revenue included in the consolidated income statement since April 4, 2018 contributed by Mobike was RMB1.5 billion. Mobike also contributed a loss of RMB4.6 billion over the same period. The acquisition-related costs were not significant and had been charged to general and administrative expenses in the consolidated income statement for the year ended December 31, 2018.

Had Mobike been consolidated from January 1, 2018, the Group's consolidated income statement for the year ended December 31, 2018 would show pro-forma revenue of RMB65.5 billion and a loss of RMB117.1 billion.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 37 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

#### a) Cash used in operations

	Note	Year ended December 31,	
		2018 RMB'000	2017 RMB'000
Loss before income tax		(115,490,807)	(18,933,663)
Adjustments for			
Depreciation and amortization	15,16	5,366,801	844,315
Provision for doubtful accounts	7	285,655	64,371
Non-cash employee benefits expense			
- share-based payments	8	1,865,113	971,100
Gain from business and investments disposals	9	(23,132)	(85,925)
Fair value changes of convertible redeemable preferred shares	28	104,606,058	15,138,824
Impairment provision and restructuring expense for Mobike restructuring plan		358,790	—
Impairment provision for Mobike tradename		1,346,000	—
Impairment provision for other intangible assets		—	13,266
Share of losses of investments accounted for using equity method	12	48,267	10,418
Change in fair value from investments measured at fair value through profit or loss	9,19	(1,836,382)	(497,973)
Dividend income and interest classified as investing cash flows		(584,347)	(346,375)
Finance costs		62,099	9,783
Net exchange differences		1,485	7,819
Change in working capital			
Decrease/(increase) in restricted cash		594,744	(4,133,474)
Increase in trade receivables		(135,879)	(182,024)
Increase in prepayments, deposits and other assets		(3,722,048)	(2,538,454)
Increase in inventories		(168,664)	(38,179)
Increase in trade payables		2,100,697	1,353,493
(Decrease)/increase in payables to merchants		(1,767,485)	5,058,537
Increase in advance from transacting users		439,578	246,409
Increase in deferred revenue		745,054	875,167
Increase in other payables and accruals		1,676,265	1,870,925
Increase in other non-current liabilities		16,906	—
Decrease in deposit from transacting users		(4,765,957)	—
<b>Cash used in operations</b>		<b>(8,981,189)</b>	<b>(291,640)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 37 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

#### a) Cash used in operations (Continued)

Non-cash transaction is about the acquisition of subsidiaries and investments through the issuance of shares. Please refer to Note 12, 19, 30 and 36. Excluding this, there were no other material non-cash investing and financing activities for the years ended December 31, 2018 and 2017.

#### Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities			Total RMB'000
	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Convertible redeemable preferred shares RMB'000	
Liabilities from financing activities as of January 1, 2018	162,000	—	101,418,292	101,580,292
Cash flow	1,248,000	470,000	—	1,718,000
Business combinations	390,000	—	5,888,472	6,278,472
Fair value changes of convertible redeemable preferred shares	—	—	104,792,071	104,792,071
Currency translation differences	—	—	8,336,605	8,336,605
Recognition of issuance cost	—	56	—	56
Proceeds from issuance of ordinary shares, net	—	—	(220,435,440)	(220,435,440)
Liabilities from financing activities as of December 31, 2018	<u>1,800,000</u>	<u>470,056</u>	<u>—</u>	<u>2,270,056</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 37 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

#### a) Cash used in operations (Continued)

	Liabilities from financing activities		
	Borrowings	Convertible redeemable preferred shares	Total
	RMB'000	RMB'000	RMB'000
<b>Liabilities from financing activities as of</b>			
<b>January 1, 2017</b>	1,000	63,687,007	63,688,007
Cash flow	161,000	25,802,523	25,963,523
Issuance of Preferred Shares without cash settled (Note i)	—	1,306,840	1,306,840
Fair value changes of convertible redeemable preferred shares	—	15,138,824	15,138,824
Currency translation differences	—	(4,516,902)	(4,516,902)
<b>Liabilities from financing activities as of</b>			
<b>December 31, 2017</b>	<u>162,000</u>	<u>101,418,292</u>	<u>101,580,292</u>

- (i) The Company entered into a USD200 million contribution-in-kind for 5-year cooperation agreement with one platform. A call option was granted to the platform to exercise at the next round of financing. If the platform does not exercise, after a certain time period, the Company would be required to pay the amount plus interest. In October 2017, the call option was exercised in full with Series C Preferred Shares issued and no cash settlement.

### 38 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 38 RELATED PARTY TRANSACTIONS (Continued)

#### a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the year ended December 31, 2018 and 2017.

Name of related parties	Relationship
Tencent Group	One of the Company's shareholders
Tianjing Maoyan and its subsidiaries	Associate of the Group
Changsha Xiangjiang Longzhu Private Equity Investment Fund Enterprise (Limited Partnership)	Associate of the Group
Jilin billion-Allians Bank Co., Ltd.	Associate of the Group
Beijing Wisdom Map Technology Co., Ltd.	Associate of the Group
Dalian Tongda Enterprise Management Co., Ltd.	Associate of the Group
Dalian Sen Cheng Logistics Co., Ltd.	Associate of the Group
Shanghai Shang Mi Technology Co., Ltd.	Associate of the Group
Wang Xing	Core connected person
Mu Rongjun	Core connected person

#### b) Significant transactions with related parties

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
(i) Sales of service		
Associate of the Group	414,204	384,149
One of the Company's shareholders	3	—
	<u>414,207</u>	<u>384,149</u>
(ii) Purchase of goods and service		
One of the Company's shareholders	963,941	413,285
Associate of the Group	532,984	—
	<u>1,496,925</u>	<u>413,285</u>
(iii) Sales of investments		
Associate of the group	38,776	—
	<u>38,776</u>	<u>—</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 38 RELATED PARTY TRANSACTIONS (Continued)

#### c) Balances with related parties

	As of December 31,	
	2018 RMB'000	2017 RMB'000
(i) Other receivables from related parties		
Associate of the Group	19,654	31,240
One of the Company's shareholders	175,548	47,976
Core connected person	—	10,000
	<u>195,202</u>	<u>89,216</u>
(ii) Other payables to related parties		
Associate of the Group	378,972	194,194
One of the Company's shareholders	28,276	18,790
	<u>407,248</u>	<u>212,984</u>

#### d) Key management compensation

	Year ended December 31,	
	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	14,461	9,281
Pension costs and other employee benefits	375	457
Share-based compensation expenses	233,504	120,443
Others	88	54
	<u>248,428</u>	<u>130,235</u>

### 39 CONTINGENCIES

The Group did not have any material contingent liabilities as of December 31, 2018 and 2017, except for the financial guarantee amount, disclosed in Note 3.1(c).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 40 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

		As of December 31,	
		2018	2017
		RMB'000	RMB'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries		63,064,966	45,684,536
Prepayments, deposits and other assets		<u>27,281,595</u>	<u>21,107,233</u>
		<u>90,346,561</u>	<u>66,791,769</u>
<b>Current assets</b>			
Short-term investments		33,105,050	18,819,750
Prepayments, deposits and other assets		20,104	124,422
Cash and cash equivalents		<u>3,960,689</u>	<u>2,992,032</u>
		<u>37,085,843</u>	<u>21,936,204</u>
<b>Total assets</b>		<u><b>127,432,404</b></u>	<u><b>88,727,973</b></u>
<b>EQUITY</b>			
Share capital	25	384	98
Share premium	25	258,284,687	9,338,529
Other reserves	40(b)	(4,712,673)	1,034,659
Accumulated losses		<u>(127,527,156)</u>	<u>(23,077,808)</u>
<b>Equity attributable to equity holders of the Company</b>		<u><b>126,045,242</b></u>	<u><b>(12,704,522)</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Convertible redeemable preferred shares	28	—	<u>101,418,292</u>
<b>Current liabilities</b>			
Other payables and accruals		<u>1,387,162</u>	<u>14,203</u>
<b>Total liabilities</b>		<u><b>1,387,162</b></u>	<u><b>101,432,495</b></u>
<b>Total equity and liabilities</b>		<u><b>127,432,404</b></u>	<u><b>88,727,973</b></u>

The statement of financial position of the Company was approved by the Board of Directors on March 11, 2019 and was signed on its behalf.

Wang Xing  
Director

Mu Rongjun  
Director

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

### 40 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

#### (b) Reserve movement of the Company

	Other reserve RMB'000	Accumulated losses RMB'000
As of December 31, 2017	1,034,659	(23,077,808)
Adjustment on adoption of IFRS9, net of tax	<u>(423,731)</u>	<u>423,731</u>
As of January 1, 2018	<u>610,928</u>	<u>(22,654,077)</u>
<b>Comprehensive loss</b>		
Loss for the year	—	(104,263,335)
<b>Other comprehensive loss</b>		
Preferred shares fair value change due to own credit risk	(186,013)	—
Currency translation differences	<u>(5,244,707)</u>	<u>—</u>
<b>Total comprehensive loss</b>	<u>(4,819,792)</u>	<u>(126,917,412)</u>
<b>Transaction with owners in their capacity as owners</b>		
Share-based compensation expenses	(48,660)	—
Business combinations	231,736	—
Issuance of ordinary shares	609,744	(609,744)
Exercise of option and RSU vesting	(685,701)	—
<b>Total transaction with owners in their capacity as owners</b>	<u>107,119</u>	<u>(609,744)</u>
As of December 31, 2018	<u>(4,712,673)</u>	<u>(127,527,156)</u>
As of January 1, 2017	(2,175,504)	(7,841,497)
<b>Comprehensive loss</b>		
Loss for the year	—	(15,236,311)
<b>Other comprehensive loss</b>		
Currency translation differences	3,534,313	—
<b>Total comprehensive loss</b>	<u>1,358,809</u>	<u>(23,077,808)</u>
<b>Transaction with owners in their capacity as owners</b>		
Share-based compensation expenses	746,465	—
Exercise of option and RSU vesting	(1,070,615)	—
<b>Total transaction with owners in their capacity as owners</b>	<u>(324,150)</u>	<u>—</u>
As of December 31, 2017	<u>1,034,659</u>	<u>(23,077,808)</u>

### 41 SUBSEQUENT EVENTS

There were no material subsequent events during the period from December 31, 2018 to the approval date of these consolidated financial statements by the Board on March 11, 2019.

**To the shareholders of Meituan Dianping**  
*(incorporated in the Cayman Islands with limited liability)*

### OPINION

#### What we have audited

The consolidated financial statements of Meituan Dianping (the “Company”) and its subsidiaries (the “Group”) set out on pages 150 to 272, which comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income/(loss) for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

#### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Impairment assessments of goodwill

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### *Revenue recognition*

Refer to Notes 2.26, 4.5, 4.8 and 6 to the consolidated financial statements.

Our procedures in relation to the revenue recognition included:

The Group provides an e-commerce platform that enables merchants to sell their services or products to transacting users through the platform. The Group mainly generates revenue in the way of transaction commission, online marketing fees and others. Revenue of RMB97.5 billion was recognised for the current year.

We understood and tested management's process and controls in respect of revenue recognition and calculation derived from different services.

We discussed with management and evaluated their judgements made in determining the method and timing of revenue recognition and calculation.

We focused on this area as significant efforts were spent on auditing the accuracy of revenue recognition due to the magnitude of revenue amount and the huge volume of revenue transactions recorded in the operating systems and then interfaced with the financial system.

We tested the general control environment and automated controls of the information technology systems used in the transaction processes. We tested the interface between the operating and financial systems.

We tested, on a sample basis, transactions by checking the cash receipt, reviewing the underlying contracts, identifying the key terms and attributes from the contracts and checking them against the underlying data from the system used in the transaction processes, and then recalculating the revenue amount.

Based on the procedures performed, we found that the Group's revenue recognition was supported by the evidence obtained.

**Key Audit Matter**

**How our audit addressed the Key Audit Matter**

*Impairment assessments of goodwill*

Refer to Notes 2.9, 2.10, 4.4 and 16 to the consolidated financial statements.

Our procedures in relation to the impairment assessments of goodwill included:

As at December 31, 2019, the net carrying amount of goodwill amounted to RMB27.7 billion.

We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information.

Under International Accounting Standards ("IAS") 36 Impairment of Assets, the Group is required to perform goodwill impairment assessment both annually and whenever there is an indication that a cash-generating unit ("CGU") to which goodwill has been allocated may be impaired.

We understood and tested management's process and controls in respect of the impairment assessments, including the implementation of impairment standard, the determination of appropriate valuation models and assumptions and the calculation of impairment provisions.

The Group engaged an independent external valuer to prepare the goodwill impairment testing. The recoverable amounts of CGUs were determined based on the value-in-use calculations using cash flow projections.

We evaluated the independent valuer's objectivity and competency. We assessed the reasonableness of the basis that management used to identify separate group of CGUs for the allocation of goodwill.

We focused on this area due to (a) the magnitude of the carrying amount of goodwill; and (b) the process of goodwill impairment assessment was complex and involved significant judgements and estimates which included assumptions such as annual revenue growth rate for the 5-year period, gross profit, terminal revenue growth rate and pre-tax discount rate.

We assessed the appropriateness of the valuation models, with the involvement of our internal valuation experts.

We performed retrospective assessment through comparing historical results to the budgeted results, to assess the reliability of the management's forecast.

We assessed the key assumptions adopted including annual revenue growth rate for the 5-year period and gross profit rate by examining the approved financial/business forecast models, and comparing actual results for the year against the previous period taking into consideration of market trends and our industry knowledge. We assessed terminal revenue growth rate and pre-tax discount rate with the involvement of our internal valuation experts.

**Key Audit Matter**

**How our audit addressed the Key Audit Matter**

We independently tested, on a sample basis, the accuracy of mathematical calculation applied in the valuation models and the calculation of impairment charges.

We evaluated the reasonableness of management's forecast performance and assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, would result in the goodwill being impaired.

Based on the procedures performed, we considered that the key assumptions adopted by management in the assessment of goodwill impairment are supported by the evidence obtained.

**OTHER INFORMATION**

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jack Li.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, March 30, 2020

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended December 31,	
		2019 RMB' 000	2018 RMB' 000
<b>Revenues</b>			
Commission	6	65,525,997	47,012,249
Online marketing services	6	15,840,078	9,391,406
Interest revenue	6	786,032	456,077
Other services and sales	6	15,376,424	8,367,546
		<u>97,528,531</u>	<u>65,227,278</u>
Cost of revenues	7	<u>(65,208,143)</u>	<u>(50,122,320)</u>
<b>Gross profit</b>		<b>32,320,388</b>	<b>15,104,958</b>
Selling and marketing expenses	7	(18,819,067)	(15,871,901)
Research and development expenses	7	(8,445,664)	(7,071,900)
General and administrative expenses	7	(4,338,954)	(5,546,037)
Net provision for impairment losses on financial assets		(645,685)	(285,655)
Fair value changes on investments measured at fair value through profit or loss	19	77,699	1,836,382
Other gains, net	9	2,531,143	748,356
		<u>2,679,860</u>	<u>(11,085,797)</u>
<b>Operating profit/(loss)</b>		<b>2,679,860</b>	<b>(11,085,797)</b>
Finance income	10	166,217	294,047
Finance costs	10	(191,042)	(44,732)
Fair value changes of convertible redeemable preferred shares	28	—	(104,606,058)
Share of gains/(losses) of investments accounted for using equity method	12	107,353	(48,267)
		<u>2,762,388</u>	<u>(115,490,807)</u>
<b>Profit/(loss) before income tax</b>		<b>2,762,388</b>	<b>(115,490,807)</b>
Income tax expenses	13	(526,223)	(1,888)
		<u>2,236,165</u>	<u>(115,492,695)</u>
<b>Profit/(loss) for the year</b>		<b>2,236,165</b>	<b>(115,492,695)</b>
<b>Profit/(loss) for the year attributable to:</b>			
Equity holders of the Company		2,238,769	(115,477,171)
Non-controlling interests		(2,604)	(15,524)
		<u>2,236,165</u>	<u>(115,492,695)</u>
<b>Earnings/(loss) per share for profit/(loss) for the year attributable to the equity holders of the Company</b>			
Basic earnings/(loss) per share (RMB)	14	<u>0.39</u>	<u>(42.40)</u>
Diluted earnings/(loss) per share (RMB)	14	<u>0.38</u>	<u>(42.40)</u>

The notes on pages 158 to 272 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	Note	Year ended December 31,	
		2019 RMB'000	2018 RMB'000
<b>Other comprehensive income/(loss):</b>			
<i>Items that may be reclassified to profit or loss</i>			
Share of other comprehensive income of investments accounted for using the equity method	12,26	3,905	—
<i>Items that may not be reclassified to profit or loss</i>			
Currency translation differences	26	678,973	(7,617,689)
Preferred shares fair value change due to own credit risk	28	—	(186,013)
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>682,878</b>	<b>(7,803,702)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>2,919,043</b>	<b>(123,296,397)</b>
<b>Total comprehensive income/(loss) for the year attributable to:</b>			
Equity holders of the Company		2,921,721	(123,281,091)
Non-controlling interests		(2,678)	(15,306)
		<b>2,919,043</b>	<b>(123,296,397)</b>

The notes on pages 158 to 272 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of December 31,	
		2019	2018
		RMB' 000	RMB' 000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	5,376,217	3,978,815
Intangible assets	16	32,699,575	33,876,004
Deferred tax assets	18	590,054	445,041
Investments accounted for using the equity method	12	2,283,590	2,103,403
Financial assets at fair value through profit or loss	19	7,166,122	6,241,972
Prepayments, deposits and other assets	21	1,762,312	866,884
		<u>49,877,870</u>	<u>47,512,119</u>
<b>Current assets</b>			
Inventories	22	275,227	400,244
Trade receivables	23	676,762	466,340
Prepayments, deposits and other assets	21	9,591,157	9,064,945
Short-term investments	20	49,435,599	41,829,964
Restricted cash	24	8,760,115	4,256,120
Cash and cash equivalents	24	13,396,185	17,043,692
Assets classified as held for sale		—	88,087
		<u>82,135,045</u>	<u>73,149,392</u>
<b>Total assets</b>		<u><b>132,012,915</b></u>	<u><b>120,661,511</b></u>
<b>EQUITY</b>			
Share capital	25	389	384
Share premium	25	260,359,929	258,284,687
Other reserves	26	(4,447,252)	(5,741,347)
Accumulated losses		<u>(163,800,621)</u>	<u>(166,039,390)</u>
<b>Equity attributable to equity holders of the Company</b>		<b>92,112,445</b>	<b>86,504,334</b>
<b>Non-controlling interests</b>		<u><b>(58,051)</b></u>	<u><b>5,438</b></u>
<b>Total equity</b>		<u><b>92,054,394</b></u>	<u><b>86,509,772</b></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As of December 31,	
		2019 RMB' 000	2018 RMB' 000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	18	1,388,469	1,195,869
Deferred revenues	27	389,028	624,999
Borrowings	31	466,676	470,056
Lease liabilities	2.29	992,233	—
Other non-current liabilities		<u>129,552</u>	<u>35,759</u>
		<u>3,365,958</u>	<u>2,326,683</u>
<b>Current liabilities</b>			
Trade payables	29	6,766,253	5,340,963
Payables to merchants		7,495,262	7,596,388
Advances from transacting users		3,855,559	3,226,407
Deposits from transacting users	2.14	2,491,947	3,341,276
Other payables and accruals	30	7,237,412	7,303,407
Borrowings	31	3,552,587	1,800,000
Deferred revenues	27	4,567,171	3,102,882
Lease liabilities	2.29	534,566	—
Income tax liabilities		91,806	58,223
Liabilities directly associated with assets classified as held for sale		—	<u>55,510</u>
		<u>36,592,563</u>	<u>31,825,056</u>
<b>Total liabilities</b>		<u><u>39,958,521</u></u>	<u><u>34,151,739</u></u>
<b>Total equity and liabilities</b>		<u><u>132,012,915</u></u>	<u><u>120,661,511</u></u>

The notes on pages 158 to 272 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 150 to 272 were approved by the Board of Directors on March 30, 2020 and were signed on its behalf:

Wang Xing  
*Director*

Mu Rongjun  
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company						
		Share capital	Share premium	Other reserves	Accumulated losses	Sub-total	Non-controlling interests	Total
		RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
As of January 1, 2019		384	258,284,687	(5,741,347)	(166,039,390)	86,504,334	5,438	86,509,772
<b>Comprehensive income</b>								
Profit/(loss) for the year		—	—	—	2,238,769	2,238,769	(2,604)	2,236,165
<b>Other comprehensive income</b>								
Share of other comprehensive income of investments accounted for using the equity method	12,26	—	—	3,905	—	3,905	—	3,905
Currency translation differences	26	—	—	679,047	—	679,047	(74)	678,973
<b>Total comprehensive income</b>		—	—	682,952	2,238,769	2,921,721	(2,678)	2,919,043
<b>Transaction with owners in their capacity as owners</b>								
Share-based compensation expenses	32	—	—	2,181,436	—	2,181,436	—	2,181,436
Exercise of option and RSU vesting		5	2,075,242	(1,614,957)	—	460,290	—	460,290
Disposal of a subsidiary	11	—	—	10,617	—	10,617	386	11,003
Transaction with non-controlling interests		—	—	34,047	—	34,047	(61,197)	(27,150)
<b>Total transaction with owners in their capacity as owners</b>		5	2,075,242	611,143	—	2,686,390	(60,811)	2,625,579
<b>As of December 31, 2019</b>		<b>389</b>	<b>260,359,929</b>	<b>(4,447,252)</b>	<b>(163,800,621)</b>	<b>92,112,445</b>	<b>(58,051)</b>	<b>92,054,394</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Attributable to equity holders of the Company						
	Share capital	Share premium	Other reserves	Accumulated losses	Sub-total	Non-controlling interests	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
As of January 1, 2018	98	9,338,529	466,103	(50,363,846)	(40,559,116)	57,734	(40,501,382)
Adjustment on adoption of IFRS9, net of tax	—	—	(423,731)	411,371	(12,360)	—	(12,360)
As of January 1, 2018	98	9,338,529	42,372	(49,952,475)	(40,571,476)	57,734	(40,513,742)
<b>Comprehensive loss</b>							
Loss for the year	—	—	—	(115,477,171)	(115,477,171)	(15,524)	(115,492,695)
<b>Other comprehensive loss</b>							
Preferred shares fair value change due to own credit risk	—	—	(186,013)	—	(186,013)	—	(186,013)
Currency translation differences	—	—	(7,617,907)	—	(7,617,907)	218	(7,617,689)
<b>Total comprehensive loss</b>	—	—	(7,803,920)	(115,477,171)	(123,281,091)	(15,306)	(123,296,397)
<b>Transaction with owners in their capacity as owners</b>							
Issuance of ordinary shares	283	248,944,408	609,744	(609,744)	248,944,691	—	248,944,691
Business combinations	—	—	231,736	—	231,736	—	231,736
Repurchase of ordinary shares	25	(811,142)	—	—	(811,144)	—	(811,144)
Share-based compensation expenses	32	—	1,816,453	—	1,816,453	—	1,816,453
Exercise of option and RSU vesting	5	842,199	(685,701)	—	156,503	—	156,503
Cancellation of ordinary shares	—	(29,307)	—	—	(29,307)	—	(29,307)
Dividends	—	—	—	—	—	(4,000)	(4,000)
Transaction with non-controlling interests	—	—	47,969	—	47,969	(32,990)	14,979
<b>Total transaction with owners in their capacity as owners</b>	286	248,946,158	2,020,201	(609,744)	250,356,901	(36,990)	250,319,911
As of December 31, 2018	384	258,284,687	(5,741,347)	(166,039,390)	86,504,334	5,438	86,509,772



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31,	
		2019 RMB' 000	2018 RMB' 000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	35	6,037,524	(8,981,189)
Income tax paid		<u>(463,304)</u>	<u>(198,629)</u>
Net cash flows generated from/(used in) operating activities		<u>5,574,220</u>	<u>(9,179,818)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,984,976)	(2,210,249)
Proceeds from disposals of property, plant and equipment		62,334	24,698
Purchase of intangible assets		(16,760)	(69,712)
Proceeds from disposals of intangible assets		1,938	3,897
Payments for business combinations, net of cash acquired		(1,365,975)	(7,260,087)
Purchase of investments of term deposits with initial term over three months and wealth management products		(177,154,553)	(91,205,155)
Proceeds from disposals of term deposits with initial term over three months and wealth management products		170,248,473	75,235,650
Acquisition of investments accounted for using the equity method		(141,025)	(163,675)
Proceeds from disposal of equity investments and refund of prepayment for investments		323,377	3,453,916
Acquisition of investments measured at fair value		(455,987)	(1,599,549)
Cash inflow arising from disposal of subsidiaries, net of cash disposed		35,808	231
Gains received from investments of term deposits with initial term over three months and wealth management products		1,315,886	533,068
Dividends received		13,761	65,954
Loan to related party		(35,365)	—
Increase in prepayment for investments		<u>(20,954)</u>	<u>(247,673)</u>
Net cash flows used in investing activities		<u>(10,174,018)</u>	<u>(23,438,686)</u>



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31,	
		2019 RMB' 000	2018 RMB' 000
<b>Cash flows from financing activities</b>			
Proceeds from borrowings, excluding asset-backed securities ("ABS")		3,640,000	2,305,000
Repayments of borrowings, excluding ABS		(2,250,000)	(1,057,000)
Proceeds from ABS, net		467,000	470,000
Repayments of ABS		(107,969)	—
Finance costs paid		(218,692)	(62,043)
Proceeds from issuance of ordinary shares, net		—	28,516,174
Proceeds from exercise of option and RSU vesting		444,915	158,054
Repurchase of ordinary shares		—	(854,630)
Payment for acquisitions of non-controlling interests		(75,162)	(176,261)
Lease payments		(785,825)	—
Dividends paid to non-controlling interests		—	(4,000)
Net cash flows generated from financing activities		<u>1,114,267</u>	<u>29,295,294</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,485,531)</b>	<b>(3,323,210)</b>
Cash and cash equivalents at the beginning of the year		17,043,692	19,408,839
Exchange (loss)/gain on cash and cash equivalents		(173,442)	1,009,587
Cash and cash equivalents reclassified from the assets classified as held for sale/(included in the assets classified as held for sale)		<u>11,466</u>	<u>(51,524)</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>24</b>	<b><u>13,396,185</u></b>	<b><u>17,043,692</u></b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

### 1.1 General information

Meituan Dianping (formerly known as Internet Plus Holdings Ltd.) (“the Company”) was incorporated in the Cayman Islands on September 25, 2015 as an exempted company with limited liability. The registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”), provides platform which uses technology to connect consumers and merchants and offers diversified daily services, including food delivery, in-store dining, hotel and travel booking and other services.

The Company’s Class B shares have been listed on the Main Board of the Hong Kong Stock Exchange since September 20, 2018 (the “Listing”).

The Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”) and disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policies

(a) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time commencing January 1, 2019:

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
IFRS 9 (Amendment)	Prepayment features with negative compensation
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
IAS 19 (Amendment)	Plan amendment, curtailment or settlement
IFRSs (Amendment)	Annual Improvements to IFRS Standards 2015 – 2017 Cycle

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on January 1, 2019. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.7%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### 2.1.1 Changes in accounting policies *(Continued)*

##### (a) *New and amended standards adopted by the Group (Continued)*

###### (i) *Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

###### (ii) *Measurement of lease liabilities*

	2019 RMB'000
Operating lease commitments disclosed as of December 31, 2018	2,111,477
Discounted using the lessee's incremental borrowing rate at the date of initial application	<u>1,846,656</u>
Lease liabilities recognised as of January 1, 2019	<u>1,846,656</u>
Of which are:	
Current lease liabilities	512,833
Non-current lease liabilities	1,333,823

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*2.1 Basis of preparation *(Continued)*2.1.1 Changes in accounting policies *(Continued)**(a) New and amended standards adopted by the Group (Continued)**(iii) Measurement of right-of-use assets*

The right-of-use assets were measured on a simplified transition approach without restating comparative amounts, and were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as of December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

*(iv) Adjustments recognised in the balance sheet on January 1, 2019*

The change in accounting policy affected the following items in the consolidated balance sheet on January 1, 2019:

- right-of-use assets – increased by RMB2.0 billion
- prepayments – decreased by RMB174.5 million
- lease liabilities – increased by RMB1.8 billion

The net impact on retained earnings as of January 1, 2019 was nil.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 Changes in accounting policies (Continued)

##### (b) New standards and amendments not yet adopted by the management of the Group

A number of new standards and amendments to existing standards have been issued but are not yet effective for the financial year beginning January 1, 2019, and have not been early adopted by the Group's management. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for accounting year beginning on or after
IAS 28 and IFRS 10 (Amendment)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	A date to be determined by the IASB
IAS 1 and IAS 8 (Amendment)	Definition of material	January 1, 2020
IFRS 3 (Amendment)	Definition of a business	January 1, 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	January 1, 2020
IFRS 17	Insurance Contracts	January 1, 2021
IAS 1 (Amendment)	Classification of liabilities as current or non-current	January 1, 2022

The Group is in the process of assessing potential impact of the above new standards and amendments to standards that is relevant to the Group upon initial application. According to the preliminary assessment made by the Directors of the Company, management does not anticipate any significant impact on the Group's financial positions and results of operations upon adopting the above new standards amendments to existing standards. The management of the Group plans to adopt these new standards and amendments to existing standards when they become effective.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement (including structured entities) with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income/(loss), consolidated statement of changes in equity and consolidated statement of financial position respectively.

## 2.2.1 Business combinations

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### 2.2.1 Business combinations *(Continued)*

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. Amounts classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

#### 2.2.2 Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

#### 2.2.3 Disposal of subsidiaries

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.3 Associates**

Associates are all entities over which the Group has significant influence but not control or joint control. The Group's investments in associates in the form of redeemable instruments are financial assets designated at fair value through profit or loss. All investments in associates in the form of ordinary shares with significant influence are accounted for using the equity method of accounting, after initially being recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an investment accounted for using the equity method equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in "Other gains, net" in the consolidated income statement.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive Directors.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.7 Foreign currency translation

## 2.7.1 Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is USD as its key activities and transactions are denominated in USD. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. The Group's presentation currency is RMB.

## 2.7.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in consolidated income statement on a net basis within "Other gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated income statement as part of the "Fair value changes on investments measured at fair value through profit or loss".

## 2.7.3 Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Foreign currency translation *(Continued)*

#### 2.7.3 Group companies *(Continued)*

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified into income statement, as part of "Other gains, net".

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### 2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

- computer equipment (including servers) 3 years
- furniture and appliances 5 years
- leasehold improvements the shorter of the term of the lease or the estimated useful lives of the assets
- bike and vehicle 2-4 years

Property, plant and equipment arising from business acquisition is depreciated over the remaining useful life.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Property, plant and equipment *(Continued)*

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised in "Other gains, net" in the consolidated income statement.

### 2.9 Intangible assets

#### 2.9.1 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the aggregate purchase consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Intangible assets *(Continued)*

#### 2.9.2 Other intangible assets

Other intangible assets mainly include trade name, user generated content, software purchased from third parties, online payment license, technology and licenses, user list and supplier relationship. They are initially recognised and measured at cost or fair value if they are acquired in business combinations. Other intangible assets are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

• trade name	2 – 25 years
• user generated content	5 years
• software and others	3 -10 years
• online payment license	15 years
• technology and licenses	2 – 5 years
• user list	5 years
• supplier relationship	2 – 8 years

When determining the length of useful life of an intangible asset, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

#### 2.9.3 Research and development

Research expenditures are recognised as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2019 and 2018.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.10 Impairment of non-financial assets**

Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**2.11 Financial guarantee contracts**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.12 Financial assets

#### *(a) Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI"). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### *(b) Recognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

#### *(c) Derecognition*

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*2.12 Financial assets *(Continued)**(c) Derecognition (Continued)*

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss or retained earnings:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial asset are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognised between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognised portion and the total consideration paid for the derecognised portion shall be recorded in profit or loss.

*(d) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.12 Financial assets *(Continued)*

#### *(d) Measurement (Continued)*

##### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other gains, net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*2.12 Financial assets *(Continued)**(d) Measurement (Continued)**Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets measured at FVPL are recognised in other gains in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

*(e) Impairment*

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group has three types of financial assets that are subject to IFRS 9's new ECL model (Note 3.1 (b)):

- loan receivables
- trade receivables
- prepayment, deposits and other assets (excluding tax prepayment, loan receivables and long-term investments measured at amortized cost)

While cash and cash equivalents, restricted cash, short-term investments measured at amortized cost and long-term investments measured at amortized cost are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

#### 2.14 Deposits from transacting users

Deposits from transacting users are the deposits received from transacting users of bike-sharing services, which are redeemable at any time upon the requests from transacting users.

#### 2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.16 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business.

Trade and other receivables are generally due for settlement within 1 year and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

Other receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.



**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.17 Cash and cash equivalents and restricted cash**

Cash and cash equivalents includes cash in hand, deposits held at call with banks within three months, certain amounts of cash held in accounts managed by other financial institutions in connection with the provision of services and sale of goods.

Cash that restricted from withdrawal, use or pledged as security is reported separately on the face of the consolidated statements of financial position, and is not included in the total cash and cash equivalents in the consolidated statements of cash flows.

**2.18 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds. Convertible redeemable preferred shares are classified as liabilities (Note 28).

**2.19 Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortized cost using the effective interest method.

**2.20 Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Convertible redeemable preferred shares (“Preferred Shares”)

Holders of Series A, B, and C Preferred Shares issued by the Company are redeemable upon occurrence of certain future events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering of the Company, or when agreed by majority of the holders as detailed in Note 28.

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss. Before January 1, 2018, all fair value changes is recognised profit or loss under IAS 39. From January 1, 2018, the component of fair value changes relating to the Company’s own credit risk is recognised in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognised in profit or loss.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand the Company to redeem the Preferred Shares within 12 months after the end of the reporting period.

All of Preferred Shares were converted to Class B ordinary shares upon completion of the Listing on September 20, 2018. The fair value of each of Preferred Shares is equal to the fair value of each of ordinary shares on the conversion date, which is the offer price in the Listing.

### 2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### 2.22.1 *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company’s subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*2.22 Current and deferred income tax *(Continued)*2.22.2 *Deferred income tax**(a) Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

*(b) Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the subsidiaries and associates' undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.22 Current and deferred income tax *(Continued)*

##### 2.22.2 *Deferred income tax (Continued)*

###### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 2.23 Employee benefits

##### 2.23.1 *Employee leave entitlement*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

##### 2.23.2 *Pension obligations and other social welfare benefits*

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. The Group's contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

##### 2.23.3 *Bonus plan*

The expected cost of bonuses is recognised as a liability when the Group has a present legal or constructive obligation for payment of bonuses as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonuses are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.24 Share-based payments

The Group has operated share incentive plans including share option schemes and share award schemes. The Internet Plus Holdings Ltd. 2015 Share Incentive Plan (or the “2015 Share Incentive Plan”) was administered until the initial public offering, after which it was replaced by the Meituan Dianping Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. Share-based compensation benefits are provided to employees via the 2015 Share Incentive Plan, the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme. The Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and RSUs) of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognised as an expense in the consolidated income statement.

## 2.24.1 Share options

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using Black-Scholes models:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

## 2.24.2 RSUs

For grant of RSUs, the total amount to be expensed is determined by reference to the fair value of the Company’s shares at the grant date.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.24 Share-based payments *(Continued)*

#### 2.24.3 Modifications and Cancellations

The Group may modify the terms and conditions on which share incentive awards were granted. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognised for the services received over the remainder of the vesting period.

A grant of share incentive awards, that is cancelled or settled during the vesting period, is treated as an acceleration of vesting. The Group immediately recognises the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

### 2.25 Provisions

Provisions for service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### 2.26 Revenue recognition

Revenue is principally comprised of commissions, online marketing services, interest revenue and other services and sales. The Group recognises revenue when or as the control of the promised goods or services is transferred to a customer, netting of value-added taxes ("VAT"). Depending on the terms of the contract and the laws that apply to the contract, if control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*2.26 Revenue recognition *(Continued)*

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Revenue arrangements with multiple performance obligations are not significant to the Group's total revenue.

In accordance with the principal versus agent considerations prescribed by IFRS 15, the Group evaluates whether it acts as the principal or agent in each of its revenue streams to determine whether revenue should be recorded on a gross or net basis. The Group is acting as the principal if, individually or in combination, it controls the specified good or service before being transferred to the customer, is primarily responsible for fulfilling the contract, is subject to inventory risk, and has discretion in establishing prices. An agent arranges for goods or services to be provided by the principal to its end customer, which normally receives a commission or fee for these activities.

*2.26.1 The accounting policy for the Group's principal revenue sources**(a) Commissions*

The Group provides an e-commerce platform that enables merchants to sell their services or products to transacting users through the platform. Acting as an agent, the Group generates revenue from commission fees, which are generally charged as a percentage of the value of transactions placed by transacting users on the Group's platform.

Under certain circumstances, the Group provides delivery service mainly to transacting users as a principal, and earns the delivery service fee collecting from transacting users as revenue on a gross basis.

*On-demand delivery services (including food and non-food delivery)*

The on-demand delivery services facilitate food and non-food ordering and offer delivery service to transacting users through the Group's platform. Meanwhile, the Group provides platform service to merchants and certain business partners in certain regions within the PRC, displaying the food or other goods information to transacting users. Upon the completion of a transaction, both the delivery service and the platform service are rendered. The Group recognises the delivery service fees collected from transaction users and the commissions as revenue at the same time. The amounts to be remitted to third-party merchants, after netting the commission revenue from the cash payments by transacting users, are recorded as payables to merchants. In instances where the Group is not responsible for delivery, only commission revenue is recognised once a transaction is completed.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.26 Revenue recognition *(Continued)*

##### 2.26.1 *The accounting policy for the Group's principal revenue sources (Continued)*

###### *(a) Commissions (Continued)*

###### *In-store, hotel & travel services*

The Group's in-store, hotel & travel services provides merchants platform to display their own services or goods. Transacting users can purchase the vouchers or make reservations offered by merchants via the Group's platform. When the vouchers are redeemed at merchants site, upon room check-in for hotel reservations, or on the departure date of the packaged tours, commission revenues are recognised.

Under all circumstances, cash payments received from transacting users are initially recorded as advances from transacting users, as unredeemed vouchers can be returned by users at any time. When revenues are recognised at the point in time as determined above, the amounts to be remitted to third-party merchants are recorded as payables to merchants.

###### *(b) Online marketing services*

The Group provides online marketing services to merchants or marketers. Some of the merchants or marketers pay the Group for performance-based marketing only when a user clicks on marketer's link on the Group's websites or/and mobile applications, or when the advertisement is viewed by a pre-determined number of users. The Group recognises revenue each time a user clicks on the marketer's link or when its information is viewed by pre-determined number of users.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.26 Revenue recognition (Continued)

## 2.26.1 The accounting policy for the Group's principal revenue sources (Continued)

## (b) Online marketing services (Continued)

The Group also offers display-based marketing services in the form of key words search, banners, and textual or graphical marketer's link. The marketers pay the Group based on the period their advertisements are displayed on the Group's websites and/or mobile applications. The revenue is recognised on a pro-rata basis over the contractual service period, which is normally less than 1 year, starting on the date when the advertisement is first displayed on the Group's websites and/or mobile applications.

For certain merchants, the Group provides value-added marketing services under an annual plan, and charges an annual fee for such plan. The Group recognises revenue ratably as the value-added marketing services are provided over the plan period.

## (c) Interest revenue

The Group directly offers loans, including joint loans together with other institutions, through its online platform to merchants or individual users via qualified subsidiary. The loan principal is funded entirely or partially by the Group, and loan receivables due from such loan facilitation are recorded on the statement of financial position. Interest revenue is calculated by applying the effective interest rate to the gross carrying amount of a loan receivable except for loan receivables that subsequently become credit-impaired. For credit-impaired loan receivables, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

## (d) Other services and sales

Other services and sales comprise primarily revenue generated from business to business food distribution services ("B2B food distribution services"), car-hailing services, bike-sharing services, loan facilitation and relative post-origination services and other products or services. The Group recognises revenues when the respective services are rendered, or when the control of the products are transferred to the customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.26 Revenue recognition *(Continued)*

#### 2.26.1 *The accounting policy for the Group's principal revenue sources (Continued)*

##### *(d) Other services and sales (Continued)*

The Group's local transportation services mainly provide car-hailing and bike-sharing services to its transacting users. Currently, for bike-sharing services and car-hailing services other than aggregated model, the Group recognises revenues substantially for the fees collected from transacting users. Revenues from car-hailing services of aggregated model are immaterial to the Group. As to the transportation services relating to the taxi services, the Group acts as an agent by connecting transacting users with taxi drivers, and does not earn any fee from either party, and therefore recognises no revenue.

The Group's B2B food distribution services provide supply chain solution to merchants in the catering industry mainly through sales of food ingredients. The Group recognises goods sold revenue on a gross basis when the control of inventories is transferred.

In certain cases, the Group also provides loan facilitation services to borrowers and lenders, and provides post-origination services (e.g. cash process, collection and SMS services) to lenders and regard facilitation services and post origination services as two distinctive performance obligations. The borrowers are commonly merchants or individual users who utilize the Group's online platform. For loan facilitation services, the Group determines that it is not the legal lender or borrower in the loan origination and repayment process, but acting as an intermediary to bring both parties together. Therefore, the Group does not record the loans receivable or payable arising from the loan facilitation activities. Loan facilitation services are recognised at point of time when the loan contract established between borrowers and lenders and post-origination services are recognised over the loan contract period.

The Group also generates other revenues from a long-term business cooperation agreement with Maoyan, which provides that Maoyan shall be the Group's exclusive business partner for the movie ticketing business. Through this cooperation agreement, the Group provides Maoyan with user traffic and other sources over the cooperation period in a straight line basis. Please refer to Note 27 for further details.

#### 2.26.2 *Contract Balances*

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. The Group's contract assets are mainly trade receivables due from online marketing services and loan facilitation services.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 2.26 Revenue recognition (Continued)

## 2.26.2 Contract Balances (Continued)

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities are mainly resulted from the business cooperation agreement with Tianjin Maoyan Culture Media Co., Ltd. (the "Maoyan"), and online marketing services, which are recorded as deferred revenues.

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been 1 year or less.

## 2.26.3 Incentives

The Group provides various types of incentives to transacting users, delivery riders, borrowers, drivers and merchants under online marketing services or supply chain solution service, including discounted coupons (with a minimum value to use), direct payment deduction, red packet, interest reduction/exemption coupons and discounts on goods or services. The major accounting policy for incentives is described as follows.

## (a) Incentives to customers

The Group records such incentives as deduction of revenue, to the extent of the revenue collected from the customers. The exceeded amount is recorded as selling and marketing expenses. The incentives on delivery service or local transporting service to transacting users, the incentives to crowdsourced delivery riders on behalf of merchants or individual users, the interest favorable offered to borrowers, and discounts on online marketing services or supply chain solution service to merchants are classified as such.

## (b) Incentives to transacting users

If the substantial services to transacting users are provided by the third parties, the incentives at the Group's discretion in order to stimulate the transaction volume on the online platform are recorded as selling and marketing expenses. The incentives to transacting users where the Group is not responsible for delivery and substantially all of the incentives for in-store, hotel & travel services are classified as such.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.26 Revenue recognition *(Continued)*

#### 2.26.3 *Incentives (Continued)*

##### *(c) Incentives to vendors*

In circumstance where the Group is responsible for the delivery service, the incentive to delivery riders is recognised as cost of revenue as it is part of the Group's fulfilment costs for completion of the delivery performance obligation. In connection with car-hailing services, the incentives to drivers are recorded as cost of revenue.

##### *(d) Incentives on behalf of third parties*

For certain business partners in certain regions within the PRC in food delivery business, they setup the incentive plans via the Group's system to maintain local market and manage the daily operation. The Group receives and pays the incentives on behalf of such business partners to transacting users, which is not treated as the Group's incentives.

For all the business lines, the Group may facilitate cash refunds or incentives to its transacting users for unsatisfactory goods or services rendered by the merchants, but merchants are contractually responsible and liable for the quality of the goods or services. The Group also holds the contractual right to claim reimbursements from merchants. For those which are not refunded by merchants, the refunds or incentives from the Group to transacting users are recorded as a reduction of revenue unless there are objective evidence that they are not paid on behalf of merchants.

The total incentives recorded as selling and marketing expenses have been included in Note 7-Transacting User incentives.

#### 2.26.4 *Practical Expedients and Exemptions*

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of 1 year or less. The unsatisfied performance obligation related to the Maoyan cooperation agreement has been included in deferred revenues (Note 27).

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.27 Interest income**

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income is presented as interest revenue where it is calculated using the effective interest rate method and earned from financial assets that are held for micro loan business. Any other gains from short term and long term investment is included in "Other gains, net".

**2.28 Dividend income**

Dividends are recognised when the right to receive payment is established.

**2.29 Leases***2.29.1 Accounting policies applied since January 1, 2019*

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.29 Leases *(Continued)*

#### 2.29.1 Accounting policies applied since January 1, 2019 *(Continued)*

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.



**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.29 Leases (Continued)***2.29.1 Accounting policies applied since January 1, 2019 (Continued)*

The Group considers the lease as a single transaction in which the asset and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, the differences arisen on settlement of the liability and the amortisation of leased assets, there will be a net temporary difference on which deferred tax is recognised.

Right-of-use assets are presented in “Property, plant and equipment” on face of the Group’s consolidated statement of financial position.

*2.29.2 Accounting policies applied before January 1, 2019*

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised as income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

**2.30 Dividends distribution**

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders or Directors, where appropriate.

**2.31 Government subsidies**

Subsidies from the government are recognised at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions. Under these circumstances, the subsidies are recognised as income or matched with the associated costs which the subsidies are intended to compensate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

### 3.1 Financial risk factors

#### (a) Market risk

##### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of the Company is USD whereas functional currency of the subsidiaries operating in the PRC is RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

The Group operates mainly in the PRC with most of the transactions settled in RMB, management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Group are denominated in the currencies other than the respective functional currencies of the Group's entities.

##### (ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents, restricted cash and short-term investments measured at amortized cost, and details of which have been disclosed in Note 24 and Note 20, respectively.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which has been disclosed in Note 31. Borrowings carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

As of December 31, 2019, the Group's borrowings were borrowings that carried at fixed rates, which did not expose the Group to cash flow interest rate risk.

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(a) Market risk (Continued)*

##### *(iii) Price risk*

The Group is exposed to price risk in respect of financial assets at fair value through profit or loss and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

##### *(b) Credit risk*

The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, short-term investment measured at amortized cost, trade receivables, prepayments, deposits and other assets, and financial assets at fair value through profit or loss. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. The Group is also exposed to credit risk in relation to its financial guarantee contracts.

To manage risk arising from cash and cash equivalents, restricted cash, short-term investments measured at amortized cost and long-term investments measured at amortized cost, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are immaterial.

To manage risk arising from trade receivables and contract assets, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 150 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(b) Credit risk (Continued)*

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

The expected loss rates are based on the payment profiles of sales over a period of 36 months or enough credit cycle for those new lines of business which continue operation for less than 3 years before December 31, 2019 or January 1, 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forwardlooking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the urban per capita disposable income and the total retail sales of consumer goods of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

For prepayments, deposits and other assets (excluding loan receivables, tax prepayments and long-term investments measured at amortized cost), management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables and prepayments to merchants based on historical settlement records and past experiences. Impairment on prepayments, deposits and other assets is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(b) Credit risk (Continued)*

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations
- actual or expected significant changes in the operating results of the counter party
- significant increases in credit risk on other financial instruments of the same counter party
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the counter party, including changes in the payment status and operating results of the counter party.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

Category	Group definition of category		Basis for recognition of expected credit loss provision
	Other receivables excluding loan receivables and prepayments to merchants	Prepayment to merchants	
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows		12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	A significant increase in credit risk is presumed if repayments are 30 days past due	The Group terminates its corporation with merchants	Lifetime expected losses
Non-performing	Repayments are 90 days past due	The Group terminates its corporation with merchants for more than 60 days	Lifetime expected losses
Write-off	Repayments are 180 days past due and there is no reasonable expectation of recovery	The Group terminates its corporation with merchants for more than 180 days and there is no reasonable expectation of recovery	Asset is written off

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

To manage risk arising from loan receivables and financial guarantee contracts, standardized credit management procedures are performed. For pre-approval investigation, the Group optimizes the review process by using big data technology through its platform and system, including credit analysis, assessment of collectability of borrowers, monitoring the cash flow status of the merchants, possibility of misconduct and fraudulent activities. In terms of credit examining management, specific policies and procedures are established to assess loans offering. For subsequent monitoring, the Group monitors the cash flow and operation status of each borrowers. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, the Group establishes risk monitoring alert system through periodical monitoring. The estimation of credit exposure for risk management purposes is complex and requires use of models as the exposure varies with changes in market conditions, expected cash flows and passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default corrections between counterparties. The Group measures credit risk using Probability of Default (“PD”), Exposure at Default (“EAD”) and Loss Given Default (“LGD”). This is consistent with the general approach used for the purposes of measuring ECL under IFRS 9. The maximum credit risk from financial guarantee contracts as of December 31, 2019 was RMB15 million, the majority of which were not credit-impaired on initial recognition and not significant increase in credit risk subsequently. The Group has recognised guarantee liability at each of the reporting date.

##### (i) ECL model for loan receivables, as summarized below:

- The loan receivables that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.
- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.
- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to ‘Stage 3’. The expected credit loss is measured on lifetime basis.
- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.



## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(b) Credit risk (Continued)*

##### *(i) ECL model for loan receivables, as summarized below: (Continued)*

The impairment of loan receivables was provided based on the ‘three-stages’ model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

##### *(1) Significant increase in credit risk (SICR)*

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables are considered to have experienced a significant increase in credit risk if the borrower is past due more than 1 day on its contractual payments.

##### *(2) Definition of default and credit-impaired assets*

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

##### *(3) Measuring ECL – Explanation of inputs, assumptions and estimation techniques*

The expected credit loss is measured on either a 12-month (“12M”) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD, and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.1 Financial risk factors *(Continued)*

##### *(b) Credit risk (Continued)*

##### *(i) ECL model for loan receivables, as summarized below: (Continued)*

##### *(4) Forward-looking information incorporated in the ECL models*

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

##### *(5) Grouping of instruments for losses measured on a collective basis*

For ECL provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

##### *(ii) Loss allowance*

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stage 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised, as well as releases for loan receivables derecognised in the period;
- Loan receivables derecognised and write-offs of allowances related to assets that were written off during the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

##### (ii) Loss allowance (Continued)

The gross carrying amount of the loan receivables explains their significance to the changes in the loss allowance as discussed above:

	Stage 1 12-month ECL RMB' 000	Stage 2 Lifetime ECL RMB' 000	Stage 3 Lifetime ECL RMB' 000	Total RMB' 000
Gross carrying amount as at December 31, 2018	3,870,816	81,658	35,596	3,988,070
Transfers:				
Transfer from Stage 1 to Stage 2	(126,514)	126,514	—	—
Transfer from Stage 1 to Stage 3	(220,960)	—	220,960	—
Transfer from Stage 2 to Stage 1	25	(25)	—	—
Transfer from Stage 2 to Stage 3	—	(57,282)	57,282	—
Transfer from Stage 3 to Stage 1	—	—	—	—
Transfer from Stage 3 to Stage 2	—	—	—	—
Loan receivables derecognised during the period other than write-off	(14,372,029)	(20,950)	(3,847)	(14,396,826)
New loan receivables originated	16,382,420	—	—	16,382,420
Write-off	—	—	(250,614)	(250,614)
Gross carrying amount as at December 31, 2019	<u>5,533,758</u>	<u>129,915</u>	<u>59,377</u>	<u>5,723,050</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

##### (ii) Loss allowance (Continued)

The following tables explain the changes in the loss allowance for loan receivables between the beginning and the end of the period due to these factors:

	Stage 1 12-month ECL RMB' 000	Stage 2 Lifetime ECL RMB' 000	Stage 3 Lifetime ECL RMB' 000	Total RMB' 000
<b>Loss allowance as at</b>				
<b>December 31, 2018</b>	(49,064)	(66,330)	(35,596)	(150,990)
Transfers:				
Transfer from Stage 1 to Stage 2	2,775	(101,774)	—	(98,999)
Transfer from Stage 1 to Stage 3	4,847	—	(220,960)	(216,113)
Transfer from Stage 2 to Stage 1	(1)	20	—	19
Transfer from Stage 2 to Stage 3	—	46,080	(57,282)	(11,202)
Transfer from Stage 3 to Stage 1	—	—	—	—
Transfer from Stage 3 to Stage 2	—	—	—	—
Loan receivables derecognised during the period other than write-off	315,259	16,854	3,847	335,960
New loan receivables originated	(359,358)	—	—	(359,358)
Write-off	—	—	250,614	250,614
Accrual and reversal	(87,088)	1,659	—	(85,429)
<b>Loss allowance as of</b>				
<b>December 31, 2019</b>	<u>(172,630)</u>	<u>(103,491)</u>	<u>(59,377)</u>	<u>(335,498)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

##### (iii) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write-off loan receivables that are still subject to enforcement activity.

##### (iv) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

#### (c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements.

The table below analyzes the Group's non-derivative financial liabilities. The amount disclosed in the table is the contractual undiscounted cash flows.

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000
As of December 31, 2019					
Trade payables	6,766,253	—	—	—	6,766,253
Payables to merchants	7,495,262	—	—	—	7,495,262
Advances from transacting users	3,855,559	—	—	—	3,855,559
Deposits from transacting users	2,491,947	—	—	—	2,491,947
Other payables and accruals (excluding salaries and benefits payable, and other tax payable)	3,474,669	—	—	—	3,474,669
Borrowings	3,666,595	466,676	—	—	4,133,271
Lease liabilities	605,233	491,197	586,922	9,361	1,692,713
Other non-current liabilities	—	3,336	126,311	—	129,647
Financial guarantee contracts (Note 2.11)	14,977	—	—	—	14,977
	<u>28,370,495</u>	<u>961,209</u>	<u>713,233</u>	<u>9,361</u>	<u>30,054,298</u>

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000
As of December 31, 2018					
Trade payables	5,340,963	—	—	—	5,340,963
Payables to merchants	7,596,388	—	—	—	7,596,388
Advances from transacting users	3,226,407	—	—	—	3,226,407
Deposits from transacting users	3,341,276	—	—	—	3,341,276
Other payables and accruals (excluding salaries and benefits payable, and other tax payable)	4,019,881	—	—	—	4,019,881
Borrowings	1,800,000	470,056	—	—	2,270,056
Other non-current liabilities	—	3,336	32,760	—	36,096
Financial guarantee contracts (Note 2.11)	769,230	22,164	—	—	791,394
	<u>26,094,145</u>	<u>495,556</u>	<u>32,760</u>	<u>—</u>	<u>26,622,461</u>

3.2 Capital management

The Group's objectives when managing capital are to:

- Safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital (including share capital, share premium and preferred shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. In the opinion of the Directors of the Company, the Group's capital risk is low.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation

#### 3.3.1 Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The table below analyzes the Group's financial instruments carried at fair value as of December 31, 2019 and 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value as of December 31, 2019.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<b>As of December 31, 2019</b>				
<b>Financial assets</b>				
Short-term investments at fair value through profit or loss (Note 20)	—	—	23,988,182	23,988,182
Financial assets at fair value through profit or loss (Note 19)	<u>2,076,995*</u>	—	<u>5,089,127</u>	<u>7,166,122</u>
	<u>2,076,995*</u>	—	<u>29,077,309</u>	<u>31,154,304</u>



3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

3.3.1 Fair value hierarchy (Continued)

The following table presents the Group's assets that are measured at fair value as of December 31, 2018.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<b>As of December 31, 2018</b>				
<b>Financial assets</b>				
Short-term investments at fair value				
through profit or loss (Note 20)	—	—	15,067,960	15,067,960
Financial assets at fair value				
through profit or loss (Note 19)	<u>1,337,725*</u>	<u>—</u>	<u>4,904,247</u>	<u>6,241,972</u>
	<u>1,337,725*</u>	<u>—</u>	<u>19,972,207</u>	<u>21,309,932</u>

\* This presents an investment of listed company with observable quoted price.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

3.3.2 Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments; and
- The discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- The latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

There was no change to valuation techniques during the year ended December 31, 2019.

All of the resulting fair value estimates are included in level 3, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation (Continued)

#### 3.3.3 Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including short-term investments at fair value through profit or loss, investments in unlisted companies and contingent consideration for the year ended December 31, 2019 and 2018.

	Short-term investments at fair value through profit or loss RMB' 000	Financial assets at fair value through profit or loss Investments in unlisted companies RMB' 000	Total RMB' 000
As of January 1, 2019	15,067,960	4,904,247	19,972,207
Acquisitions	143,080,844	475,903	143,556,747
Disposals/settlements	(134,898,095)	(219)	(134,898,314)
Reclassification	—	319,373	319,373
Change in fair value	637,410	(661,571)	(24,161)
Currency translation differences	100,063	51,394	151,457
<b>As of December 31, 2019</b>	<b>23,988,182</b>	<b>5,089,127</b>	<b>29,077,309</b>
Net unrealized gains/(losses) for the year	147,157	(661,790)	(514,633)

	Short-term investments at fair value through profit or loss RMB' 000	Financial assets at fair value through profit or loss Investments in unlisted companies RMB' 000	Contingent consideration RMB' 000	Total RMB' 000
As of January 1, 2018	17,030,574	4,080,221	25,099	21,135,894
Acquisitions	61,352,377	1,616,220	—	62,968,597
Business combinations	380,000	12,880	—	392,880
Disposals/settlements	(63,714,108)	(3,154,736)	(29,307)	(66,898,151)
Reclassification	—	(50,000)	—	(50,000)
Change in fair value	306,954	2,338,030	4,208	2,649,192
Currency translation differences	(287,837)	61,632	—	(226,205)
<b>As of December 31, 2018</b>	<b>15,067,960</b>	<b>4,904,247</b>	<b>—</b>	<b>19,972,207</b>
Net unrealized gains for the year	107,609	1,190,333	—	1,297,942

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

3.3.4 Valuation process, inputs and relationships to fair value

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included Preferred Shares in 2018 (Note 28), short-term investments at fair value through profit or loss (Note 20) and investments at fair value through profit or loss (Note 19). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach. Major assumptions used in the valuation for Preferred Shares are presented in Note 28.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements except Preferred Shares which present in Note 28.

Description	Fair value		Unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair value
	at December 31,			at December 31,		
	2019	2018		2019	2018	
	RMB' 000	RMB' 000				
Investment in unlisted companies	5,089,127	4,904,247	Expected volatility	40%-55%	35%-50%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	15%-25%	10%-28%	The higher the DLOM, the lower the fair value
Short-term investments at fair value through profit or loss	23,988,182	15,067,960	Expected rate of return	1.7%-7%	2.1%-6.6%	The higher the expected rate of return, the higher the fair value

If the fair values of financial assets at fair value through profit or loss held by the Group had been 10% higher/lower, the profit/loss before income tax for the years ended December 31, 2019 and 2018 would have been approximately RMB717 million higher/lower and RMB624 million lower/higher, respectively.

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2019 and 2018.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 3 FINANCIAL RISK MANAGEMENT *(Continued)*

#### 3.3 Fair value estimation *(Continued)*

##### *3.3.4 Valuation process, inputs and relationships to fair value (Continued)*

The carrying amount of the Group's financial assets, including cash and cash equivalents, restricted cash, trade receivables, prepayments, deposits and other assets, short-term investments at amortized cost and the Group's financial liabilities, including borrowings, trade payables, payables to merchants, deposits from transacting users, advances from transacting users, other payables and accruals, lease liabilities and other non-current liabilities, approximate their fair values.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### 4.1 Recognition of share-based compensation expenses

The Group set up the 2015 Share Incentive Plan, Post-IPO Share Option Plan and Post-IPO Share Award Plan and granted restricted share units and options to employees and other qualifying participants. The fair value of the options and restricted share units is determined by the Black-Sholes option-pricing model at the grant date, and is expected to be expensed over the respective vesting period. Significant estimates on assumptions, including underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by the Directors and third-party valuers.

The Group has also authorized the repurchase of ordinary shares from certain employees, founders, and shareholders of the Company. Judgment is required to determine whether the repurchase establishes "past practice" for which the Group has now created an obligation to settle in cash, and accordingly reclassifies all outstanding awards to cash-settled. The Group has determined that no valid expectation for the Company to settle such share-based awards in cash is created, such that all awards remain equity-settled awards.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

##### 4.2 Estimation of the fair value of financial assets and financial liabilities

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

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

Upon the Listing on September 20, 2018, all the outstanding Preferred Shares of the Company have been converted into ordinary shares.

##### 4.3 Impairment provision for trade receivables and prepayments, deposits and other assets

The loss allowances for trade receivables and prepayments, deposits and other assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Noted 3.1(b).

##### 4.4 Recoverability of non-financial assets

The Group tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period.

Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated in Note 16. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 16.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

#### 4.5 Incentives

As disclosed in Note 2.26, the Group provides incentives to its transacting users in various forms including discounted coupons (with a minimum value to use), direct payment deduction, red packet, interest reduction/exemption coupons and discounts on goods or services. All incentives given to the accounting customers are recorded as a reduction of revenue to the extent of the revenue earned from that customer on a transaction by transaction basis. For certain other incentives, management judgment is required to determine whether the incentives are in substance a payment on behalf of customers and should therefore be recorded as a reduction of revenue or selling and marketing expenses. Some of the factors considered in management's evaluation if such incentives are in substance a payment on behalf of customers include whether the incentives are given at the Group's discretion and the objectives, business strategy and design of the incentive programs.

#### 4.6 Business combinations

Business combinations are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

#### 4.7 Useful lives and amortization of intangible assets

The Group's management determines the estimated useful lives and related amortization for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortization charges where useful lives are different from that of previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

##### 4.8 Principal versus agent considerations

Determining whether the Group is acting as a principal or as an agent in the provision of certain services to its customers requires judgment and consideration of all relevant facts and circumstances. In evaluation of the Group's role as a principal or agent, the Group considers, individually or in combination, whether the Group controls the specified good or service before it is transferred to the customer, is primarily responsible for fulfilling the contract, is subject to inventory risk, and has discretion in establishing prices.

##### 4.9 Current and deferred income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences or tax losses are recognised when management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. As of December 31, 2019, the Group did not recognise deferred income tax asset of RMB6.6 billion in respect of cumulative tax losses. The outcome of their actual utilization may be different from management's estimation.

##### 4.10 Presentation and measurement of investments in associates

The Group made certain investments in the form of convertible redeemable preferred shares or ordinary shares with preferential rights of investee companies. As the Group has significant influence on these investee companies, judgement is required in determining whether these investments are in substance existing ownership interests, if not, they are accounted for as hybrid financial instruments, which should be measured at fair value through profit or loss. Different conclusions around these judgements may affect how these investments presented and measured in the consolidated statement of financial position of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 5 SEGMENT REPORTING

### 5.1 Segment reporting

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive Directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

The CODM assesses the performance of the operating segments mainly based on segment revenues and cost of revenues of each operating segment. Thus, segment result would present revenues, cost of revenues and gross profit for each segment, which is in line with CODM's performance review.

#### *Food delivery*

The food delivery segment offers food ordering and delivery service through the Group's platform. Revenues from the food delivery segment are primarily derived from (a) platform service to merchants to display the food information and connect transacting users; (b) food delivery service; (c) online marketing services in various advertising formats provided to merchants.

#### *In-store, hotel & travel*

The in-store, hotel & travel segment offers merchants to sell vouchers, coupons, tickets and reservations on the Group's platform. Revenues from the in-store, hotel & travel segment are primarily derived from (a) commissions from merchants for vouchers, coupons, tickets and reservations sold on the Group's platform; and (b) online marketing services to merchants, including performance-based and display-based marketing services, as well as marketing services provided under annual plans.

#### *New initiatives and others*

Revenues from the new initiatives and other segment are primarily derived from (a) B2B food distribution services; (b) micro loan business; (c) car-hailing services; (d) Meituan Instashopping.

The CODM assesses the performance of operating segments mainly based on segment revenues and segment cost of revenues. The revenues from external customers reported to CODM are measured as segment revenues, which is the revenues derived from customers in each segment.

The Group's cost of revenues for the food delivery segment primarily consists of (a) food delivery rider costs; (b) payment processing costs; (c) employee benefits expenses; (d) depreciation of property, plant and equipment; (e) bandwidth and server custody fees.



5 SEGMENT REPORTING (Continued)

5.1 Segment reporting (Continued)

The Group's cost of revenues for the in-store, hotel & travel segment primarily consists of (a) payment processing costs; (b) depreciation of property, plant and equipment; (c) online traffic costs; (d) bandwidth and server custody fees; (e) employee benefits expenses.

The Group's cost of revenues for the new initiatives and others segment primarily consists of (a) cost of goods sold; (b) car-hailing driver related costs; (c) other outsourcing labor costs; (d) depreciation of property, plant and equipment; (e) payment processing costs.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The revenue is mainly generated in China.

The segment information provided to the Group's CODM for the reportable segments for the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31, 2019			Total RMB' 000
	Food delivery RMB' 000	In-store, hotel & travel RMB' 000	New initiatives and others RMB' 000	
Commission	49,646,589	11,679,344	4,200,064	65,525,997
Online marketing services	5,103,794	10,516,428	219,856	15,840,078
Other services and sales (including interest revenue)	<u>92,822</u>	<u>79,700</u>	<u>15,989,934</u>	<u>16,162,456</u>
Revenues in total	54,843,205	22,275,472	20,409,854	97,528,531
Cost of revenues	<u>(44,610,017)</u>	<u>(2,529,117)</u>	<u>(18,069,009)</u>	<u>(65,208,143)</u>
<b>Gross profit</b>	<b><u>10,233,188</u></b>	<b><u>19,746,355</u></b>	<b><u>2,340,845</u></b>	<b><u>32,320,388</u></b>
<b>Gross margin</b>	<b>18.7%</b>	<b>88.6%</b>	<b>11.5%</b>	<b>33.1%</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 5 SEGMENT REPORTING (Continued)

### 5.1 Segment reporting (Continued)

	Year ended December 31, 2018			Total RMB' 000
	Food delivery RMB' 000	In-store, hotel & travel RMB' 000	New initiatives and others RMB' 000	
Commission	35,719,208	9,042,303	2,250,738	47,012,249
Online marketing services	2,334,999	6,734,901	321,506	9,391,406
Other services and sales (including interest revenue)	<u>88,876</u>	<u>63,157</u>	<u>8,671,590</u>	<u>8,823,623</u>
Revenues in total	38,143,083	15,840,361	11,243,834	65,227,278
Cost of revenues	<u>(32,874,886)</u>	<u>(1,745,006)</u>	<u>(15,502,428)</u>	<u>(50,122,320)</u>
Gross profit/(loss)	<u>5,268,197</u>	<u>14,095,355</u>	<u>(4,258,594)</u>	<u>15,104,958</u>
Gross margin	13.8%	89.0%	(37.9%)	23.2%

The reconciliation of gross profit before income tax is shown in the consolidated income statement.

There is no concentration risk as no revenue from a single external customer was more than 10% of the Group's total revenues for the years ended December 31, 2019 and 2018.

### 5.2 Segment assets

As of December 31, 2019 and 2018, substantially all of the non-current assets of the Group were located in the PRC.

## 6 REVENUES BY TYPE

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Commission	65,525,997	47,012,249
Online marketing services	15,840,078	9,391,406
Other services and sales (including interest revenue)	<u>16,162,456</u>	<u>8,823,623</u>
	<u>97,528,531</u>	<u>65,227,278</u>

Further disaggregation of revenues are included in Note 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 7 EXPENSES BY NATURE

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Food delivery rider costs	41,041,513	30,516,055
Employee benefits expenses (Note 8)	17,754,642	15,226,535
Transacting User incentives	8,149,976	5,400,781
Cost of goods sold	7,492,322	3,133,770
Depreciation of property, plant and equipment	3,654,793	4,252,292
Car-hailing driver related costs	3,119,491	4,463,320
Other outsourcing labor costs	2,991,197	2,087,398
Payment processing costs	2,189,646	1,524,853
Promotion and advertising	2,126,910	3,272,934
Amortization of intangible assets	1,191,007	1,114,509
Bandwidth and server custody fees	726,443	484,494
Online traffic costs	509,581	215,215
Rental, facility and utilities	271,012	970,058
Tax surcharge expenses	247,989	215,178
Professional fees	218,732	340,714
Impairment provision and restructuring expense for Mobike restructuring plan	88,612	358,790
Auditor's remuneration		
– Audit and audit-related services	41,281	48,770
– Non-audit services	4,108	3,899
Impairment provision on Mobike tradename (Note i)	—	1,346,000
Others (Note ii)	4,992,573	3,636,593
	<u>4,992,573</u>	<u>3,636,593</u>
Total cost of revenues, selling and marketing expenses, research and development expenses and general and administrative expenses	<u>96,811,828</u>	<u>78,612,158</u>

- (i) Impairment loss on Mobike tradename has been recognised based on management's further business plan change.
- (ii) Others mainly comprise travelling and entertainment expenses, bike maintenance and bike relocation fees, transportation fees and message and verification fees.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 8 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Wages, salaries and bonuses	12,416,342	10,695,178
Other employee benefits	1,950,296	1,602,448
Pension costs – defined contribution plans (Note i)	1,197,133	1,063,796
Share-based compensation expenses (Note 32)	2,190,871	1,865,113
	<u>17,754,642</u>	<u>15,226,535</u>

(i) Pension costs – defined contribution plans

Employees of the Group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on fixed percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(a) Share-based compensation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Cost of revenues	60,498	48,474
Selling and marketing expenses	264,538	184,628
Research and development expenses	838,746	664,068
General and administrative expenses	1,027,089	967,943
	<u>2,190,871</u>	<u>1,865,113</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 8 EMPLOYEE BENEFITS EXPENSES (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one Director whose emolument is reflected in the analysis shown in Note 8(c) for the year ended December 31, 2019 (2018: one). All of these individuals have not received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office during the year ended December 31, 2019 and 2018. The emoluments payable to the remaining individuals for the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Basic salaries	8,274	7,955
Bonus	10,358	10,186
Pension costs and other employee benefits	623	617
Share-based compensation expenses	<u>363,067</u>	<u>283,524</u>
	<u><u>382,322</u></u>	<u><u>302,282</u></u>

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2019	2018
Emolument bands (in HK dollar)		
HK\$60,000,001 – HK\$70,000,000	—	1
HK\$70,000,001 – HK\$80,000,000	2	1
HK\$100,000,001 – HK\$110,000,000	—	1
HK\$110,000,001 – HK\$120,000,000	—	1
HK\$130,000,001 – HK\$140,000,000	1	—
HK\$140,000,001 – HK\$150,000,000	1	—
	<u>4</u>	<u>4</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 8 EMPLOYEE BENEFITS EXPENSES (Continued)

### (c) Directors' and chief executive's emoluments

The remuneration of every Director and the chief executive is set out below:

For the year ended December 31, 2019:

Name	Fees RMB' 000	Basic salaries RMB' 000	Bonuses RMB' 000	Pension costs	Share-based	Total RMB' 000
				and other employee benefits RMB' 000	compensation expenses RMB' 000	
Wang Xing	—	2,520	2,772	169	—	5,461
Mu Rongjun	—	2,041	1,796	155	37,371	41,363
Wang Huiwen	—	2,040	1,995	156	144,923	149,114
LAU, Chi Ping Martin	—	—	—	—	—	—
SHEN, Nanpeng Neil	—	—	—	—	—	—
Orr Gordon Robert Halyburton	500	—	—	—	1,264	1,764
Shum Heung Yeung Harry	500	—	—	—	1,264	1,764
Leng Xuesong	500	—	—	—	1,264	1,764
<b>Total</b>	<b>1,500</b>	<b>6,601</b>	<b>6,563</b>	<b>480</b>	<b>186,086</b>	<b>201,230</b>

For the year ended December 31, 2018:

Name	Fees RMB' 000	Basic salaries RMB' 000	Bonuses RMB' 000	Pension costs	Share-based	Total RMB' 000
				and other employee benefits RMB' 000	compensation expenses RMB' 000	
Wang Xing	—	2,440	2,085	168	—	4,693
Zhang Tao	—	1,800	—	117	—	1,917
Mu Rongjun	—	2,000	2,072	154	35,261	39,487
Wang Huiwen	—	2,000	1,695	154	139,510	143,359
Ye Shuhong	—	2,000	2,072	133	—	4,205
LAU, Chi Ping Martin	—	—	—	—	—	—
SHEN, Nanpeng Neil	—	—	—	—	—	—
Orr Gordon Robert Halyburton	141	—	—	—	601	742
Shum Heung Yeung Harry	141	—	—	—	601	742
Leng Xuesong	141	—	—	—	601	742
<b>Total</b>	<b>423</b>	<b>10,240</b>	<b>7,924</b>	<b>726</b>	<b>176,574</b>	<b>195,887</b>

8 EMPLOYEE BENEFITS EXPENSES *(Continued)*(c) Directors' and chief executive's emoluments *(Continued)*

## (i) Directors' termination benefits

No Director's termination benefit subsisted at the end of the year or at any time during the year ended December 31, 2019 and 2018.

## (ii) Consideration provided to third parties for making available Directors' services

No consideration provided to or receivable by third parties for making available Director's services subsisted at the end of the year or at any time during the year ended December 31, 2019 and 2018.

## (iii) Information about loans, quasi-loans and other dealings in favor of Directors, controlled bodies corporate by and connected entities with such Directors

Except as disclosed in Note 36, there were no other loans, quasi-loans and other dealings in favor of Directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year ended December 31, 2019 and 2018.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2019 and 2018.

## (v) Waiver of Director's emoluments

The non-executive Directors have not received any remuneration for the year ended December 31, 2019. None of the other directors waived or has agreed to waive any emoluments during the year ended December 31, 2019 and 2018.

## (vi) Inducement to join the Group and compensation for loss of office

No Director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office during the year ended December 31, 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 9 OTHER GAINS, NET

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Interest income from investments measured at amortized cost	876,467	226,114
Fair value changes of short-term investments measured at fair value through profit or loss (Note 3.3)	637,410	306,954
Subsidies and tax preference (Note i)	589,912	198,762
Gains from remeasurement of investments (Note ii) (Note 12)	176,880	—
Gains from the disposal of investments	160,884	29,426
Dilution gain/(loss) (Note 12)	91,360	(6,294)
Foreign exchange loss, net	(81,872)	(1,485)
Gains from the disposal of subsidiaries (Note 11)	40,177	—
Change in fair value from contingent consideration (Note 3.3)	—	4,208
Others	39,925	(9,329)
	<u>2,531,143</u>	<u>748,356</u>

- (i) Since April 1, 2019, taxpayers in producer services and consumer services industry are allowed to enjoy additional 10% of input VAT amount to deduct from tax payable. As a result, the Group recognised a gain of RMB299.9 million.
- (ii) Certain contractual rights attached to an investment previously classified as investment accounted for using equity method have been changed, thus the Group remeasured the investment with RMB176.9 million gains and reclassified the investment to financial assets at fair value through profit or loss.

## 10 FINANCE INCOME/(COSTS)

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
<b>Finance income</b>		
Interest income from bank deposits	<u>166,217</u>	<u>294,047</u>
<b>Finance costs</b>		
Interest expense on bank borrowings	(91,199)	(24,601)
Interest in respect of lease liabilities	(85,028)	—
Bank charges and others	<u>(14,815)</u>	<u>(20,131)</u>
Total	<u>(191,042)</u>	<u>(44,732)</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 11 SUBSIDIARIES

The Company's major subsidiaries (including controlled and structured entities) during the year ended December 31, 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held (b)		Principal activities and place of operation
				As of December 31,		
				2019	2018	
<b>Subsidiaries</b>						
<b>Directly held:</b>						
Meituan Corporation	Cayman, limited liability company	July 29, 2010	USD50,000	100%	100%	Investment holding in Cayman
DianPing Holdings Limited ("DianPing")	Cayman, limited liability company	December 20, 2005	USD50,000	100%	100%	Investment holding in Cayman
Internet Plus (HongKong) Limited	Hong Kong, limited liability company	November 27, 2015	HKD1	100%	100%	Investment holding in Hong Kong
Kangaroo Technology Corporation	Cayman, limited liability company	April 1, 2016	USD50,000	100%	100%	Investment holding in Cayman
mobike Ltd ("Mobike")	Cayman, limited liability company	April 2, 2015	USD50,000	100%	100%	Investment holding in Cayman
<b>Indirectly held:</b>						
Beijing Sankuai On-line Technology Co., Ltd.	Beijing, the PRC, limited liability company	May 6, 2011	USD2,676,260,000	100%	100%	E-commerce service platform in the PRC
Beijing Kuxun Technology Co., Ltd.	Beijing, the PRC, limited liability company	April 27, 2006	USD54,665,694	100%	100%	Online hotel and travel services in the PRC
Hanghai Information Technology (Shanghai) Co., Ltd.	Shanghai, the PRC, limited liability company	March 16, 2006	USD195,000,000	100%	100%	Multimedia information technology services in the PRC
Tianjin Sankuai Technology Co., Ltd.	Tianjin, the PRC, limited liability company	July 12, 2013	RMB2,940,000,000	100%	100%	E-commerce service platform in the PRC
Xiamen Sankuai On-line Technology Co., Ltd.	Xiamen, the PRC, limited liability company	March 25, 2014	USD549,049,120	100%	100%	E-commerce service platform in the PRC
Hucheng Information Technology (Shanghai) Co., Ltd.	Shanghai, the PRC, limited liability company	January 11, 2016	USD200,000,000	100%	100%	Multimedia information technology services in the PRC
Mobike (Beijing) Information Technology Co., Ltd.	Beijing, the PRC, limited liability company	January 12, 2016	USD199,000,000	100%	100%	Bike-sharing services in the PRC
Shanghai Sankuai Zhisong Technology Co., Ltd.	Shanghai, the PRC, limited liability company	November 27, 2018	USD320,000,000	100%	100%	Delivery services in the PRC
Tianjin Xiaoyi Technology Co., Ltd.	Tianjin, the PRC, limited liability company	February 13, 2018	USD500,000,000	100%	100%	Supply chain service in the PRC

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 11 SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held (b)		Principal activities and place of operation
				As of December 31,		
				2019	2018	
<b>Structured entities(a):</b>						
Beijing SanKuai Technology Co., Ltd.	Beijing, the PRC, limited liability company	April 10, 2007	RMB2,940,000,000	100%	100%	E-commerce service platform in the PRC
Shanghai SanKuai Technology Co., Ltd.	Shanghai, the PRC, limited liability company	September 19, 2012	RMB5,000,000	100%	100%	Online retail platform in the PRC
Beijing Sankuai Cloud Computing Technology Co., Ltd.	Beijing, the PRC, limited liability company	June 17, 2015	RMB870,000,000	100%	100%	RMS system and cloud computing in the PRC
Beijing Kuxun Interation Technology Co., Ltd.	Beijing, the PRC, limited liability company	March 29, 2006	RMB52,000,000	100%	100%	Multimedia information technology services in the PRC
Shanghai Hantao Information Consulting Co., Ltd.	Shanghai, the PRC, limited liability company	September 23, 2003	RMB10,000,000	100%	100%	Merchant information advisory services in the PRC
Beijing Qiandaobao Payment Technology Co., Ltd.	Beijing, the PRC, limited liability company	November 25, 2008	RMB404,000,000	100%	100%	Online payment services in the PRC

Note (a) As described in Note 2.2, the Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with these structured entities and their registered owners, the Company and its other legally owned subsidiaries has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as consolidated structured entities of the Company.

Note (b) The Effective interest held has no change after December 31, 2019 until the report date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 11 SUBSIDIARIES (Continued)

### Disposal of subsidiaries

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Total consideration received or receivable		
– Cash consideration received	35,808	3,055
– Equity interests received	19,819	—
	<u>55,627</u>	<u>3,055</u>
<b>Total disposal consideration</b>	<b>55,627</b>	<b>3,055</b>
<b>Total net assets disposed</b>	<b>15,450</b>	<b>3,055</b>
– Cash and cash equivalents	12,997	2,824
– Restricted cash	2,231	—
– Trade receivables	386	—
– Prepayments, deposits and other assets – current	200,235	239
– Inventories	2,167	—
– Property, plant and equipment	16,148	—
– Intangible assets	60	—
– Trade payables	(166,443)	(8)
– Other payables and accruals	(27,936)	—
– Advance from paying users	(15,532)	—
– Deposit from transacting users	(9,249)	—
– Non-controlling interests disposed	386	—
<b>Gain on disposal before income tax (Note 9)</b>	<b>40,177</b>	<b>—</b>
Income tax expense on gain	(117)	—
<b>Gain on disposal after income tax</b>	<b>40,060</b>	<b>—</b>

In 2019, the Group entered into a number of agreements to sell the Mobike subsidiaries overseas. The transactions were all completed in 2019 and the assets and liabilities classified as held for sale were nil at the year ended December 31, 2019.

In October 2019, the Group sold approximately 64% shares of one subsidiary and held remaining 5% of equity interest of this company in form of ordinary shares. Consequently, the Group derecognised the assets and liabilities of the company and respective non-controlling interests at their carrying amount at the date of transfer, and recognised the remaining equity interests in this company at fair value on the date of transfer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Associates	2,269,638	2,089,677
Joint ventures	<u>13,952</u>	<u>13,726</u>
	<u><u>2,283,590</u></u>	<u><u>2,103,403</u></u>

### (a) Investments in associates using the equity method

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	2,089,677	1,939,107
Additions	141,025	163,675
Reclassification (Note i)	(142,493)	50,000
Dilution gain/(loss)	91,360	(6,294)
Dividends from an associate	(4,953)	(14,675)
Disposals	(33,116)	(563)
Share of gains/(losses) of investments accounted for using equity method	107,353	(48,267)
Share of other comprehensive income	3,905	—
Currency translation differences	<u>16,880</u>	<u>6,694</u>
At the end of the year	<u><u>2,269,638</u></u>	<u><u>2,089,677</u></u>

- (i) In 2019, the Group reclassified an investment from investment accounted for using equity method to investment at fair value through profit or loss due to certain contractual rights attached to the investment have been changed. The Group remeasured the investment at fair value of RMB319.4 million based on the valuation result.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

- (b) The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Aggregate carrying amount of individually immaterial associates	2,269,638	2,089,677
Aggregate amounts of the Group's share of:		
– Profit/(loss) from operations	107,353	(48,267)
– Other comprehensive income	3,905	—
Total comprehensive income/(loss)	<u>111,258</u>	<u>(48,267)</u>

RMB1.1 billion of investments accounted for using equity method is denominated in USD, other balances are denominated in RMB(2018:1.0 billion).

## 13 TAXATION

### (a) Value Added Tax

The Group is mainly subject to 6% VAT, and surcharges on VAT payments according to PRC tax law.

### (b) Income tax

#### *Cayman Islands*

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

#### *British Virgin Islands*

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 13 TAXATION (Continued)

### (b) Income tax (Continued)

#### *Hong Kong*

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2019 and 2018.

#### *PRC corporate income tax ("CIT")*

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the years ended December 31, 2019 and 2018.

Certain subsidiaries of the Group in the PRC are subject to "high and new technology enterprises" and, accordingly, a preferential income tax rate of 15% for the years ended December 31, 2019 and 2018. In addition, certain PRC subsidiaries of the Group are subject to "small and thin-profit enterprises" under the EIT Law, and accordingly, a preferential income tax rate of 20% for the years ended December 31, 2019 and 2018. As a result, such PRC subsidiaries were eligible for a preferential enterprise income tax rate for their respective tax holiday.

#### *Withholding tax on undistributed dividends*

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from China effective from January 1, 2008. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied. For the years ended December 31, 2019 and 2018, the Group has incurred net accumulated operating losses and does not have any profit distribution plan.

	Year ended December 31,	
	2019	2018
	RMB' 000	RMB' 000
Current income tax	(482,154)	(251,390)
Deferred income tax (Note18)	<u>(44,069)</u>	<u>249,502</u>
Total income tax expenses – net	<u><u>(526,223)</u></u>	<u><u>(1,888)</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 13 TAXATION (Continued)

### (b) Income tax (Continued)

The tax on the Group's profit or loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2019 and 2018, being the tax rate of the major subsidiaries of the Group.

The difference is analyzed as follows:

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Profit/(loss) before tax	2,762,388	(115,490,807)
Tax calculated at statutory income tax rate of 25% in mainland China	(690,597)	28,872,702
Tax effects of:		
– Different tax rates available to different jurisdictions	(460,243)	(26,036,837)
– Preferential income tax rates applicable to subsidiaries	502,450	17,289
– Expenses not deductible for income tax purposes	(37,581)	(18,409)
– Super deduction for research and development expenses	498,142	97,397
– Utilization of previously unrecognised tax losses	432,959	213,025
– Tax losses for which no deferred income tax assets were recognised	(1,768,349)	(2,728,131)
– Temporary differences utilized/(for which no deferred income tax assets was recognised), net	996,996	(248,345)
– Withholding tax	—	(170,579)
Total income tax expenses	<u>(526,223)</u>	<u>(1,888)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 14 EARNINGS/(LOSS) PER SHARE

- (a) Basic earnings/(loss) per share for the years ended December 31, 2019 and 2018 were calculated by dividing the earnings/(loss) attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2019	2018
Earnings/(loss) attributable to equity holders of the Company (RMB' 000)	2,238,769	(115,477,171)
Weighted average number of ordinary shares in issue (thousand)	<u>5,767,906</u>	<u>2,723,795</u>
Basic earnings/(loss) per share (RMB)	<u>0.39</u>	<u>(42.40)</u>

- (b) Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: preferred shares for 2018, share options and RSUs. As the Group incurred losses for the years ended December 31, 2018, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the years ended December 31, 2018 was the same as basic loss per share.

	Year ended December 31,	
	2019	2018
Earnings/(loss) attributable to equity holders of the Company (RMB' 000)	2,238,769	(115,477,171)
Weighted average number of ordinary shares in issue (thousand)	5,767,906	2,723,795
Adjustments for RSUs and share options granted to employees (thousand)	155,004	—
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings/(loss) per share (thousand)	<u>5,922,910</u>	<u>2,723,795</u>
Diluted earnings/(loss) per share (RMB)	<u>0.38</u>	<u>(42.40)</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 15 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB' 000	Furniture and appliances RMB' 000	Bike and vehicle RMB' 000	Leasehold improvements RMB' 000	Assets under construction RMB' 000	Right-of-use assets RMB' 000	Total RMB' 000
<b>Cost</b>							
At December 31, 2018	3,198,019	100,342	5,152,325	182,058	194,512	—	8,827,256
Adjustment on adoption of IFRS16	—	—	—	—	—	2,021,192	2,021,192
At January 1, 2019	3,198,019	100,342	5,152,325	182,058	194,512	2,021,192	10,848,448
Additions	1,377,383	104,468	920,527	6,604	516,624	594,696	3,520,302
Disposal	(69,419)	(118,105)	(650,009)	(20,061)	(6,023)	(449,094)	(1,312,711)
Transfers	—	—	354,885	154,041	(563,745)	—	(54,819)
Currency translation differences	—	1	4,095	—	—	—	4,096
At December 31, 2019	<u>4,505,983</u>	<u>86,706</u>	<u>5,781,823</u>	<u>322,642</u>	<u>141,368</u>	<u>2,166,794</u>	<u>13,005,316</u>
<b>Accumulated depreciation</b>							
At January 1, 2019	(1,231,642)	(47,329)	(3,420,977)	(77,979)	—	—	(4,777,927)
Depreciation	(1,105,763)	(42,485)	(1,554,568)	(131,069)	—	(820,908)	(3,654,793)
Disposal	49,063	74,010	481,399	2,797	—	215,128	822,397
Currency translation differences	—	(1)	(3,333)	—	—	—	(3,334)
At December 31, 2019	<u>(2,288,342)</u>	<u>(15,805)</u>	<u>(4,497,479)</u>	<u>(206,251)</u>	<u>—</u>	<u>(605,780)</u>	<u>(7,613,657)</u>
<b>Impairment</b>							
At January 1, 2019	—	—	(70,514)	—	—	—	(70,514)
Additions	(30)	—	(8,181)	—	(13,968)	—	(22,179)
Disposal	30	—	71,198	—	(6,023)	—	77,251
At December 31, 2019	<u>—</u>	<u>—</u>	<u>(7,497)</u>	<u>—</u>	<u>(7,945)</u>	<u>—</u>	<u>(15,442)</u>
<b>Net carrying amount</b>							
At January 1, 2019 on adoption of IFRS16	<u>1,966,377</u>	<u>53,013</u>	<u>1,660,834</u>	<u>104,079</u>	<u>194,512</u>	<u>2,021,192</u>	<u>6,000,007</u>
At December 31, 2019	<u>2,217,641</u>	<u>70,901</u>	<u>1,276,847</u>	<u>116,391</u>	<u>133,423</u>	<u>1,561,014</u>	<u>5,376,217</u>

Right-of-use assets of the Group are offices, warehouses and retail stores.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 15 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Computer equipment RMB' 000	Furniture and appliances RMB' 000	Bike and vehicle RMB' 000	Leasehold improvements RMB' 000	Assets under construction RMB' 000	Total RMB' 000
<b>Cost</b>						
At January 1, 2018	1,429,448	20,579	—	131,720	13,178	1,594,925
Additions	1,811,575	72,233	223,068	70,116	174,698	2,351,690
Business combinations	8,936	40,523	5,111,531	9,750	178,458	5,349,198
Disposal	(52,049)	(33,273)	(12,860)	(48,578)	(48,982)	(195,742)
Transfers	—	215	103,575	19,050	(122,840)	—
Currency translation differences	109	65	1,153	—	—	1,327
Assets classified as held for sale	—	—	(274,142)	—	—	(274,142)
At December 31, 2018	<u>3,198,019</u>	<u>100,342</u>	<u>5,152,325</u>	<u>182,058</u>	<u>194,512</u>	<u>8,827,256</u>
<b>Accumulated depreciation</b>						
At January 1, 2018	(602,067)	(17,230)	—	(59,946)	—	(679,243)
Depreciation	(649,209)	(39,518)	(3,543,866)	(19,699)	—	(4,252,292)
Disposal	19,601	9,414	6,670	1,666	—	37,351
Currency translation differences	33	5	(379)	—	—	(341)
Assets classified as held for sale	—	—	116,598	—	—	116,598
At December 31, 2018	<u>(1,231,642)</u>	<u>(47,329)</u>	<u>(3,420,977)</u>	<u>(77,979)</u>	<u>—</u>	<u>(4,777,927)</u>
<b>Impairment</b>						
At January 1, 2018	—	—	—	—	—	—
Additions	—	—	(212,464)	—	—	(212,464)
Assets classified as held for sale	—	—	141,950	—	—	141,950
At December 31, 2018	<u>—</u>	<u>—</u>	<u>(70,514)</u>	<u>—</u>	<u>—</u>	<u>(70,514)</u>
<b>Net carrying amount</b>						
At January 1, 2018	<u>827,381</u>	<u>3,349</u>	<u>—</u>	<u>71,774</u>	<u>13,178</u>	<u>915,682</u>
At December 31, 2018	<u>1,966,377</u>	<u>53,013</u>	<u>1,660,834</u>	<u>104,079</u>	<u>194,512</u>	<u>3,978,815</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2019	2018
	RMB' 000	RMB' 000
Cost of revenues	2,717,465	4,158,424
Selling and marketing expenses	516,988	19,475
Research and development expenses	233,764	39,361
General and administrative expenses	<u>186,576</u>	<u>35,032</u>
	<u><u>3,654,793</u></u>	<u><u>4,252,292</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 16 INTANGIBLE ASSETS

	Trade name RMB' 000	User generated content RMB' 000	Software and others RMB' 000	Online payment license RMB' 000	Technology and licenses RMB' 000	User list RMB' 000	Supplier relationship RMB' 000	Goodwill RMB' 000	Total RMB' 000
<b>Cost</b>									
At January 1, 2019	5,006,300	490,000	1,865,688	390,000	849,830	907,000	28,700	27,861,023	37,398,541
Additions	—	—	22,746	—	—	—	—	—	22,746
Disposal	—	—	(10,801)	—	—	—	—	(12,001)	(22,802)
At December 31, 2019	<u>5,006,300</u>	<u>490,000</u>	<u>1,877,633</u>	<u>390,000</u>	<u>849,830</u>	<u>907,000</u>	<u>28,700</u>	<u>27,849,022</u>	<u>37,398,485</u>
<b>Accumulated amortization</b>									
At January 1, 2019	(565,565)	(318,500)	(652,138)	(62,833)	(240,174)	(169,616)	(7,453)	—	(2,016,279)
Amortization	(203,419)	(98,000)	(528,817)	(26,000)	(149,351)	(181,400)	(4,020)	—	(1,191,007)
Disposal	—	—	2,633	—	—	—	—	—	2,633
At December 31, 2019	<u>(768,984)</u>	<u>(416,500)</u>	<u>(1,178,322)</u>	<u>(88,833)</u>	<u>(389,525)</u>	<u>(351,016)</u>	<u>(11,473)</u>	<u>—</u>	<u>(3,204,653)</u>
<b>Impairment</b>									
At January 1, 2019	(1,347,510)	—	—	—	(3,238)	—	(88)	(155,422)	(1,506,258)
Disposal	—	—	—	—	—	—	—	12,001	12,001
At December 31, 2019	<u>(1,347,510)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,238)</u>	<u>—</u>	<u>(88)</u>	<u>(143,421)</u>	<u>(1,494,257)</u>
<b>Net carrying amount</b>									
At January 1, 2019	<u>3,093,225</u>	<u>171,500</u>	<u>1,213,550</u>	<u>327,167</u>	<u>606,418</u>	<u>737,384</u>	<u>21,159</u>	<u>27,705,601</u>	<u>33,876,004</u>
At December 31, 2019	<u>2,889,806</u>	<u>73,500</u>	<u>699,311</u>	<u>301,167</u>	<u>457,067</u>	<u>555,984</u>	<u>17,139</u>	<u>27,705,601</u>	<u>32,699,575</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 16 INTANGIBLE ASSETS (Continued)

	Trade name	User generated content	Software and others	Online payment license	Technology and licenses	User list	Supplier relationship	Goodwill	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>Cost</b>									
At January 1, 2018	3,406,300	490,000	1,321,837	390,000	186,360	67,000	28,700	15,025,019	20,915,216
Additions	—	—	69,712	—	—	—	—	—	69,712
Business combinations	1,600,000	—	478,265	—	663,470	840,000	—	12,836,004	16,417,739
Disposal	—	—	(4,106)	—	—	—	—	—	(4,106)
Assets classified as held for sale	—	—	(20)	—	—	—	—	—	(20)
At December 31, 2018	<u>5,006,300</u>	<u>490,000</u>	<u>1,865,688</u>	<u>390,000</u>	<u>849,830</u>	<u>907,000</u>	<u>28,700</u>	<u>27,861,023</u>	<u>37,398,541</u>
<b>Accumulated amortization</b>									
At January 1, 2018	(309,145)	(220,500)	(201,111)	(36,833)	(100,812)	(30,150)	(3,433)	—	(901,984)
Amortization	(256,420)	(98,000)	(451,241)	(26,000)	(139,362)	(139,466)	(4,020)	—	(1,114,509)
Disposal	—	—	209	—	—	—	—	—	209
Assets classified as held for sale	—	—	5	—	—	—	—	—	5
At December 31, 2018	<u>(565,565)</u>	<u>(318,500)</u>	<u>(652,138)</u>	<u>(62,833)</u>	<u>(240,174)</u>	<u>(169,616)</u>	<u>(7,453)</u>	<u>—</u>	<u>(2,016,279)</u>
<b>Impairment</b>									
At January 1, 2018	(1,510)	—	—	—	(3,238)	—	(88)	(155,422)	(160,258)
Additions	(1,346,000)	—	—	—	—	—	—	—	(1,346,000)
At December 31, 2018	<u>(1,347,510)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,238)</u>	<u>—</u>	<u>(88)</u>	<u>(155,422)</u>	<u>(1,506,258)</u>
<b>Net carrying amount</b>									
At January 1, 2018	<u>3,095,645</u>	<u>269,500</u>	<u>1,120,726</u>	<u>353,167</u>	<u>82,310</u>	<u>36,850</u>	<u>25,179</u>	<u>14,869,597</u>	<u>19,852,974</u>
At December 31, 2018	<u>3,093,225</u>	<u>171,500</u>	<u>1,213,550</u>	<u>327,167</u>	<u>606,418</u>	<u>737,384</u>	<u>21,159</u>	<u>27,705,601</u>	<u>33,876,004</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 16 INTANGIBLE ASSETS (Continued)

Amortization expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2019	2018
	RMB' 000	RMB' 000
Selling and marketing expenses	768,079	656,729
General and administrative expenses	242,504	288,860
Cost of revenues	176,636	167,093
Research and development expenses	<u>3,788</u>	<u>1,827</u>
	<u>1,191,007</u>	<u>1,114,509</u>

The addition of the goodwill arose from the business combination in each year. Majority of the Group's goodwill are related to the strategic transaction of Mobike in 2018. The Group entered into a 5-year strategic cooperation agreement with one platform in 2017 with a total consideration of USD200 million (equivalent to RMB1,307 million, of which RMB1,281 million was capitalized). The Group amortized the amount within the contract period.

#### Impairment of goodwill

The Group carries out its annual impairment test on goodwill by comparing the recoverable amounts of cash generating unit ("CGU") to the carrying amounts. The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period with a terminal value related to the future cash flows extrapolated using the estimated growth rates stated below beyond the 5-year period. The Group believes that it is appropriate to cover a 5-year period in its cash flow projection, because it captures the development stage of the Group's businesses during which the Group expects to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 16 INTANGIBLE ASSETS (Continued)

### Impairment of goodwill (Continued)

Management reviews the business performance based on type of business and monitors the goodwill at the operating segment level. The following is a summary of goodwill allocation for each operating segment:

Year ended December 31, 2019	Opening RMB' 000	Addition RMB' 000	Reallocation RMB' 000	Impairment RMB' 000	Disposal RMB' 000	Closing RMB' 000
Food delivery	4,845,229	—	—	—	—	4,845,229
In-store, hotel & travel	18,950,647	—	—	—	—	18,950,647
Bike-sharing services	3,707,427	—	—	—	—	3,707,427
New initiatives and others (excluding bike-sharing services)	<u>202,298</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>202,298</u>
	<u><u>27,705,601</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>27,705,601</u></u>

Year ended December 31, 2018	Opening RMB' 000	Addition RMB' 000	Reallocation (Note i) RMB' 000	Impairment RMB' 000	Disposal RMB' 000	Closing RMB' 000
Food delivery	3,116,702	1,728,527	—	—	—	4,845,229
In-store, hotel & travel	11,438,285	7,392,786	119,576	—	—	18,950,647
Bike-sharing services	—	3,707,427	—	—	—	3,707,427
New initiatives and others (excluding bike-sharing services)	<u>314,610</u>	<u>7,264</u>	<u>(119,576)</u>	<u>—</u>	<u>—</u>	<u>202,298</u>
	<u><u>14,869,597</u></u>	<u><u>12,836,004</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>27,705,601</u></u>

- (i) In 2018, the Group decided to reallocate certain goodwill of Restaurant Management System (“RMS”) from new initiatives and others segment to in-store hotel and travel due to business structure adjustment.

The goodwill balance mainly arose from the strategic transaction of Meituan and Dianping and business combination of Mobike. Goodwill is attributable to the acquired transacting volume and economies of scale expected to be derived from combining with the operations of the Group.

Impairment review on the goodwill of the Group has been conducted by the management as at December 31, 2019 and 2018, according to IAS 36 “Impairment of assets”. For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a 5-year period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 16 INTANGIBLE ASSETS (Continued)

#### Impairment of goodwill (Continued)

The key assumptions used in the significant CGU value-in-use calculations are as follows:

##### As of December 31, 2019

	Food delivery	In-store, hotel & travel	Bike-sharing services
Annual revenue growth rate for the 5-year period (%)	5%-31%	13%-32%	11%-166%
Gross profit rate	20%-27%	88%-90%	29%-49%
Terminal revenue growth rate (%)	3.0%	3.0%	3.0%
Pre-tax discount rate (%)	28%	27%	31%

##### As of December 31, 2018

	Food delivery	In-store, hotel & travel	Bike-sharing services
Annual revenue growth rate for the 5-year period (%)	5%-36%	5%-35%	10%-77%
Gross profit rate	16%-30%	87%-90%	(8%)-64%
Terminal revenue growth rate (%)	2.5%	2.5%	2.5%
Pre-tax discount rate (%)	30%	32%	30%

The budgeted gross margins used in the goodwill impairment testing, were determined by the management based on past performance and its expectation for market development. The expected revenue growth rate and gross profit rates are following the business plan approved by the Company. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

New initiatives and others includes different small CGUs. Those CGUs cover the business of RMS, B2B food distribution services and micro loan business. The discount rate used in the impairment testing for the CGUs in new initiatives and others segments is from 27% to 31%, while the terminal revenue growth rate is 3.0% and 2.5% respectively for the years ended December 31, 2019 and 2018.

Reasonable possible changes in key assumptions would not lead to impairment as of December 31, 2019 and 2018, respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 17 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	Note	As of December 31,	
		2019 RMB' 000	2018 RMB' 000
<b>Assets as per consolidated statements of financial position</b>			
Financial assets at fair value through profit or loss:			
– Financial assets at fair value through profit or loss	19	7,166,122	6,241,972
– Short-term investments at fair value through profit or loss	20	<u>23,988,182</u>	<u>15,067,960</u>
		<u><b>31,154,304</b></u>	<u><b>21,309,932</b></u>
Financial assets at amortized cost:			
– Trade receivables	23	676,762	466,340
– Prepayments, deposits and other assets (excluding tax prepayments)	21	8,847,078	6,895,162
– Short-term investments measured at amortized cost	20	25,447,417	26,762,004
– Restricted cash	24	8,760,115	4,256,120
– Cash and cash equivalents	24	13,396,185	17,043,692
– Assets classified as held for sale		—	88,087
		<u><b>57,127,557</b></u>	<u><b>55,511,405</b></u>
<b>Liabilities as per consolidated statement of financial position</b>			
Financial liabilities at amortized cost:			
– Trade payables	29	6,766,253	5,340,963
– Payables to merchants		7,495,262	7,596,388
– Advances from transacting users		3,855,559	3,226,407
– Deposits from transacting users		2,491,947	3,341,276
– Other payables and accruals (excluding salaries and benefits payable and other tax payable)	30	3,474,669	4,019,499
– Other non-current liabilities		129,552	35,759
– Borrowings	31	4,019,263	2,270,056
– Lease liabilities		1,526,799	—
– Liabilities directly associated with assets classified as held for sale		—	55,510
		<u><b>29,759,304</b></u>	<u><b>25,885,858</b></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 18 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statements of financial position:

### (a) Deferred tax assets

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
The balance comprises temporary differences attributable to:		
– Tax losses	848,365	1,373,351
– Others	35,820	142,294
Total gross deferred tax assets	884,185	1,515,645
Set-off of deferred tax assets pursuant to set-off provisions	(294,131)	(1,070,604)
Net deferred tax assets	590,054	445,041

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Deferred tax assets:		
– to be recovered after 12 months	154,255	208,424
– to be recovered within 12 months	435,799	236,617
	590,054	445,041

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 18 DEFERRED INCOME TAXES (Continued)

### (b) Deferred tax liabilities

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
The balance comprises temporary differences attributable to:		
– Intangible assets arising from business combinations	(750,046)	(886,398)
– Investments using the equity method or at fair value	(438,363)	(416,830)
– Deferred revenues	(469,175)	(862,290)
– Others	<u>(25,016)</u>	<u>(100,955)</u>
Total gross deferred tax liabilities	<u>(1,682,600)</u>	<u>(2,266,473)</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	294,131	1,070,604
Net deferred tax liabilities	<u>(1,388,469)</u>	<u>(1,195,869)</u>

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Deferred tax liabilities:		
– to be recovered after 12 months	(859,574)	(839,227)
– to be recovered within 12 months	<u>(528,895)</u>	<u>(356,642)</u>
	<u>(1,388,469)</u>	<u>(1,195,869)</u>

The movement on the gross deferred tax assets is as follows:

	Tax losses RMB' 000	Others RMB' 000	Total RMB' 000
At January 1, 2019	1,373,351	142,294	1,515,645
Charged to consolidated income statement	<u>(524,986)</u>	<u>(106,474)</u>	<u>(631,460)</u>
At December 31, 2019	<u>848,365</u>	<u>35,820</u>	<u>884,185</u>
At January 1, 2018	768,674	10,723	779,397
Business combinations	599,743	—	599,743
Credited to consolidated income statement	<u>4,934</u>	<u>131,571</u>	<u>136,505</u>
At December 31, 2018	<u>1,373,351</u>	<u>142,294</u>	<u>1,515,645</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 18 DEFERRED INCOME TAXES (Continued)

The movement on the gross deferred tax liabilities is as follows:

	Intangible assets RMB' 000	Investments using the equity method or at fair value RMB' 000	Deferred revenues RMB' 000	Others RMB' 000	Total RMB' 000
At January 1, 2019	(886,398)	(416,830)	(862,290)	(100,955)	(2,266,473)
Credited/(charged) to consolidated income statement	136,352	(18,015)	393,115	75,939	587,391
Charged to other comprehensive loss	—	(3,518)	—	—	(3,518)
At December 31, 2019	<u>(750,046)</u>	<u>(438,363)</u>	<u>(469,175)</u>	<u>(25,016)</u>	<u>(1,682,600)</u>
At January 1, 2018	(582,895)	(418,791)	(584,567)	—	(1,586,253)
Business combinations	(775,789)	—	(10,467)	—	(786,256)
Credited/(charged) to consolidated income statement	472,286	8,922	(267,256)	(100,955)	112,997
Charged to other comprehensive loss	—	(6,961)	—	—	(6,961)
At December 31, 2018	<u>(886,398)</u>	<u>(416,830)</u>	<u>(862,290)</u>	<u>(100,955)</u>	<u>(2,266,473)</u>

The Group only recognises deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at December 31, 2019 and 2018, the Group did not recognise deferred income tax assets of RMB6.6 billion and RMB5.1 billion in respect of cumulative tax losses amounting to RMB28.7 billion and RMB22.8 billion. These tax losses will expire from 2020 to 2024, and certain subsidiaries of the Group may extend to 2029 if they can maintain the “high and new technology enterprises” qualification at that time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
<b>Non-current</b>		
Investments at fair value through profit or loss (Note a)	<u>7,166,122</u>	<u>6,241,972</u>

**(a) Investments at fair value through profit or loss**

	Year ended of December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	6,241,972	5,919,594
Additions	475,903	1,616,220
Business combinations	—	12,880
Change in fair value	77,699	1,836,382
Disposals (Note i)	(219)	(3,154,736)
Reclassification (Note 12)	319,373	(50,000)
Currency translation differences	<u>51,394</u>	<u>61,632</u>
At the end of the year	<u>7,166,122</u>	<u>6,241,972</u>

- (i) During the year ended December 31, 2018, the Group disposed several investments at fair value through profit or loss with the aggregate amount of RMB3.2 billion.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

#### (a) Investments at fair value through profit or loss (Continued)

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Investments in associates at fair value through profit or loss (Note i)	1,376,375	2,015,957
Other investments at fair value through profit or loss (Note ii)	5,789,747	4,226,015
	<u>7,166,122</u>	<u>6,241,972</u>

#### (i) Investments in associates at fair value through profit or loss

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	2,015,957	1,608,298
Additions	26,000	634,551
Business combinations	—	7,580
Change in fair value	(669,320)	(14,746)
Disposals	—	(177,982)
Reclassification	—	(50,000)
Currency translation differences	3,738	8,256
At the end of the year	<u>1,376,375</u>	<u>2,015,957</u>

For the years ended December 31, 2019 and 2018, the Group made investment in some convertible redeemable preferred shares or ordinary shares with preferential rights issued by private investee companies. The Group maintained significant influence in these companies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

### (a) Investments at fair value through profit or loss *(Continued)*

#### (ii) Other investments at fair value through profit or loss

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	4,226,015	4,311,296
Additions	449,903	981,669
Business combinations	—	5,300
Change in fair value	747,019	1,851,128
Disposals	(219)	(2,976,754)
Reclassification	319,373	—
Currency translation differences	47,656	53,376
At the end of the year	<u>5,789,747</u>	<u>4,226,015</u>

The Group also has interests in certain investee companies in the form of ordinary shares without significant influence, which are managed and whose performance are evaluated on a fair value basis. The Group designated these instruments as financial assets at fair value through profit or loss.

RMB3.4 billion of investments at fair value through profit or loss is denominated in USD, other balances are denominated in RMB (2018: RMB3.0 billion).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 20 SHORT-TERM INVESTMENTS

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Short-term investments measured at		
– Amortized cost	25,447,417	26,762,004
– Fair value through profit or loss	23,988,182	15,067,960
	<u>49,435,599</u>	<u>41,829,964</u>

### (a) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are fixed rate certificate of deposit and term deposit above 3 months and within 1 year.

Note 3.1 (b) sets out information about the impairment of financial assets and the Group's exposure to credit risk.

There is also no exposure to price risk as the investments will be held to maturity.

### (b) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products. The principal and returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are within level 3 of the fair value hierarchy (Note 3.3). Changes in fair value (realized and unrealized) of these financial assets had been recognised in "Other gains, net" in the consolidated income statement.

### (c) Short-term investments are denominated in the following currencies:

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
USD	32,630,495	34,050,792
RMB	16,805,104	7,340,865
HKD	—	438,307
	<u>49,435,599</u>	<u>41,829,964</u>

The majority of short-term investments denominated in USD currency units are held by the companies with the same functional currency, therefore, there is no exposure to foreign currency risk.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
<b>Non-current</b>		
Recoverable value-added tax	972,099	—
Prepayment for investments	282,044	249,957
Long-term investments measured at amortized cost	200,275	—
Prepayment for fixed assets	159,703	97,920
Rental deposits	135,813	147,678
Receivables from investment disposal	—	282,919
Loan receivables (Note i)	—	74,625
Others	12,378	13,785
	<b>1,762,312</b>	<b>866,884</b>
<b>Current</b>		
Loan receivables (Note i)	5,387,552	3,762,455
Tax prepayments	1,534,292	3,036,667
Prepayments to merchants (Note ii)	408,248	220,454
Contract assets	373,609	105,630
Amounts due from related parties (Note 36)	324,741	195,202
Receivables from third-party payment service providers	303,868	131,568
Receivables from investment disposal	287,577	130,362
Deposits	147,940	155,826
Prepayments for channel marketing fee	102,593	346,834
Prepayments for rental	—	153,427
Others	720,737	826,520
	<b>9,591,157</b>	<b>9,064,945</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS (Continued)

- (i) Loan receivables are derived from micro loan business. Loan receivables are recorded initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. The loan periods extended by the Group to the merchants or individuals are generally within 12 months. Breakdown for loan receivables included both current and non-current portion as follows:

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Unsecured loan receivables	5,723,050	3,988,070
Less: allowance for impairment	<u>(335,498)</u>	<u>(150,990)</u>
	<u>5,387,552</u>	<u>3,837,080</u>

Movements on the Group's allowance for impairment of loan receivables are as follows:

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	(150,990)	(57,074)
Provision	(435,122)	(208,326)
Receivables written off during the year as uncollectable	<u>250,614</u>	<u>114,410</u>
At the end of the year	<u>(335,498)</u>	<u>(150,990)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS (Continued)

- (ii) Prepayments to merchants are derived from in-store, hotel & travel services. The Group prepays the third-party merchants prior to their merchant's sales campaign of vouchers on the Group's online platform. The Group recognises commission revenue from in-store, hotel & travel services when the vouchers and reservations are redeemed by transacting users to enjoy the goods or services. At each period end, prepayments to merchants are assessed for impairment to ensure the recoverability, by considering reliability of the assets and existence of advances from transacting users.

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Prepayments to merchants	473,361	298,128
Less: allowance for impairment(a)	<u>(65,113)</u>	<u>(77,674)</u>
	<u>408,248</u>	<u>220,454</u>

- (a) Majority of loss allowance are related to the non-performing balances for which 100% provision have been provided.

Movements on the Group's allowance for impairment of prepayments to merchants are as follows:

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	(77,674)	(277,582)
(Provision)/reversal	(11,502)	19,251
Receivables written off during the year as uncollectable	<u>24,063</u>	<u>180,657</u>
At the end of the year	<u>(65,113)</u>	<u>(77,674)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 22 INVENTORIES

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Raw materials	98,047	141,195
Finished goods	<u>265,975</u>	<u>370,079</u>
	364,022	511,274
Less: provision for impairment	<u>(88,795)</u>	<u>(111,030)</u>
	<u><u>275,227</u></u>	<u><u>400,244</u></u>

### 23 TRADE RECEIVABLES

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Trade receivables	832,616	590,409
Less: allowance for impairment	<u>(155,854)</u>	<u>(124,069)</u>
	<u><u>676,762</u></u>	<u><u>466,340</u></u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 23 TRADE RECEIVABLES (Continued)

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	(124,069)	(29,461)
Provision	(86,664)	(131,472)
Assets (transferred from derecognition of held for sale)/ classified as held for sale	(7,030)	14,600
Reversal	26,478	8,011
Receivables written off during the year as uncollectable	<u>35,431</u>	<u>14,253</u>
At the end of the year	<u>(155,854)</u>	<u>(124,069)</u>

The Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of December 31, 2019 and 2018.

The Group allows a credit period of 30 to 150 days to its customers. Aging analysis of trade receivables (net off allowance for impairment of trade receivables) based on invoice date is as follows:

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Trade receivables		
Up to 3 months	544,784	281,353
3 to 6 months	87,114	126,376
6 months to 1 year	34,574	56,574
Over 1 year	<u>10,290</u>	<u>2,037</u>
	<u>676,762</u>	<u>466,340</u>

The majority of the Group's trade receivables were denominated in RMB.

The maximum exposure to credit risk as of December 31, 2019 and 2018 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 24 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS

#### (a) Cash and cash equivalents

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Cash in hand and cash in bank	6,747,736	9,629,534
Term deposit with initial terms within three months	6,294,862	5,576,350
Cash held in other financial institutions (Note i)	353,587	1,837,808
	<u>13,396,185</u>	<u>17,043,692</u>

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
RMB	7,578,796	5,629,279
USD	5,660,813	11,247,166
JPY	60,863	88,196
Others	95,713	79,051
	<u>13,396,185</u>	<u>17,043,692</u>

- (i) Cash and cash equivalents of the Group primarily represent bank deposits and fixed deposits with maturities less than three months. As of December 31, 2019 and 2018, the Group had certain amounts of cash held in accounts managed by other financial institutions in connection with the provision of online and mobile commerce and related services in the amount of RMB354 million and RMB1,838 million, respectively, which have been classified as cash and cash equivalents on the consolidated statements of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 24 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS (Continued)

### (b) Restricted cash

Restricted cash are dominated in the following currencies:

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
RMB	8,704,305	3,628,619
USD	55,810	625,935
Others	—	1,566
	<u>8,760,115</u>	<u>4,256,120</u>

As of December 31, 2019, RMB231 million and USD6 million (equivalent to approximately RMB42 million) restricted deposits were held by bank as letter of guarantee. Other restricted cash balances are those held in bank account which are subject to certain restriction according to agreement with certain parties.

As of December 31, 2018, RMB178 million and USD85 million (equivalent to approximately RMB583.4 million) restricted deposits were held by bank as letter of guarantee. The USD85 million (equivalent to approximately RMB583.4 million) was pledged to China Merchants Bank Co., Ltd. for the loans of RMB300 million.

## 25 SHARE CAPITAL AND SHARE PREMIUM

As at December 31, 2019 and 2018, the authorized share capital of the Company comprises 10,000,000,000 ordinary shares with par value of USD0.00001 per share.

### Issued:

	Number of ordinary shares ' 000	Nominal value of ordinary shares USD' 000	Share capital RMB' 000	Share premium RMB' 000	Total RMB' 000
At January 1, 2019	5,727,447	57	384	258,284,687	258,285,071
Exercise of option and RSU vesting	81,219	1	5	2,075,242	2,075,247
At December 31, 2019	<u>5,808,666</u>	<u>58</u>	<u>389</u>	<u>260,359,929</u>	<u>260,360,318</u>
At January 1, 2018	1,548,664	15	98	9,338,529	9,338,627
Issuance of ordinary shares	4,136,806	41	283	248,944,408	248,944,691
Exercise of option and RSU vesting	67,649	1	5	842,199	842,204
Repurchase of ordinary shares	(24,667)	—	(2)	(811,142)	(811,144)
Cancellation of ordinary shares	(1,005)	—	—	(29,307)	(29,307)
At December 31, 2018	<u>5,727,447</u>	<u>57</u>	<u>384</u>	<u>258,284,687</u>	<u>258,285,071</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 26 OTHER RESERVES

	Capital reserve RMB' 000	Share-based compensation reserve RMB' 000	Currency translation reserve RMB' 000	Others RMB' 000	Total RMB' 000
<b>As of January 1, 2019</b>	<b>20</b>	<b>2,594,722</b>	<b>(8,118,061)</b>	<b>(218,028)</b>	<b>(5,741,347)</b>
Issuance of ordinary shares	—	—	—	—	—
Share-based compensation expenses	—	2,181,436	—	—	2,181,436
Exercise of option and RSU vesting	—	(1,614,957)	—	—	(1,614,957)
Transaction with non-controlling interests	—	—	—	34,047	34,047
Disposal of a subsidiary	—	—	—	10,617	10,617
Share of other comprehensive income of investments accounted for using the equity method	—	—	—	3,905	3,905
Currency translation differences	—	—	679,047	—	679,047
<b>As of December 31, 2019</b>	<b>20</b>	<b>3,161,201</b>	<b>(7,439,014)</b>	<b>(169,459)</b>	<b>(4,447,252)</b>
<b>As of December 31, 2017</b>	<b>20</b>	<b>1,232,234</b>	<b>(500,154)</b>	<b>(265,997)</b>	<b>466,103</b>
Adjustment on adoption of IFRS9 (net of tax)	—	—	—	(423,731)	(423,731)
<b>As of January 1, 2018</b>	<b>20</b>	<b>1,232,234</b>	<b>(500,154)</b>	<b>(689,728)</b>	<b>42,372</b>
Issuance of ordinary shares	—	—	—	609,744	609,744
Business combinations	—	231,736	—	—	231,736
Share-based compensation expenses	—	1,816,453	—	—	1,816,453
Exercise of option and RSU vesting	—	(685,701)	—	—	(685,701)
Transaction with non-controlling interests	—	—	—	47,969	47,969
Preferred shares fair value change due to own credit risk	—	—	—	(186,013)	(186,013)
Currency translation differences	—	—	(7,617,907)	—	(7,617,907)
<b>As of December 31, 2018</b>	<b>20</b>	<b>2,594,722</b>	<b>(8,118,061)</b>	<b>(218,028)</b>	<b>(5,741,347)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 27 DEFERRED REVENUES

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
<b>Non-Current</b>		
Business cooperation agreement with Maoyan	388,967	611,233
Others	<u>61</u>	<u>13,766</u>
	<u>389,028</u>	<u>624,999</u>
<b>Current</b>		
Online marketing services	4,299,191	2,856,343
Business cooperation agreement with Maoyan	222,267	222,267
Mobike monthly pass	44,010	24,221
Others	<u>1,703</u>	<u>51</u>
	<u>4,567,171</u>	<u>3,102,882</u>
	<u>4,956,199</u>	<u>3,727,881</u>

Movements on the Group's deferred revenues are as follows:

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
At the beginning of the year	3,727,881	2,947,715
Add:		
Receipt from online marketing customers	18,028,480	10,586,871
Receipt from Mobike monthly pass	555,360	515,620
Receipt from others	4,141	22,651
Less:		
Business cooperation agreement with Maoyan amortization (Note i)	(222,267)	(222,267)
Online marketing revenue recognition	(16,596,552)	(9,627,170)
Mobike monthly pass revenue recognition	(535,571)	(491,398)
Other revenue recognition	(5,273)	(4,077)
Liabilities directly associated with assets classified as held for sale	<u>—</u>	<u>(64)</u>
At the end of the year	<u>4,956,199</u>	<u>3,727,881</u>

- (i) In July 2016, as part of the Group's disposal of Maoyan, the Group entered into a business cooperation agreement with Maoyan for a 5-year period. Subsequently in September 2017, the agreement was extended for another 14 months to September 30, 2022. The Group recognises the revenue over the contract period.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 27 DEFERRED REVENUES *(Continued)*

Majority of the deferred revenues balance at the beginning of 2019 has been recognised as revenue during 2019.

### 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On October 6, 2015, the Company issued a total of 1,954,217,809 shares of Series A-1 through A-11 Preferred Shares.

In November 2015, the Company issued Series B Preferred Shares at an issue price of USD3.86 per share. Series B Preferred Shares were continuously issued beginning from November 2015 to August 2016 and total 801,039,606 shares were issued.

In October 2017, the Company issued Series C Preferred Shares at an issue price of USD5.59 per share. Total of 733,575,936 shares were issued.

In April 2018, the Company issued 167,703,791 shares of Series A-12 Preferred Shares in connection with the acquisition of Mobike.

Upon issuance of Series A-12 Preferred shares, a total of 2,121,921,600 shares were issued (Series A-1 through A-12, "Series A Preferred Shares").

Upon the Listing on September 20, 2018, all the outstanding Preferred Shares of the Company have been converted into ordinary shares.

The key terms of all series of Preferred Shares effective and applicable during period ended September 20, 2018 are as follows:

28 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)***Conversion**

Each Preferred Share may, at the option of the holders, be converted at any time after the original issue date into fully-paid and non-assessable ordinary shares at an initial conversion ratio of 1:1 subject to (i) adjustment for share splits and combinations; (ii) adjustment for ordinary share dividends and distributions; (iii) adjustments for other dividends; and (iv) adjustment in Preferred Share conversion price for dilutive issuances.

In addition, each Preferred Share shall automatically be converted, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares based on the then-effective applicable conversion price upon the earlier of:

- (i) the closing of a Qualified IPO, or
- (ii) the date specified by written consent or agreement of holders of a majority of the outstanding Preferred Shares; provided, however, that (a) no Series B Preferred Shares can be converted into ordinary shares without the prior written consent or agreement of holders of a majority of the outstanding Series B Preference shares, voting as a separate class; and (b) no Series C Preferred Shares can be converted into ordinary shares without the prior written consent or agreement of holders of a majority of the outstanding Series C Preferred Shares, voting as a separate class.

“Qualified IPO” is defined as a firm underwritten initial public offering of the ordinary shares and the listing of such shares for trading on the New York Stock Exchange, NASDAQ Global Market, Main Board of the Hong Kong Stock Exchange or any other internationally recognised stock exchange as approved by the Company and the holders of at least a majority of voting power of all Preferred Shares (voting as a single class), with a minimum valuation of a certain amount on a fully diluted basis immediately prior to the consummation of the offering or agreed in writing by the holders of at least a majority of voting power of all outstanding Preferred Shares (voting as a single class), at least a majority of voting power of all outstanding Series C Preferred Shares (voting as a separate class), and a majority of voting power of all outstanding Series C Preferred Shares held by certain Series C shareholders.

Prior to the issuance of Series C Preferred Shares, specific conditions attached to above conversion rights in relation to Series C shareholders as summarized above were not applicable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

#### **Liquidation preference**

Upon Liquidation Event, whether voluntary or involuntary, before any distribution or payment shall be made to the ordinary shareholders, each holder of Series B and Series C Preferred Shares shall be entitled to receive an "Liquidation Preference Amount" equal to the greater of (i) 120% of the Series B or C issuance price plus all declared but unpaid dividends and (ii) amount each holder would have received had the Series B and C Preferred Shares been converted into ordinary shares immediately prior to the closing of such Liquidation Events, and each holder of Series A Preferred Shares shall be entitled to receive 100% of the issuance price, plus all declared but unpaid dividends.

If the assets of the Company shall be insufficient to make payment of the foregoing amounts in full on all the Preferred Shares, then such assets shall be distributed among the holders of Preferred Share, ratably in proportion to the full amounts to which they would otherwise be respectively entitled thereon. After distribution or payment in full of the amount distributable or payable on any Preferred Shares, the assets of the Company legally available for distribution shall be distributed pro-rata among the holders of the ordinary shares.

The Liquidation Events are defined to include: (i) any liquidation, winding-up, or dissolution of any group company (as defined in the share purchase agreement); (ii) any merger, acquisition, sale of voting control, amalgamation or consolidation of any group company, as a result of which the shareholders of the Company will cease to own a majority of the Equity Securities or voting power of the surviving entity; (iii) any sale of any group company or any sale or distribution of all or substantially all of the assets of any group company; (iv) the exclusive licensing of all or substantially all of the intellectual property of any group company to a third-party unaffiliated with any group company; or (v) any transfer in which a majority of the outstanding voting power of the Company is transferred; unless waived in writing by the holders of at least a majority of the then outstanding Preferred Shares. There is no liquidation events triggered throughout the period ended September 20, 2018.

#### **Redemption features**

Subject to the law and applicable provisions of these Articles, if any, the Company may purchase its own shares as the Directors may determine and agree with the shareholder. Under specific conditions as provided in the Article of Association, the holders of Series C Preferred Shares shall be entitled to sell their Series C Preferred Shares to the Company on the same terms and in the same manner on a pro rata basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 28 CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

### Dividends

Non-cumulative dividends of 8% per annum when and if declared by the board of the Company (the “Board”), with preference to Series C preferred shareholders, followed by series B preferred shareholders, followed by each tranche of Series A from A-12 until A-1, and then ordinary shares, in that order.

### Voting rights

Each Preferred share has voting rights equivalent to the number of ordinary shares into which such Preferred shares could be then convertible.

The Group monitors Series A, B, and C Preferred Shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any embedded derivatives from the host instruments and designates entire instruments as a financial liability at fair value through profit or loss with the changes in the fair value recorded in the consolidated income statement.

The movements of the convertible redeemable preferred share are set out as below:

	RMB' 000
<b>At January 1, 2018</b>	101,418,292
Issuance of Series A-12 preferred shares	5,888,472
Change in fair value	104,792,071
<i>Includes: change in fair value due to own credit risk</i>	186,013
Currency translation differences	8,336,605
Transfer to ordinary shares	<u>(220,435,440)</u>
<b>At December 31, 2018</b>	<u>—</u>

## 29 TRADE PAYABLES

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Trade payables	<u>6,766,253</u>	<u>5,340,963</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 29 TRADE PAYABLES (Continued)

As of December 31, 2019 and 2018, the aging analysis of the trade payables based on invoice date were as follows:

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Trade payables		
Up to 3 months	6,353,368	5,067,050
3 to 6 months	237,151	168,162
6 months to 1 year	119,630	102,764
Over 1 year	56,104	2,987
	<u>6,766,253</u>	<u>5,340,963</u>

The majority of the Group's trade payables were denominated in RMB.

### 30 OTHER PAYABLES AND ACCRUALS

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Salaries and benefits payable	2,881,176	2,598,340
Deposits	1,803,783	1,183,676
Other tax payable	881,567	685,568
Amounts due to related parties (Note 36)	351,249	407,248
Amounts collected for third parties	312,191	15,653
Accrued expenses	205,715	347,315
Advance from customers	104,252	52,916
Payables for acquisition	55,718	1,443,877
Others	641,761	568,814
	<u>7,237,412</u>	<u>7,303,407</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 31 BORROWINGS

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Included in non-current liabilities		
Asset-backed securities	<u>466,676</u>	<u>470,056</u>
Included in current liabilities		
Bank loan — unsecured	3,190,000	1,200,000
Bank loan — secured	—	600,000
Asset-backed securities	<u>362,587</u>	—
	<u><b>3,552,587</b></u>	<u><b>1,800,000</b></u>

- (a) Bank borrowings of RMB3.2 billion will be repayable in 2020 and bear annual average interest rate of 5.199% (2018: 5.597%).

For the year ended December 31, 2019, the weighted average effective interest rate was 5.242% (2018: 5.980%).

- (b) The Group has securitized certain loan receivables and issued RMB500 million ABS in 2019. During 2019, the Group issued ABS of RMB500 million, of which RMB467 million represented senior tranche and RMB33 million represented subordinate tranches, which were fully acquired by the Group. These ABS bore interest at 4.59%-5.3% per annum in 2019.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 32 SHARE-BASED PAYMENTS

On October 6, 2015, the board of Directors of the Company approved the establishment of the Company's 2015 Share Incentive Plan ("2015 Share Incentive Plan"), an equity-settled share-based compensation plan with the purpose of attracting, motivating, retaining and rewarding certain employees, consultants, and Directors. The 2015 Share Incentive Plan is valid and effective for 10 years from the date of approval by the board of Directors. The Group has reserved 598,483,347 ordinary shares under the 2015 Share Incentive Plan, and permits the awards of options and RSUs of the Company's ordinary shares.

On April 4, 2018, the Company and Mobike entered into a strategic transaction, and the Group assumed all the outstanding incentive share awards of Mobike (the "Mobike option replacement"). The number and types of the shares issuable upon the exercise of the Mobike option replacement, and the applicable exercise price for share options were adjusted according to the same term as the 2015 Share Incentive Plan. After the replacement awards were issued, Mobike's original incentive plan ceased to operate.

A total of 21,290,122 share options were assumed by the Group in the acquisition of Mobike. The Mobike option replacement has been analyzed to determine whether the awards relate to pre-combination or post-combination services or both. To the extent Mobike option replacement is for pre-combination services, a portion of the value of the awards has been allocated to the consideration transferred for the acquiree. To the extent the Mobike option replacement is for post-combination services, the value of the awards is recognised as compensation expenses attributable to post-combination services.

The incremental fair value, calculated as the difference between the fair value of share option award assumed by the Group in the Mobike option replacement and the fair value of the outstanding incentive share awards of Mobike as of the acquisition date, has been included in the measurement of the amount recognised for the services received over the remainder of the vesting period, and is recognised in the Group's consolidated income statement as share-based compensation expenses.

In addition, according to the merger agreement with Mobike, RSUs of the Company with a total valuation of USD60 million shall be granted to current Mobike officers, Directors, and employees, and subject to the Company's 2015 Share Incentive Plan. The Company recorded share-based compensation expenses over the service period based on its best estimate of the grant day fair value of related RSUs.



**32 SHARE-BASED PAYMENTS (Continued)**

As of August 30, 2018, the Group has authorized and reserved 683,038,063 ordinary shares under the 2015 Share Incentive Plan for awards of options and RSUs of the Company's ordinary shares. All the share options and RSUs under the 2015 Share Incentive Plan were granted between May 31, 2006 and August 2, 2018 and the Company will not grant further share options and RSUs under the 2015 Share Incentive Plan after the Listing.

On August 30, 2018, a new share option scheme ("Post-IPO Share Option Scheme") and a new share award scheme ("Post-IPO Share Award Scheme") had been approved by the shareholders of the Company. The total number of Class B Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 475,568,628 Class B Shares. The aggregate number of Class B Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 272,336,228 Shares without Shareholders' approval (the "Post-IPO Share Award Scheme Limit") subject to an annual limited of 3% of the total number of issued Shares at the relevant time.

As of December 31, 2019, the Group has authorised and reserved a total of 912,013,581 ordinary shares under the 2015 Share Incentive Plan, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme for awards of options and RSUs of the Company's ordinary shares.

**Share options**

Options granted typically expire in 10 years from the respective grant dates. For previously granted options that were near its expiration date (i.e., 10 years after grant date) in 2018 and 2019, their expiration date was extended to October 5, 2025. The options have graded vesting terms, and vest in tranches from the grant date over 4 years, on condition that employees remain in service without any performance requirements.

The options may be exercised at any time after they have vested subject to the terms of the award agreement and are exercisable for a maximum period of 10 years after the date of grant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 32 SHARE-BASED PAYMENTS (Continued)

#### Share options (Continued)

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of share options	Weighted average exercise price per share option (HKD)
Outstanding as of December 31, 2018	116,321,663	22.69
Granted during the year	740,000	69.10
Forfeited during the year	(7,484,459)	25.45
Exercised during the year	<u>(35,867,197)</u>	<u>13.18</u>
Outstanding as of December 31, 2019	73,710,007	27.81
Vested and exercisable as of December 31, 2019	<u>32,713,923</u>	<u>21.23</u>
Outstanding as of December 31, 2017	121,961,415	15.23
Granted during the year	24,081,670	36.90
Mobike option replacement	21,290,122	10.50
Forfeited during the year	(9,581,909)	13.38
Exercised during the year	<u>(41,429,635)</u>	<u>4.71</u>
Outstanding as of December 31, 2018	116,321,663	22.69
Vested and exercisable as of December 31, 2018	<u>44,792,530</u>	<u>11.86</u>

The weighted average remaining contractual life of outstanding share options was 7 years and 7 years as of December 31, 2019 and 2018. The weighted average price of the shares at the time these options were exercised was HKD68.56 per share (equivalent to approximately RMB60.64 per share) during the year ended December 31, 2019.

32 SHARE-BASED PAYMENTS (Continued)

**Fair value of share options**

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted option-pricing model and equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Black-Scholes model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31,	
	2019	2018
Risk-free interest rates	1.5%	3.2% – 3.8%
Expected term – years	6.3	2.8-6.8
Expected volatility	40%	45.0% – 50.0%
Fair value of ordinary shares (HKD)	28.41	40.60 – 48.67
Exercise price (HKD)	69.10	0-40.60
Dividend yield	—	—

The weighted average fair value of granted options was HKD28.41 and HKD28.92 per share, for the years ended December 31, 2019 and 2018, respectively.

**RSUs**

The Company also grants RSUs to the Company’s employees, consultants, and Directors under the 2015 Share Incentive Plan and Post-IPO Share Awards Plan. The RSUs awarded vest in tranches from the grant date over a certain service period, on condition that employees remain in service without any performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 32 SHARE-BASED PAYMENTS (Continued)

#### RSUs (Continued)

Movement in the number of RSUs granted and the respective weighted average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU (HKD)
<b>Outstanding as of December 31, 2018</b>	<b>164,133,960</b>	<b>35.87</b>
Granted during the year	47,430,198	69.43
Vested during the year	(45,351,471)	31.23
Forfeited during the year	<u>(23,336,696)</u>	<u>43.41</u>
<b>Outstanding as of December 31, 2019</b>	<b><u>142,875,991</u></b>	<b><u>47.26</u></b>
<b>Outstanding as of December 31, 2017</b>	<b>114,505,992</b>	<b>26.18</b>
Granted during the year	87,668,245	45.16
Vested during the year	(26,219,723)	23.09
Forfeited during the year	<u>(11,820,554)</u>	<u>37.40</u>
<b>Outstanding as of December 31, 2018</b>	<b><u>164,133,960</u></b>	<b><u>35.87</u></b>

The fair value of each RSU at the grant dates is determined by reference to the fair value of the underlying ordinary shares on the date of grant.

The total share-based compensation expenses recognised in the consolidated income statement are RMB2.2 billion and RMB1.9 billion for the years ended December 31, 2019 and 2018, respectively. The following table sets forth a breakdown of the share-based compensation expenses by nature:

	Year ended December 31,	
	2019	2018
	RMB' 000	RMB' 000
Share options	301,568	373,874
RSUs	1,879,868	1,442,579
Incremental fair value for repurchase of ordinary shares (Note 25)	—	48,660
Others	<u>9,435</u>	<u>—</u>
	<b><u>2,190,871</u></b>	<b><u>1,865,113</u></b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 33 DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2019 and 2018.

## 34 COMMITMENTS

### (a) Capital commitments

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Within 1 year	23,658	37,426
1 – 2 years	91	3,628
	<u>23,749</u>	<u>41,054</u>

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Purchase of other property, plant and equipment	<u>23,749</u>	<u>41,054</u>

### (b) Operating lease commitments

The Group leases office under non-cancelable operating lease agreements.

From January 1, 2019, the Group has recognised right-of-use assets for these leases:

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
Within 1 year	—	605,723
1 – 5 years	—	1,281,789
Over 5 years	—	223,965
	<u>—</u>	<u>2,111,477</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 35 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

### (a) Cash used in operations

	Note	Year ended December 31,	
		2019 RMB' 000	2018 RMB' 000
Profit/(Loss) before income tax		2,762,388	(115,490,807)
Adjustments for			
Depreciation and amortization	15,16	4,845,800	5,366,801
Provision for doubtful accounts	7	645,685	285,655
Non-cash employee benefits expense – share-based payments	8	2,190,871	1,865,113
Gains from business and investments disposals	9	(292,421)	(23,132)
Gains from the remeasurement of investments	9	(176,880)	—
Fair value changes of convertible redeemable preferred shares	28	—	104,606,058
Impairment provision and restructuring expense for Mobike restructuring plan		88,612	358,790
Impairment provision for Mobike tradename		—	1,346,000
Share of (gains)/losses of investments accounted for using equity method	12	(107,353)	48,267
Change in fair value from investments measured at fair value through profit or loss	19	(77,699)	(1,836,382)
Dividend income and interest classified as investing cash flows		(1,527,405)	(584,347)
Finance costs		220,362	62,099
Net exchange differences		111,045	1,485
Change in working capital			
(Increase)/decrease in restricted cash		(4,504,029)	594,744
Increase in trade receivables		(272,974)	(135,879)
Increase in prepayments, deposits and other assets		(1,703,120)	(3,722,048)
Decrease/(increase) in inventories		94,966	(168,664)
Increase in trade payables		1,291,272	2,100,697
Decrease in payables to merchants		(101,126)	(1,767,485)
Increase in advances from transacting users		640,892	439,578
Increase in deferred revenues		1,228,319	745,054
Increase in other payables and accruals		1,508,703	1,676,265
Increase in other non-current liabilities		34,955	16,906
Decrease in deposits from transacting users		(866,003)	(4,765,957)
Decrease in assets classified as held for sale		211,905	—
Decrease in liabilities directly associated with assets classified as held for sale		(209,241)	—
<b>Cash generated from/(used in) operations</b>		<b>6,037,524</b>	<b>(8,981,189)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 35 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

### (b) Major non-cash transactions

Other than the acquisition of right-of-use assets described in Note 15, the share based awards described in Note 32, there were no other material non-cash transactions during the year ended December 31, 2019.

### (c) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities		
	Borrowings RMB' 000	Leases RMB' 000	Total RMB' 000
Liabilities from financing activities as of			
December 31, 2018	2,270,056	—	2,270,056
Recognised on adoption of IFRS 16 (Note 2)	—	1,846,656	1,846,656
Liabilities from financing activities as of			
January 1, 2019	<u>2,270,056</u>	<u>1,846,656</u>	<u>4,116,712</u>
Cash flow	1,749,031	(785,825)	963,206
Acquisitions – leases	—	465,968	465,968
Recognition of issuance cost	176	—	176
	<u>176</u>	<u>—</u>	<u>176</u>
Liabilities from financing activities as of			
December 31, 2019	<u><u>4,019,263</u></u>	<u><u>1,526,799</u></u>	<u><u>5,546,062</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 35 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

### (c) Reconciliation of liabilities generated from financing activities (Continued)

	Liabilities from financing activities			Total RMB' 000
	Borrowings due within 1 year RMB' 000	Borrowings due after 1 year RMB' 000	Convertible redeemable preferred shares RMB' 000	
Liabilities from financing activities as of January 1, 2018	162,000	—	101,418,292	101,580,292
Cash flow	1,248,000	470,000	—	1,718,000
Business combinations	390,000	—	5,888,472	6,278,472
Fair value changes of convertible redeemable preferred shares	—	—	104,792,071	104,792,071
Currency translation differences	—	—	8,336,605	8,336,605
Recognition of issuance cost	—	56	—	56
Proceeds from issuance of ordinary shares, net	—	—	(220,435,440)	(220,435,440)
Liabilities from financing activities as of December 31, 2018	<u>1,800,000</u>	<u>470,056</u>	<u>—</u>	<u>2,270,056</u>

## 36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the Directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 36 RELATED PARTY TRANSACTIONS (Continued)

### (a) Names and relationships with related parties

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

Name of related parties	Relationship
Tencent Group	One of the Company's shareholders
Changsha Xiangjiang Longzhu Private Equity Investment Fund Enterprise (Limited Partnership)	Associate of the Group
Tianjing Maoyan and its subsidiaries	Associate of the Group
Jilin billion-Allians Bank Co., Ltd.	Associate of the Group
Beijing Wisdom Map Technology Co., Ltd.	Associate of the Group
Dalian Tongda Enterprise Management Co., Ltd.	Associate of the Group
Dalian Sen Cheng Logistics Co., Ltd.	Associate of the Group
AsiaSea Co., Ltd.	Associate of the Group
Acewill information Technology (Beijing) Co., Ltd.	Associate of the Group
Hefei Haizhitun Technology Co., Ltd.	Associate of the Group

### (b) Significant transactions with related parties

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
(i) Sales of service		
Associate of the Group	1,069,898	414,204
One of the Company's shareholders	12,656	3
	<u>1,082,554</u>	<u>414,207</u>
(ii) Purchase of goods and service		
One of the Company's shareholders	1,849,435	963,941
Associate of the Group	538,918	532,984
	<u>2,388,353</u>	<u>1,496,925</u>
(iii) Sales of investments		
Associate of the Group	—	38,776

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 36 RELATED PARTY TRANSACTIONS (Continued)

#### (c) Balances with related parties

	As of December 31,	
	2019 RMB' 000	2018 RMB' 000
(i) Other receivables from related parties		
Associate of the Group	290,917	19,654
One of the Company's shareholders	33,824	175,548
	<u>324,741</u>	<u>195,202</u>
(ii) Other payables to related parties		
Associate of the Group	271,702	378,972
One of the Company's shareholders	79,547	28,276
	<u>351,249</u>	<u>407,248</u>

#### (d) Key management compensation

	Year ended December 31,	
	2019 RMB' 000	2018 RMB' 000
Fees	1,500	–
Basic salaries	12,721	5,970
Bonuses	13,147	8,491
Pension costs and other employee benefits	758	375
Share-based compensation expenses	488,139	233,504
Others	190	88
	<u>516,455</u>	<u>248,428</u>

### 37 CONTINGENCIES

The Group did not have any material contingent liabilities as of December 31, 2019 and 2018, except for the financial guarantee amount, disclosed in Note 3.1(c).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 38 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Financial position of the Company

	Note	As of December 31,	
		2019 RMB' 000	2018 RMB' 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries		65,246,403	63,064,966
Prepayments, deposits and other assets		<u>32,426,176</u>	<u>27,281,595</u>
		<u>97,672,579</u>	<u>90,346,561</u>
<b>Current assets</b>			
Short-term investments		27,676,401	33,105,050
Prepayments, deposits and other assets		93,317	20,104
Cash and cash equivalents		<u>6,151,379</u>	<u>3,960,689</u>
		<u>33,921,097</u>	<u>37,085,843</u>
<b>Total assets</b>		<u><b>131,593,676</b></u>	<u><b>127,432,404</b></u>
<b>EQUITY</b>			
Share capital	25	389	384
Share premium	25	260,359,929	258,284,687
Other reserves	38(b)	(3,095,017)	(4,712,673)
Accumulated losses	38(b)	<u>(126,520,961)</u>	<u>(127,527,156)</u>
<b>Equity attributable to equity holders of the Company</b>		<u><b>130,744,340</b></u>	<u><b>126,045,242</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accruals		<u>849,336</u>	<u>1,387,162</u>
<b>Total liabilities</b>		<u><b>849,336</b></u>	<u><b>1,387,162</b></u>
<b>Total equity and liabilities</b>		<u><b>131,593,676</b></u>	<u><b>127,432,404</b></u>

The statement of financial position of the Company was approved by the Board of Directors on March 30, 2020 and was signed on its behalf.

Wang Xing  
*Director*

Mu Rongjun  
*Director*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

## 38 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

### (b) Reserve movement of the Company

	Other reserves RMB' 000	Accumulated losses RMB' 000
As of January 1, 2019	<u>(4,712,673)</u>	<u>(127,527,156)</u>
<b>Comprehensive income</b>		
Profit for the year	—	1,006,195
<b>Other Comprehensive income</b>		
Currency translation differences	<u>1,051,177</u>	—
<b>Total comprehensive loss</b>	<u>(3,661,496)</u>	<u>(126,520,961)</u>
<b>Transaction with owners in their capacity as owners</b>		
Share-based compensation expenses	2,181,436	—
Exercise of option and RSU vesting	<u>(1,614,957)</u>	—
<b>Total transaction with owners in their capacity as owners</b>	<u>566,479</u>	—
<b>As of December 31, 2019</b>	<u><u>(3,095,017)</u></u>	<u><u>(126,520,961)</u></u>
As of January 1, 2018	<u>610,928</u>	<u>(22,654,077)</u>
<b>Comprehensive loss</b>		
Loss for the year	—	(104,263,335)
<b>Other Comprehensive loss</b>		
Preferred shares fair value change due to own credit risk	(186,013)	—
Currency translation differences	<u>(5,244,707)</u>	—
<b>Total comprehensive loss</b>	<u>(4,819,792)</u>	<u>(126,917,412)</u>
<b>Transaction with owners in their capacity as owners</b>		
Share-based compensation expenses	(48,660)	—
Business combinations	231,736	—
Issuance of ordinary shares	609,744	(609,744)
Exercise of option and RSU vesting	<u>(685,701)</u>	—
<b>Total transaction with owners in their capacity as owners</b>	<u>107,119</u>	<u>(609,744)</u>
<b>As of December 31, 2018</b>	<u><u>(4,712,673)</u></u>	<u><u>(127,527,156)</u></u>

## 39 SUBSEQUENT EVENTS

After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The pandemic has already caused severe disruptions to the daily operations of the Group’s merchants, including restaurants, local services merchants and hotels, which in turn resulted in downward pressure on the Group’s operations. The Group will pay close attention to the development of the COVID-19 outbreak and continuously evaluate its impact on the financial position and operating results of the Group.

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**To the Board of Directors of Meituan Dianping**

*(incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim financial information set out on pages 57 to 108, which comprises the interim condensed consolidated statement of financial position of Meituan Dianping (the “Company”) and its subsidiaries (together, the “Group”) as of June 30, 2019 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive loss, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information 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 International 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.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, August 23, 2019

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended June 30,	
	Note	2019 RMB' 000	2018 RMB' 000
Revenues	8	41,876,649	26,347,827
<i>(including interest revenue)</i>		<i>360,473</i>	<i>178,846</i>
Cost of revenues	9	<u>(28,866,674)</u>	<u>(20,295,104)</u>
<b>Gross profit</b>		<b>13,009,975</b>	<b>6,052,723</b>
Selling and marketing expenses	9	(7,855,222)	(6,714,583)
Research and development expenses	9	(4,068,430)	(3,086,577)
General and administrative expenses	9	(2,050,511)	(1,582,710)
Fair value changes on investments measured at fair value through profit or loss	18	(158,359)	1,186,282
Net provision for impairment losses on financial assets		(201,691)	(80,781)
Other gains, net	10	<u>1,133,174</u>	<u>325,805</u>
<b>Operating loss</b>		<b>(191,064)</b>	<b>(3,899,841)</b>
Finance income	11	74,463	109,169
Finance costs	11	(96,936)	(13,839)
Fair value changes of convertible redeemable preferred shares	26	-	(24,850,095)
Share of gains of investments accounted for using equity method		<u>25,378</u>	<u>6,850</u>
<b>Loss before income tax</b>		<b>(188,159)</b>	<b>(28,647,756)</b>
Income tax expenses	13	<u>(369,343)</u>	<u>(133,531)</u>
<b>Loss for the period</b>		<b><u>(557,502)</u></b>	<b><u>(28,781,287)</u></b>
Loss for the period attributable to:			
Equity holders of the Company		(554,362)	(28,756,854)
Non-controlling interests		<u>(3,140)</u>	<u>(24,433)</u>
		<u>(557,502)</u>	<u>(28,781,287)</u>
		<b>RMB</b>	<b>RMB</b>
<b>Loss per share for loss for the period attributable to the equity holders for the Company</b>			
Basic and diluted loss per share	14	<u>(0.10)</u>	<u>(18.53)</u>

The accompanying notes on pages 65 to 108 form an integral part of this interim financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

		Unaudited	
		Six months ended June 30,	
	Note	2019 RMB' 000	2018 RMB' 000
<b>Other comprehensive income/(loss):</b>			
<i>Items that may not be reclassified to profit or loss</i>			
Currency translation differences		47,893	(3,018,348)
Preferred shares fair value change due to own credit risk	26	<u>–</u>	<u>(186,013)</u>
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<u>47,893</u>	<u>(3,204,361)</u>
<b>Total comprehensive loss for the period</b>		<u><u>(509,609)</u></u>	<u><u>(31,985,648)</u></u>
<b>Total comprehensive loss for the period is attributable to:</b>			
Equity holders of the Company		(506,395)	(31,961,215)
Non-controlling interests		<u>(3,214)</u>	<u>(24,433)</u>
		<u><u>(509,609)</u></u>	<u><u>(31,985,648)</u></u>

The accompanying notes on pages 65 to 108 form an integral part of this interim financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	4,794,748	3,978,815
Intangible assets	16	33,288,628	33,876,004
Deferred tax assets	17	566,123	445,041
Investments accounted for using the equity method	12	2,046,797	2,103,403
Financial assets at fair value through profit or loss	18	6,746,540	6,241,972
Prepayments, deposits and other assets	20	770,503	866,884
		<u>48,213,339</u>	<u>47,512,119</u>
<b>Current assets</b>			
Inventories	21	286,387	400,244
Trade receivables	22	590,787	466,340
Prepayments, deposits and other assets	20	10,509,639	9,064,945
Short-term investments	19	48,359,889	41,829,964
Restricted cash		5,752,754	4,256,120
Cash and cash equivalents		10,237,250	17,043,692
Assets classified as held for sale	30	47,514	88,087
		<u>75,784,220</u>	<u>73,149,392</u>
<b>Total assets</b>		<u><b>123,997,559</b></u>	<u><b>120,661,511</b></u>
<b>EQUITY</b>			
Share capital	23	388	384
Share premium	23	259,582,501	258,284,687
Other reserves	24	(5,868,018)	(5,741,347)
Accumulated losses		<u>(166,593,752)</u>	<u>(166,039,390)</u>
<b>Equity attributable to equity holders of the Company</b>		<b>87,121,119</b>	<b>86,504,334</b>
<b>Non-controlling interests</b>		<u><b>2,224</b></u>	<u><b>5,438</b></u>
<b>Total equity</b>		<u><b>87,123,343</b></u>	<u><b>86,509,772</b></u>



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)

		Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
	Note		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	17	1,453,645	1,195,869
Deferred revenues	25	511,021	624,999
Borrowings	29	936,854	470,056
Lease liabilities		1,145,496	–
Other non-current liabilities		93,837	35,759
		<u>4,140,853</u>	<u>2,326,683</u>
<b>Current liabilities</b>			
Trade payables	27	4,669,865	5,340,963
Payables to merchants		7,403,989	7,596,388
Advances from transacting users		3,168,055	3,226,407
Deposits from transacting users		2,789,904	3,341,276
Other payables and accruals	28	7,063,999	7,361,630
Borrowings	29	3,000,000	1,800,000
Deferred revenues	25	4,154,077	3,102,882
Lease liabilities		472,730	–
Liabilities directly associated with assets classified as held for sale	30	10,744	55,510
		<u>32,733,363</u>	<u>31,825,056</u>
<b>Total liabilities</b>		<u><b>36,874,216</b></u>	<u><b>34,151,739</b></u>
<b>Total equity and liabilities</b>		<u><b>123,997,559</b></u>	<u><b>120,661,511</b></u>

The notes on pages 65 to 108 are an integral part of this interim financial information.

On behalf of the Board

Wang Xing  
Director

Mu Rongjun  
Director

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited					
		Attributable to equity holders of the Company					
Note	Share capital RMB' 000	Share premium RMB' 000	Other reserves RMB' 000	Accumulated losses RMB' 000	Sub-total RMB' 000	Non- controlling interests RMB' 000	Total RMB' 000
As of January 1, 2019	384	258,284,687	(5,741,347)	(166,039,390)	86,504,334	5,438	86,509,772
<b>Comprehensive loss</b>							
Loss for the period	-	-	-	(554,362)	(554,362)	(3,140)	(557,502)
<b>Other comprehensive loss</b>							
<i>Items that may not be classified to profit or loss</i>							
Currency translation differences	-	-	47,967	-	47,967	(74)	47,893
<b>Total comprehensive loss</b>	-	-	47,967	(554,362)	(506,395)	(3,214)	(509,609)
<b>Transaction with owners in their capacity as owners</b>							
Share-based compensation expenses	-	-	952,221	-	952,221	-	952,221
Exercise of option and RSU vested	4	1,297,814	(1,126,859)	-	170,959	-	170,959
<b>Total transaction with owners in their capacity as owners</b>	4	1,297,814	(174,638)	-	1,123,180	-	1,123,180
As of June 30, 2019	388	259,582,501	(5,868,018)	(166,593,752)	87,121,119	2,224	87,123,343

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Unaudited							
Attributable to equity holders of the Company							
Note	Share capital RMB' 000	Share premium RMB' 000	Other reserves RMB' 000	Accumulated losses RMB' 000	Sub-total RMB' 000	Non- controlling interests RMB' 000	Total RMB' 000
As of December 31, 2017	98	9,338,529	466,103	(50,363,846)	(40,559,116)	57,734	(40,501,382)
Adjustment on adoption of IFRS9, net of tax	-	-	(423,731)	411,371	(12,360)	-	(12,360)
As of January 1, 2018	98	9,338,529	42,372	(49,952,475)	(40,571,476)	57,734	(40,513,742)
<b>Comprehensive loss</b>							
Loss for the period	-	-	-	(28,756,854)	(28,756,854)	(24,433)	(28,781,287)
<b>Other comprehensive loss</b>							
<i>Items that may not be classified to profit or loss</i>							
Preferred shares fair value change due to own credit risk	-	-	(186,013)	-	(186,013)	-	(186,013)
Currency translation differences	-	-	(3,018,348)	-	(3,018,348)	-	(3,018,348)
<b>Total comprehensive loss</b>	-	-	(3,204,361)	(28,756,854)	(31,961,215)	(24,433)	(31,985,648)
<b>Transaction with owners in their capacity as owners</b>							
Business combination	-	-	231,736	-	231,736	-	231,736
Repurchase of ordinary shares	23	(811,142)	-	-	(811,144)	-	(811,144)
Share-based compensation expenses	31	-	633,598	-	633,598	-	633,598
Exercise of option and RSU vested	4	561,097	(475,680)	-	85,421	-	85,421
Transaction with non-controlling interests	-	-	49,063	-	49,063	26,070	75,133
Cancellation of ordinary shares	23	(29,307)	-	-	(29,307)	-	(29,307)
Currency translation differences	-	-	-	-	-	66	66
<b>Total transaction with owners in their capacity as owners</b>	2	(279,352)	438,717	-	159,367	26,136	185,503
As of June 30, 2018	100	9,059,177	(2,723,272)	(78,709,329)	(72,373,324)	59,437	(72,313,887)

The accompanying notes on pages 65 to 108 form an integral part of this interim financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited	
		Six months ended June 30,	
	Note	2019 RMB' 000	2018 RMB' 000
<b>Cash flows from operating activities</b>			
Cash used in operations		(22,179)	(5,472,692)
Income tax paid		<u>(127,598)</u>	<u>(40,984)</u>
Net cash flows used in operating activities		<u>(149,777)</u>	<u>(5,513,676)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,463,481)	(847,162)
Proceeds from disposals of property, plant and equipment		13,842	5,003
Purchase of intangible assets		(7,662)	(9,045)
Proceeds from disposals of intangible assets		1,938	–
Payments for business combinations, net of cash acquired		(449,764)	(6,872,126)
Purchase of investments of term deposits with initial term over three months and wealth management products		(93,727,052)	(21,105,794)
Proceeds from disposals of term deposits with initial term over three months and wealth management products		87,301,456	38,918,734
Acquisition of investments accounted for using the equity method		(1,025)	(135,875)
Proceeds from disposals of equity investments and refund of prepayment for investments		323,377	3,453,895
Acquisition of investments measured at fair value	18	(338,893)	(1,023,616)
Interest income received		566,346	180,133
Dividends received		9,701	63,426
Increase in prepayment for investments		<u>(14,607)</u>	<u>(550)</u>
Net cash flows (used in)/generated from investing activities		<u>(7,785,824)</u>	<u>12,627,023</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

		Unaudited	
		Six months ended June 30,	
	Note	2019 RMB' 000	2018 RMB' 000
<b>Cash flows from financing activities</b>			
Proceeds from borrowings, excluding asset-backed securities ("ABS")		1,800,000	1,005,000
Repayments of borrowings, excluding ABS		(600,000)	(440,000)
Proceeds from ABS, net		467,000	–
Finance costs paid		(100,424)	(17,524)
Exercise of option and RSU vesting		131,499	15,211
Repurchase of ordinary shares		–	(853,360)
Payment for acquisition of non-controlling interests		–	(176,261)
Lease payments		(398,845)	–
		<u>1,299,230</u>	<u>(466,934)</u>
<b>Net cash flows generated from/(used in) financing activities</b>			
		<u>1,299,230</u>	<u>(466,934)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
		(6,636,371)	6,646,413
Cash and cash equivalents at the beginning of the period		17,043,692	19,408,839
Exchange (loss)/gain on cash and cash equivalents		(198,448)	221,594
Cash and cash equivalents reclassified from the assets classified as held for sale		<u>28,377</u>	<u>–</u>
		<u>10,237,250</u>	<u>26,276,846</u>
<b>Cash and cash equivalents at the end of the period</b>			

The accompanying notes on pages 65 to 108 form an integral part of this interim financial information.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 1 GENERAL INFORMATION

Meituan Dianping (formerly known as Internet Plus Holdings Ltd.) (the “Company”) was incorporated in the Cayman Islands on September 25, 2015 as an exempted company with limited liability. The registered office is at PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”), provides platform which uses technology to connect consumers and merchants and offer diversified daily services, including food delivery, in-store dining, hotel and travel booking and other services.

The Company’s Class B Shares have been listed on the Main Board of the Stock Exchange since September 20, 2018 (the “Listing”).

The interim condensed consolidated financial information comprises the interim condensed consolidated statement of financial position as of June 30, 2019, the interim condensed consolidated income statement and the interim condensed consolidated statement of comprehensive loss, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

### 2 BASIS OF PREPARATION

This condensed consolidated interim financial report for the six months period ended June 30, 2019 has been prepared in accordance with Accounting Standard IAS 34 Interim Financial Reporting.

The Interim Financial Information does not include all the notes of the type normally included in an annual financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statement of the Group for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards, as set out in the 2018 annual report of the Group dated March 11, 2019 (the “2018 Financial Statements”).

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the 2018 Financial Statements.

#### (a) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after January 1, 2019:

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
IFRS 9 (Amendment)	Prepayment features with negative compensation
IAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
IAS 19 (Amendment)	Plan amendment, curtailment or settlement

The adoption of the above new and amended standards did not have any significant financial impact on these consolidated financial statements except for IFRS 16.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 4 below.

#### (b) New and amended standards that have been issued but are not effective

The following new and amended standards have been issued, but are not effective for the Group's financial year beginning on 1 January 2019 and have not been early adopted:

		Effective for annual periods beginning on or after
IAS 28 and IFRS 10 (Amendment)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	A date to be determined by the IASB
IAS 1 and IAS 8 (Amendment)	Definition of material	January 1, 2020
IFRS 3 (Amendment)	Definition of a business	January 1, 2020
IFRS 17	Insurance Contracts	January 1, 2021
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	January 1, 2020

The Group will apply the above new and amended standards when they become effective. The rest of the new standards, interpretations and amendments to standards are not expected to have a significant effect on the condensed consolidated financial information of the Group.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4 CHANGES IN ACCOUNTING POLICES

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019.

#### (a) Adjustments recognised on adoption of IFRS 16

Upon adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.7%.

	2019 RMB' 000
Operating lease commitments disclosed as of December 31, 2018	2,111,477
Discounted using the lessee's incremental borrowing rate at the date of initial application	<u>1,846,656</u>
Lease liability recognised as of January 1, 2019	<u>1,846,656</u>
Of which are:	
Current lease liabilities	512,833
Non-current lease liabilities	1,333,823

The right-of-use assets were measured on a simplified transition approach without restating comparative amounts, and were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as of December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4 CHANGES IN ACCOUNTING POLICES *(Continued)*

#### (a) Adjustments recognised on adoption of IFRS 16 *(Continued)*

The recognised right-of-use assets relate to the following types of assets:

	As of June 30, 2019 RMB' 000	As of January 1, 2019 RMB' 000
Properties	<u>1,667,196</u>	<u>2,021,192</u>

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- right-of-use assets – increased by RMB2.0 billion
- prepayments – decreased by RMB174.5 million
- lease liabilities – increased by RMB1.8 billion

The net impact on retained earnings as of 1 January 2019 was nil.

#### *Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

#### (b) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, retail stores. Rental contracts are typically made for fixed periods of 1 to 14 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of 2018, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4 CHANGES IN ACCOUNTING POLICES *(Continued)*

#### (b) The Group's leasing activities and how these are accounted for *(Continued)*

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date
- any initial direct costs, and
- restoration costs.

### 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2018 Financial Statements.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### (a) Financial risk factors

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial information as set out in the 2018 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2019.

#### (b) Fair value estimation

##### (i) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as of June 30, 2019 and December 31, 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Fair value estimation (Continued)

##### (i) Fair value hierarchy (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as of June 30, 2019.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<b>As of June 30, 2019</b>				
<b>Financial assets</b>				
Short-term investments at fair value through profit or loss (Note 19)	-	-	19,218,573	19,218,573
Financial assets at fair value through profit or loss (Note 18)	1,196,912*	-	5,549,628	6,746,540
	<u>1,196,912*</u>	<u>-</u>	<u>24,768,201</u>	<u>25,965,113</u>

\* This presents an investment in a listed company with observable quoted price.

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2018.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<b>As of December 31, 2018</b>				
<b>Financial assets</b>				
Short-term investments at fair value through profit or loss (Note 19)	-	-	15,067,960	15,067,960
Financial assets at fair value through profit or loss (Note 18)	1,337,725*	-	4,904,247	6,241,972
	<u>1,337,725*</u>	<u>-</u>	<u>19,972,207</u>	<u>21,309,932</u>

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the end of the reporting period.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 FINANCIAL RISK MANAGEMENT *(Continued)*

#### **(b) Fair value estimation *(Continued)***

##### *(ii) Valuation techniques used to determine fair values*

The fair value of the unquoted equity investments has been determined using valuation techniques such as comparable company valuation multiples, recent transaction prices of the same or similar instruments, with appropriate adjustments made where applicable, for example, for lack of liquidity using option pricing models. The valuation requires management to make certain assumptions about unobservable inputs to the model, which mainly include historical volatility and estimated time period prior to the listing of the unquoted equity instruments, etc.

The carrying amount of the Group's financial assets, including cash and cash equivalents, restricted cash, trade receivables, prepayments, deposits and other assets, short-term investments at amortized cost and the Group's financial liabilities, including borrowings, trade payables, payables to merchants, deposits from transacting users, advances from transacting users, other payables and accruals, lease liabilities, and other non-current liabilities, approximate their fair values.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Fair value estimation (Continued)

##### (iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including short-term investments at fair value through profit or loss, investments in unlisted companies and contingent consideration for the six months ended June 30, 2019 and 2018.

	Short-term investments at fair value through profit or loss RMB' 000	Investments in unlisted companies RMB' 000	Total RMB' 000
As of January 1, 2019	15,067,960	4,904,247	19,972,207
Acquisitions	72,947,026	338,893	73,285,919
Disposal/Settled	(69,088,532)	(219)	(69,088,751)
Reclassification (Note 18)	–	319,373	319,373
Change in fair value	282,534	(17,546)	264,988
Currency translation differences	9,585	4,880	14,465
<b>As of June 30, 2019</b>	<b>19,218,573</b>	<b>5,549,628</b>	<b>24,768,201</b>
Net unrealized gains/(losses) for the period	130,077	(17,765)	112,312

	Short-term investments at fair value through profit or loss RMB' 000	Financial assets at fair value through profit or loss Investments in unlisted companies RMB' 000	Contingent consideration RMB' 000	Total RMB' 000
As of January 1, 2018	17,030,574	4,080,221	25,099	21,135,894
Acquisitions	17,847,492	1,023,616	–	18,871,108
Business combinations	380,000	12,880	–	392,880
Disposal/Settled	(28,902,399)	(3,094,736)	(29,307)	(32,026,442)
Change in fair value	104,010	1,233,807	4,208	1,342,025
Currency translation differences	(337,697)	10,232	–	(327,465)
<b>As of June 30, 2018</b>	<b>6,121,980</b>	<b>3,266,020</b>	<b>–</b>	<b>9,388,000</b>
Net unrealized gains for the period	25,033	91,733	–	116,766

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Fair value estimation (Continued)

##### (iv) Valuation process, inputs and relationships to fair value

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. The team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

As level 3 instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc.

Description	Fair value as of June 30, 2019 RMB' 000	Fair value as of December 31, 2018 RMB' 000	Unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair value
				As of June 30, 2019	As of December 31, 2018	
Investments in unlisted companies	5,549,628	4,904,247	Expected volatility Discount for lack of marketability ("DLOM")	40%-55%  N/A	35%-50%  10%-28%	The higher the expected volatility, the lower the fair value The higher the DLOM, the lower the fair value
Short-term investments at fair value through profit or loss	19,218,573	15,067,960	Expected rate of return	2.56%-7.00%	2.1%-6.6%	The higher the expected rate of return, the higher the fair value

### 7 SEGMENT REPORTING

#### 7.1 Segment reporting

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

The CODM assesses the performance of the operating segments mainly based on segment revenues and cost of revenues of each operating segment. Thus, segment result would present revenues, cost of revenues and gross profit for each segment, which is in line with CODM's performance review.

##### *Food delivery*

The food delivery segment offers food ordering and delivery service through the Group's platform. Revenues from the food delivery segment are primarily derived from (a) platform service to merchants to display the food information and connect transacting users; (b) delivery service; (c) online marketing services in various advertising formats provided to merchants.

##### *In-store, hotel & travel*

The in-store, hotel & travel segment offers merchants to sell vouchers, coupons, tickets and reservations on the Group's platform. Revenues from the in-store, hotel & travel segment are primarily derived from (a) commissions from merchants for vouchers, coupons, tickets and reservations sold on our platform; and (b) online marketing services to merchants, including performance-based and display-based marketing services, as well as marketing services provided under annual plans.



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 7 SEGMENT REPORTING *(Continued)*

#### 7.1 Segment reporting *(Continued)*

##### *New initiatives and others*

Revenues from the new initiatives and others segments are primarily derived from (a) food distribution business; (b) car-hailing; (c) Meituan Instashopping; (d) micro loan.

The CODM assesses the performance of operating segments mainly based on segment revenues and segment cost of revenues. The revenues from external customers reported to CODM are measured as segment revenues, which is the revenues derived from customers in each segment.

The Group's cost of revenues for the food delivery segment primarily consists of (a) food delivery rider costs; (b) payment processing costs; (c) employee benefits expenses; (d) depreciation of property, plant and equipment; and (e) bandwidth and server custody fees.

The Group's cost of revenues for the in-store, hotel & travel segment primarily consists of (a) payment processing costs; (b) depreciation of property, plant and equipment; (c) online traffic costs; (d) bandwidth and server custody fees; (e) employee benefits expenses.

The Group's cost of revenues for the new initiatives and others segment primarily consists of (a) cost of goods sold; (b) car hailing driver costs; (c) depreciation of property, plant and equipment; (d) other outsourcing labor costs; (e) payment processing costs.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The revenue is mainly generated in China.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 7 SEGMENT REPORTING (Continued)

#### 7.1 Segment reporting (Continued)

The segment information provided to the Group's CODM for the reportable segments for the relevant periods is as follows:

	Unaudited			
	Six months ended June 30, 2019			
	Food delivery RMB' 000	In-store, hotel & travel RMB' 000	New initiatives and others RMB' 000	Total RMB' 000
Commission	21,632,175	5,168,087	1,794,030	28,594,292
Online marketing services	1,867,796	4,534,423	90,818	6,493,037
Other services and sales	50,552	34,900	6,703,868	6,789,320
	<u>23,550,523</u>	<u>9,737,410</u>	<u>8,588,716</u>	<u>41,876,649</u>
Revenues in total				
Cost of revenues	(19,149,493)	(1,109,767)	(8,607,414)	(28,866,674)
	<u>4,401,030</u>	<u>8,627,643</u>	<u>(18,698)</u>	<u>13,009,975</u>
Gross profit/(loss)				
Gross margin	18.7%	88.6%	(0.2%)	31.1%

	Unaudited			
	Six months ended June 30, 2018			
	Food delivery RMB' 000	In-store, hotel & travel RMB' 000	New initiatives and others RMB' 000	Total RMB' 000
Commission	15,219,665	4,060,551	1,013,523	20,293,739
Online marketing services	703,842	2,729,072	163,086	3,596,000
Other services and sales	40,821	20,876	2,396,391	2,458,088
	<u>15,964,328</u>	<u>6,810,499</u>	<u>3,573,000</u>	<u>26,347,827</u>
Revenues in total				
Cost of revenues	(14,018,927)	(720,521)	(5,555,656)	(20,295,104)
	<u>1,945,401</u>	<u>6,089,978</u>	<u>(1,982,656)</u>	<u>6,052,723</u>
Gross profit/(loss)				
Gross margin	12.2%	89.4%	(55.5%)	23.0%

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 7 SEGMENT REPORTING *(Continued)*

#### 7.1 Segment reporting *(Continued)*

The reconciliation of gross profit to loss before income tax of respective period during the six months ended June 30, 2019 and 2018 is shown in the consolidated income statement.

There is no concentration risk as no revenue from a single external customer was more than 10% of the Group's total revenue for the six months ended June 30, 2019 and 2018.

#### 7.2 Segment assets

As of June 30, 2019 and December 31, 2018, substantially all of the non-current assets of the Group were located in China.

### 8 REVENUES BY TYPE

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB' 000	RMB' 000
Commission	28,594,292	20,293,739
Online marketing services	6,493,037	3,596,000
Other services and sales	6,789,320	2,458,088
	<u>41,876,649</u>	<u>26,347,827</u>

Further disaggregation of revenues are included in Note 7.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 9 EXPENSES BY NATURE

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB' 000	RMB' 000
Food delivery rider costs	17,745,098	13,042,195
Employee benefits expenses	8,495,505	6,516,927
Transacting user incentives	3,008,945	2,387,057
Cost of goods sold	3,062,898	508,696
Depreciation of property, plant and equipment	2,414,017	1,547,220
Car-hailing driver related costs	1,558,401	2,095,477
Other outsourcing labor costs	1,344,524	829,453
Payment processing costs	937,859	731,954
Promotion and advertising	744,177	1,332,936
Amortization of intangible assets	593,100	475,125
Bandwidth and server custody fees	362,929	188,488
Online traffic costs	172,657	89,339
Rental, facility and utilities	139,906	347,453
Tax surcharge expenses	100,407	104,835
Professional fees	97,331	149,655
Auditor's remuneration	24,081	12,524
– Audit and audit-related services	22,782	12,524
– Non-audit services	1,299	–
Others (Note a)	<u>2,039,002</u>	<u>1,319,640</u>
Total cost of revenues, selling and marketing expenses, research and development expenses and general and administrative expenses	<u><u>42,840,837</u></u>	<u><u>31,678,974</u></u>

(a) Others mainly comprise bike maintenance and bike relocation fees, travelling and entertainment expenses and message and verification fees.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 10 OTHER GAINS, NET

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB' 000	RMB' 000
Interest income from investments measured at amortized cost	454,973	76,123
Fair value changes of short-term investments measured at fair value through profit or loss	282,534	104,010
Gains from the remeasurement of investments (Note 18)	176,880	–
Gains from the disposal of investments	160,884	29,968
Dilution gain	91,360	–
Government subsidies	40,752	95,312
Change in fair value related to contingent consideration	–	4,208
Loss from the disposal of subsidiaries	(1,490)	–
Foreign exchange loss	(84,053)	(25,064)
Others	11,334	41,248
	<u>1,133,174</u>	<u>325,805</u>

### 11 FINANCE INCOME/(COSTS)

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB' 000	RMB' 000
<b>Finance income</b>		
Interest income from bank deposits	<u>74,463</u>	<u>109,169</u>
<b>Finance costs</b>		
Interest in respect of lease liabilities	(46,624)	–
Interest expense on bank borrowings	(40,046)	–
Bank charges and others	<u>(10,266)</u>	<u>(13,839)</u>
	<u>(96,936)</u>	<u>(13,839)</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Associates	2,033,047	2,089,677
Joint ventures	13,750	13,726
	<b>2,046,797</b>	<b>2,103,403</b>

### 13 INCOME TAX EXPENSES

The income tax expenses of the Group during all the periods presented are analyzed as follows:

	Unaudited Six months ended June 30,	
	2019 RMB' 000	2018 RMB' 000
Current income tax	233,829	333,014
Deferred income tax (Note17)	135,514	(199,483)
Total income tax expenses – Net	<b>369,343</b>	<b>133,531</b>

Income tax expense is recognized based on management's best knowledge of the income tax rates that would be applicable to the full financial year.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 LOSS PER SHARE

- (a) Basic loss per share for the six months ended June 30, 2019 and 2018 were calculated by dividing the loss attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the reporting period.

	Unaudited	
	Six months ended June 30,	
	2019	2018
Loss attributable to equity holders of the Company (RMB'000)	(554,362)	(28,756,854)
Weighted average number of shares in issue (thousand)	<u>5,738,107</u>	<u>1,551,913</u>
Loss per share (RMB)	<u>(0.10)</u>	<u>(18.53)</u>

- (b) Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and RSUs. As the Group incurred losses for the six months ended June 30, 2019 and 2018, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the six months ended June 30, 2019 and 2018 were the same as basic loss per share of the respective periods.

NOTES TO THE INTERIM FINANCIAL INFORMATION

15 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB' 000	Furniture and appliances RMB' 000	Bike and vehicle RMB' 000	Unaudited Leasehold improvements RMB' 000	Assets under construction RMB' 000	Right-of- use assets RMB' 000	Total RMB' 000
<b>Cost</b>							
As of January 1, 2019	3,198,019	100,342	5,152,325	182,058	194,512	-	8,827,256
Additions	963,542	53,293	120,090	5,236	100,653	2,286,539	3,529,353
Disposal	(33,846)	(36,136)	(167,518)	(20,034)	-	(311,570)	(569,104)
Transfers	-	-	1,215	81,268	(137,302)	-	(54,819)
Assets transferred from derecognition of held for sale	-	-	249,778	-	-	-	249,778
Currency translation differences	-	(1)	926	-	-	-	925
As of June 30, 2019	<u>4,127,715</u>	<u>117,498</u>	<u>5,356,816</u>	<u>248,528</u>	<u>157,863</u>	<u>1,974,969</u>	<u>11,983,389</u>
<b>Accumulated depreciation</b>							
As of January 1, 2019	(1,231,642)	(47,329)	(3,420,977)	(77,979)	-	-	(4,777,927)
Depreciation	(525,705)	(35,243)	(1,344,521)	(74,958)	-	(433,590)	(2,414,017)
Disposal	21,945	18,641	91,683	2,792	-	125,817	260,878
Assets transferred from derecognition of held for sale	-	-	(107,828)	-	-	-	(107,828)
Currency translation differences	-	-	(300)	-	-	-	(300)
As of June 30, 2019	<u>(1,735,402)</u>	<u>(63,931)</u>	<u>(4,781,943)</u>	<u>(150,145)</u>	<u>-</u>	<u>(307,773)</u>	<u>(7,039,194)</u>
<b>Impairment</b>							
As of January 1, 2019	-	-	(70,514)	-	-	-	(70,514)
Addition	-	-	(8,181)	-	-	-	(8,181)
Disposal	-	-	71,198	-	-	-	71,198
Assets transferred from derecognition of held for sale	-	-	(141,950)	-	-	-	(141,950)
As of June 30, 2019	<u>-</u>	<u>-</u>	<u>(149,447)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(149,447)</u>
<b>Net carrying amount</b>							
As of January 1, 2019	<u>1,966,377</u>	<u>53,013</u>	<u>1,660,834</u>	<u>104,079</u>	<u>194,512</u>	<u>-</u>	<u>3,978,815</u>
As of June 30, 2019	<u>2,392,313</u>	<u>53,567</u>	<u>425,426</u>	<u>98,383</u>	<u>157,863</u>	<u>1,667,196</u>	<u>4,794,748</u>



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 15 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Unaudited					
	Computer equipment RMB' 000	Furniture and appliances RMB' 000	Bike and vehicle RMB' 000	Leasehold improvements RMB' 000	Assets under construction RMB' 000	Total RMB' 000
<b>Cost</b>						
As of January 1, 2018	1,429,448	20,579	–	131,720	13,178	1,594,925
Additions	837,820	4,109	39,779	1,545	57,348	940,601
Business combinations	8,936	40,523	5,111,531	9,750	178,458	5,349,198
Disposals	(23,051)	(149)	(1,390)	(2,417)	–	(27,007)
Transfers	–	215	14,034	19,050	(33,299)	–
Currency translation differences	(1)	51	3,972	–	–	4,022
As of June 30, 2018	<u>2,253,152</u>	<u>65,328</u>	<u>5,167,926</u>	<u>159,648</u>	<u>215,685</u>	<u>7,861,739</u>
<b>Accumulated depreciation</b>						
As of January 1, 2018	(602,067)	(17,230)	–	(59,946)	–	(679,243)
Depreciation	(263,301)	(5,994)	(1,266,226)	(11,699)	–	(1,547,220)
Disposals	4,430	2,405	483	665	–	7,983
Currency translation differences	–	1	(1,163)	–	–	(1,162)
As of June 30, 2018	<u>(860,938)</u>	<u>(20,818)</u>	<u>(1,266,906)</u>	<u>(70,980)</u>	<u>–</u>	<u>(2,219,642)</u>
<b>Net carrying amount</b>						
As of January 1, 2018	<u>827,381</u>	<u>3,349</u>	<u>–</u>	<u>71,774</u>	<u>13,178</u>	<u>915,682</u>
As of June 30, 2018	<u>1,392,214</u>	<u>44,510</u>	<u>3,901,020</u>	<u>88,668</u>	<u>215,685</u>	<u>5,642,097</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 16 INTANGIBLE ASSETS

	Unaudited								
	Trade name RMB' 000	User generated content RMB' 000	Software and others RMB' 000	Online payment license RMB' 000	Technology and licenses RMB' 000	User list RMB' 000	Supplier relationship RMB' 000	Goodwill RMB' 000	Total RMB' 000
<b>Cost</b>									
As of January 1, 2019	5,006,300	490,000	1,865,688	390,000	849,830	907,000	28,700	27,861,023	37,398,541
Additions	-	-	7,662	-	-	-	-	-	7,662
Disposals	-	-	(2,284)	-	-	-	-	-	(2,284)
As of June 30, 2019	<u>5,006,300</u>	<u>490,000</u>	<u>1,871,066</u>	<u>390,000</u>	<u>849,830</u>	<u>907,000</u>	<u>28,700</u>	<u>27,861,023</u>	<u>37,403,919</u>
<b>Accumulated amortization</b>									
As of January 1, 2019	(565,565)	(318,500)	(652,138)	(62,833)	(240,174)	(169,616)	(7,453)	-	(2,016,279)
Amortization	(101,710)	(49,000)	(262,004)	(13,000)	(74,676)	(90,700)	(2,010)	-	(593,100)
Disposals	-	-	346	-	-	-	-	-	346
As of June 30, 2019	<u>(667,275)</u>	<u>(367,500)</u>	<u>(913,796)</u>	<u>(75,833)</u>	<u>(314,850)</u>	<u>(260,316)</u>	<u>(9,463)</u>	<u>-</u>	<u>(2,609,033)</u>
<b>Impairment</b>									
As of January 1, 2019 and June 30, 2019	<u>(1,347,510)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,238)</u>	<u>-</u>	<u>(88)</u>	<u>(155,422)</u>	<u>(1,506,258)</u>
<b>Net carrying amount</b>									
As of January 1, 2019	<u>3,093,225</u>	<u>171,500</u>	<u>1,213,550</u>	<u>327,167</u>	<u>606,418</u>	<u>737,384</u>	<u>21,159</u>	<u>27,705,601</u>	<u>33,876,004</u>
As of June 30, 2019	<u>2,991,515</u>	<u>122,500</u>	<u>957,270</u>	<u>314,167</u>	<u>531,742</u>	<u>646,684</u>	<u>19,149</u>	<u>27,705,601</u>	<u>33,288,628</u>

The Group normally performs goodwill impairment test in the fourth quarter of each year, and there is no indicator for impairment of goodwill as of June 30, 2019. For details of goodwill impairment assessment for the year ended December 31, 2018, please refer to the 2018 Financial Statements.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 16 INTANGIBLE ASSETS (Continued)

	Unaudited								Total RMB' 000
	Trade name RMB' 000	User generated content RMB' 000	Software and others RMB' 000	Online payment license RMB' 000	Technology and licenses RMB' 000	User list RMB' 000	Supplier relationship RMB' 000	Goodwill RMB' 000	
<b>Cost</b>									
As of January 1, 2018	3,406,300	490,000	1,321,837	390,000	186,360	67,000	28,700	15,025,019	20,915,216
Additions	-	-	9,045	-	-	-	-	-	9,045
Business combinations	1,600,000	-	478,265	-	660,000	840,000	-	12,821,478	16,399,743
As of June 30, 2018	<u>5,006,300</u>	<u>490,000</u>	<u>1,809,147</u>	<u>390,000</u>	<u>846,360</u>	<u>907,000</u>	<u>28,700</u>	<u>27,846,497</u>	<u>37,324,004</u>
<b>Accumulated amortization</b>									
As of January 1, 2018	(309,145)	(220,500)	(201,111)	(36,833)	(100,812)	(30,150)	(3,433)	-	(901,984)
Amortization	(108,210)	(49,000)	(197,108)	(13,000)	(57,097)	(48,700)	(2,010)	-	(475,125)
As of June 30, 2018	<u>(417,355)</u>	<u>(269,500)</u>	<u>(398,219)</u>	<u>(49,833)</u>	<u>(157,909)</u>	<u>(78,850)</u>	<u>(5,443)</u>	<u>-</u>	<u>(1,377,109)</u>
<b>Impairment</b>									
As of January 1, 2018 and June 30, 2018	<u>(1,510)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,238)</u>	<u>-</u>	<u>(88)</u>	<u>(155,422)</u>	<u>(160,258)</u>
<b>Net carrying amount</b>									
As of January 1, 2018	<u>3,095,645</u>	<u>269,500</u>	<u>1,120,726</u>	<u>353,167</u>	<u>82,310</u>	<u>36,850</u>	<u>25,179</u>	<u>14,869,597</u>	<u>19,852,974</u>
As of June 30, 2018	<u>4,587,435</u>	<u>220,500</u>	<u>1,410,928</u>	<u>340,167</u>	<u>685,213</u>	<u>828,150</u>	<u>23,169</u>	<u>27,691,075</u>	<u>35,786,637</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 17 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statements of financial position:

#### (a) Deferred tax assets

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
The balance comprises temporary differences attributable to:		
– Tax losses	749,853	1,373,351
– Others	295,321	142,294
Total gross deferred tax assets	<u>1,045,174</u>	<u>1,515,645</u>
Set-off of deferred tax assets pursuant to set-off provisions	<u>(479,051)</u>	<u>(1,070,604)</u>
Net deferred tax assets	<u>566,123</u>	<u>445,041</u>

#### (b) Deferred tax liabilities

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
The balance comprises temporary differences attributable to:		
– Intangible assets arising from business combinations	(818,260)	(886,398)
– Deferred revenue	(675,447)	(862,290)
– Investments accounted for using the equity method or at fair value	(425,967)	(416,830)
– Others	(13,022)	(100,955)
Total gross deferred tax liabilities	<u>(1,932,696)</u>	<u>(2,266,473)</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>479,051</u>	<u>1,070,604</u>
Net deferred tax liabilities	<u>(1,453,645)</u>	<u>(1,195,869)</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 17 DEFERRED INCOME TAXES (Continued)

The movement on the gross deferred income tax assets is as follows:

	Unaudited		Total RMB' 000
	Tax losses RMB' 000	Others RMB' 000	
As of January 1, 2019	1,373,351	142,294	1,515,645
(Charged)/credited to consolidated income statement	(623,498)	153,027	(470,471)
As of June 30, 2019	<u>749,853</u>	<u>295,321</u>	<u>1,045,174</u>
As of January 1, 2018	768,674	10,723	779,397
Business combinations	599,743	–	599,743
Credited/(charged) to consolidated income statement	104,912	(330)	104,582
As of June 30, 2018	<u>1,473,329</u>	<u>10,393</u>	<u>1,483,722</u>

The movement on the gross deferred income tax liabilities is as follows:

	Unaudited				Total RMB' 000
	Intangible Asset RMB' 000	Investments method or using the equity at fair value RMB' 000	Deferred revenue RMB' 000	Others RMB' 000	
As of January 1, 2019	(886,398)	(416,830)	(862,290)	(100,955)	(2,266,473)
Credited/(charged) to consolidated income statement	68,138	(7,957)	186,843	87,933	334,957
Charged to other comprehensive loss	–	(1,180)	–	–	(1,180)
As of June 30, 2019	<u>(818,260)</u>	<u>(425,967)</u>	<u>(675,447)</u>	<u>(13,022)</u>	<u>(1,932,696)</u>
As of January 1, 2018	(582,895)	(418,791)	(584,567)	–	(1,586,253)
Business combinations	(775,000)	–	(10,467)	–	(785,467)
Credited/(charged) to consolidated income statement	53,548	132,545	(91,192)	–	94,901
Credited to other comprehensive loss	–	1,137	–	–	1,137
As of June 30, 2018	<u>(1,304,347)</u>	<u>(285,109)</u>	<u>(686,226)</u>	<u>–</u>	<u>(2,275,682)</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 17 DEFERRED INCOME TAXES *(Continued)*

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As of June 30, 2019 and December 31, 2018, the Group did not recognize deferred income tax assets of RMB5.1 billion and RMB5.1 billion in respect of cumulative tax losses amounting to RMB22.2 billion and RMB22.8 billion. These tax losses will expire from 2019 to 2023.

### 18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>Unaudited</b>	<b>Audited</b>
	<b>As of</b>	<b>As of</b>
	<b>June 30,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
	<b>RMB' 000</b>	<b>RMB' 000</b>
Investments in equity securities	<b>6,746,540</b>	<b>6,241,972</b>

	<b>Unaudited</b>	
	<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>RMB' 000</b>	<b>RMB' 000</b>
At the beginning of the year	<b>6,241,972</b>	5,919,594
Additions	<b>338,893</b>	1,023,616
Business combinations	-	12,880
Change in fair value	<b>(158,359)</b>	1,186,282
Disposals	<b>(219)</b>	(3,094,736)
Reclassification (Note a)	<b>319,373</b>	-
Currency translation differences	<b>4,880</b>	10,232
At the end of the period	<b>6,746,540</b>	<b>5,057,868</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

The Group made investments in certain companies through convertible redeemable preferred shares or ordinary shares with preferential rights and maintained significant influence in these companies. The Group also has interests in certain investee companies in form of ordinary shares without significant influence, which are managed and their performance are evaluated on a fair value basis. The Group designated these instruments as financial assets at fair value through profit or loss.

- (a) During the six months ended June 30, 2019, the Group re-designated an investment from investment accounted for using equity method to investment at fair value through profit or loss due to losing significant influence of the investment with the amount of RMB319 million, as a result, a gain from the remeasurement of investment is recognized with the amount of RMB177 million.

### 19 SHORT-TERM INVESTMENTS

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Short-term investments measured at		
– Amortized cost	29,141,316	26,762,004
– Fair value through profit or loss	19,218,573	15,067,960
	<u>48,359,889</u>	<u>41,829,964</u>

Short-term investments measured at amortized cost are USD zero coupon certificates of deposit and term deposits above 3 months and within 1 year. Short-term investments measured at fair value through profit or loss are wealth management products.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 20 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
<b>Non-current</b>		
Prepayment for investments	266,720	249,957
Prepayments for fixed assets	162,912	97,920
Rental deposits	121,362	147,678
Loan receivables (Note a)	4,131	74,625
Receivables from investment disposal (Note b)	–	282,919
Long-term investments measured at amortized cost	200,229	–
Others	15,149	13,785
	<u>770,503</u>	<u>866,884</u>
<b>Current</b>		
Loan receivables (Note a)	4,974,112	3,762,455
Tax prepayments	2,849,309	3,036,667
Amounts due from related parties (Note 34)	527,539	195,202
Prepayments to merchants	303,742	220,454
Receivables from investment disposal (Note b)	283,393	130,362
Receivables from third-party payment service providers	270,034	131,568
Deposits	173,733	155,826
Prepayments for channel marketing fee	170,884	346,834
Contract assets	136,958	105,630
Prepayments for rental	–	153,427
Others	819,935	826,520
	<u>10,509,639</u>	<u>9,064,945</u>

- (a) Loan receivables are derived from micro loan business. Loan receivables are recorded initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance. The loan periods extended by the Group to the merchants or individuals generally range from 3 months to 18 months.
- (b) This is the receivable balance related to the disposal of an investment at fair value through profit or loss.



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 20 PREPAYMENTS, DEPOSITS AND OTHER ASSETS *(Continued)*

The balances of prepayments, deposits and other assets other than loan receivables, prepayments for assets under construction and tax prepayments, which are subject to expected credit loss model, are all at performing stage. The related credit losses which limited to 12 months expected loss are not material.

As of June 30, 2019 and December 31, 2018, the carrying value of prepayments, deposits and other assets was primarily denominated in RMB.

### 21 INVENTORIES

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Raw materials	172,372	141,195
Finished goods	<u>234,582</u>	<u>370,079</u>
	<u>406,954</u>	<u>511,274</u>
Less: provision for impairment	<u>(120,567)</u>	<u>(111,030)</u>
	<u><u>286,387</u></u>	<u><u>400,244</u></u>

### 22 TRADE RECEIVABLES

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Trade receivables	763,436	590,409
Less: loss allowance	<u>(172,649)</u>	<u>(124,069)</u>
	<u><u>590,787</u></u>	<u><u>466,340</u></u>

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

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 22 TRADE RECEIVABLES (Continued)

Movements on the Group's loss allowance of trade receivables are as follows

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB' 000	RMB' 000
At the beginning of the period	(124,069)	(29,461)
Provision	(53,181)	(36,137)
Assets transferred from derecognition of held for sale	(16,840)	-
Reversal	17,507	7,147
Receivables written off during the period as uncollectable	3,934	3,423
At the end of the period	<u>(172,649)</u>	<u>(55,028)</u>

The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of June 30, 2019 and December 31, 2018.

The Group allows a credit period of 30 to 150 days to its customers. Aging analysis of trade receivables (net off loss allowance of trade receivables) based on invoice date is as follows:

	Unaudited	Audited
	As of	As of
	June 30,	December 31,
	2019	2018
	RMB' 000	RMB' 000
Trade receivables		
Up to 3 months	424,021	281,353
3 to 6 months	91,291	126,376
6 months to 1 year	67,632	56,574
Over 1 year	7,843	2,037
	<u>590,787</u>	<u>466,340</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 23 SHARE CAPITAL AND SHARE PREMIUM

#### Issued:

	Number of ordinary shares '000	Nominal value of ordinary shares USD' 000	Unaudited		
			Share capital RMB' 000	Share premium RMB' 000	Total RMB' 000
As of January 1, 2019	5,727,447	57	384	258,284,687	258,285,071
Exercise of option and RSU vesting	55,484	1	4	1,297,814	1,297,818
<b>As of June 30, 2019</b>	<b>5,782,931</b>	<b>58</b>	<b>388</b>	<b>259,582,501</b>	<b>259,582,889</b>
As of January 1, 2018	1,548,664	15	98	9,338,529	9,338,627
Exercise of option and RSU vesting	54,490	1	4	561,097	561,101
Repurchase of ordinary shares	(24,667)	–	(2)	(811,142)	(811,144)
Cancellation of ordinary shares	(1,005)	–	–	(29,307)	(29,307)
<b>As of June 30, 2018</b>	<b>1,577,482</b>	<b>16</b>	<b>100</b>	<b>9,059,177</b>	<b>9,059,277</b>

### 24 OTHER RESERVES

	Capital Reserve RMB' 000	Share-based compensation reserve RMB' 000	Unaudited		
			Currency translation reserve RMB' 000	Others RMB' 000	Total RMB' 000
As of January 1, 2019	20	2,594,722	(8,118,061)	(218,028)	(5,741,347)
Share-based compensation expenses	–	952,221	–	–	952,221
Exercise of option and RSU vested	–	(1,126,859)	–	–	(1,126,859)
Currency translation differences	–	–	47,967	–	47,967
<b>As of June 30, 2019</b>	<b>20</b>	<b>2,420,084</b>	<b>(8,070,094)</b>	<b>(218,028)</b>	<b>(5,868,018)</b>
As of January 1, 2018	20	1,232,234	(500,154)	(689,728)	42,372
Business combinations	–	231,736	–	–	231,736
Share-based compensation expenses	–	633,598	–	–	633,598
Exercise of option and RSU vested	–	(475,680)	–	–	(475,680)
Transaction with non-controlling interests	–	–	–	49,063	49,063
Preferred shares fair value change due to own credit risk	–	–	–	(186,013)	(186,013)
Currency translation differences	–	–	(3,018,348)	–	(3,018,348)
<b>As of June 30, 2018</b>	<b>20</b>	<b>1,621,888</b>	<b>(3,518,502)</b>	<b>(826,678)</b>	<b>(2,723,272)</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 25 DEFERRED REVENUES

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
<b>Non-current</b>		
Business cooperation agreement with Maoyan	500,100	611,233
Others	10,921	13,766
	<u>511,021</u>	<u>624,999</u>
<b>Current</b>		
Online marketing services	3,916,351	2,856,343
Business cooperation agreement with Maoyan	222,267	222,267
Mobike monthly pass	15,263	24,221
Others	196	51
	<u>4,154,077</u>	<u>3,102,882</u>
	<u>4,665,098</u>	<u>3,727,881</u>

### 26 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On October 5, 2016, the Company issued a total of 1,954,217,809 shares of Series A-1 through A-11 Preferred Shares.

In November 2015, the Company issued Series B Preferred Shares at an issue price of USD3.86 per share. Series B Preferred Shares were continuously issued beginning from November 2015 to August 2016 and total 801,039,606 shares were issued.

In October 2017, the Company issued Series C Preferred Shares at an issue price of USD5.59 per share. Total of 733,575,936 shares were issued.

In April 2018, the Company issued 167,703,791 shares of Series A-12 Preferred Shares in connection with the acquisition of mobike Ltd ("Mobike").

Upon issuance of Series A-12 Preferred shares, a total of 2,121,921,600 shares were issued (Series A-1 through A-12, "Series A Preferred Shares").

The key terms of all series of Preferred Shares are set out in the 2018 Financial Statements.

After the completion of the Global Offering, all of our convertible redeemable preferred shares were converted to our Class B Shares. The fair value of each of convertible redeemable preferred shares is equivalent to the fair value of each of our ordinary shares on the conversion date, which is the Offer Price in the Global Offering.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 27 TRADE PAYABLES

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Trade payables	<u>4,669,865</u>	<u>5,340,963</u>

As of June 30, 2019 and December 31, 2018, the aging analysis of the trade payables based on invoice date were as follows:

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Trade payables		
Up to 3 months	4,424,026	5,067,050
3 to 6 months	144,628	168,162
6 months to 1 year	91,697	102,764
Over 1 year	<u>9,514</u>	<u>2,987</u>
	<u>4,669,865</u>	<u>5,340,963</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 28 OTHER PAYABLES AND ACCRUALS

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Salaries and benefits payable	2,150,452	2,598,340
Deposits	1,461,932	1,183,676
Payables for acquisition	995,960	1,443,877
Tax payable	783,836	743,791
Amounts due to related parties (Note 34)	591,836	407,248
Accrued expenses	235,943	347,315
Others	844,040	637,383
	<u>7,063,999</u>	<u>7,361,630</u>

### 29 BORROWINGS

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
<b>Non-current</b>		
Asset-backed securities (b)	<u>936,854</u>	<u>470,056</u>
	<u>936,854</u>	<u>470,056</u>
<b>Current</b>		
Bank loan – unsecured	2,700,000	1,200,000
Bank loan – secured (a)(i)	<u>300,000</u>	<u>600,000</u>
	<u>3,000,000</u>	<u>1,800,000</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 29 BORROWINGS (Continued)

- (a) Bank borrowings of RMB3 billion will be repayable as of June 30, 2020 and bear annual average interest rate of 5.410% (2018: 5.597%).
  - (i) The amount of RMB300 million are borrowed from China Everbright Bank Co., Ltd. guaranteed by Beijing Sankuai Online Technology Co., Ltd. and secured by the unexpired receivables of Chongqing Sankuai Micro-credit Co., Ltd.

For the ended June 30, 2019, the weighted average effective interest rate for bank borrowings was 5.589% (2018: 5.980%).

- (b) The Group has securitized certain loan receivables and issued RMB1 billion asset-backed securities (“ABS”) as of June 30, 2019. During the six months ended June 30, 2019, the Group issued ABS of RMB500 million, of which RMB467 million represented senior tranche and RMB33 million represented subordinate tranches, which were fully acquired by the Group. The ABS bore interest at 4.59%-6.2% per annum in 2019 (2018: 5.4%-6.2%).

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 30 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In December 2018, the directors of the Group decided to sell certain overseas Mobike entities. The sale is expected to be completed in 2019. The associated assets and liabilities were consequently presented as held for sale.

The following assets and liabilities were reclassified as held for sale as of June 30, 2019:

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Assets classified as held for sale		
Cash and cash equivalents	2,465	51,524
Restricted cash	556	271
Trade receivables	330	122
Prepayments, deposits and other assets	28,098	19,013
Property, plant and equipment	15,014	15,594
Intangible assets	–	15
Inventories	1,051	1,548
	<hr/>	<hr/>
Total assets classified as held for sale	<b>47,514</b>	<b>88,087</b>
	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Liabilities directly associated with assets classified as held for sale		
Trade payables	5,126	24,127
Advances from transacting users	2,366	1,238
Other payables and accruals	3,031	12,257
Deposits from transacting users	221	17,824
Deferred revenue	–	64
	<hr/>	<hr/>
Total liabilities directly associated with assets classified as held for sale	<b>10,744</b>	<b>55,510</b>



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 SHARE-BASED PAYMENTS

For background of share-based payments, please refer to the 2018 Financial Statements.

On October 6, 2015, the board of directors of the Company approved the establishment of the Company's 2015 Share Incentive Plan ("2015 Share Incentive Plan"), an equity-settled share-based compensation plan with the purpose of attracting, motivating, retaining and rewarding certain employees, consultants, and Directors. The 2015 Share Incentive Plan is valid and effective for 10 years from the date of approval by the board of directors. The Group has initially reserved 598,483,347 ordinary shares under the 2015 Share Incentive Plan, and permits the awards of options and RSUs of the Company's ordinary shares.

All the share options and RSUs under the 2015 Share Incentive Plan were granted between May 31, 2006 and August 2, 2018 and the Company will not grant further share options and RSUs under the 2015 Share Incentive Plan after the Listing.

On August 30, 2018, a new share option scheme ("Post-IPO Share Option Scheme") and a new share award scheme ("Post-IPO Share Award Scheme") had been approved by the shareholders of the Company. The total number of Class B Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 475,568,628 Class B Shares. The aggregate number of Class B Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 272,336,228 Shares without Shareholders' approval (the "Post-IPO Share Award Scheme Limit") subject to an annual limited of 3% of the total number of issued Shares at the relevant time.

As of June 30, 2019, the Group has authorised and reserved a total of 949,809,608 ordinary shares under the 2015 Share Incentive Plan, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme for awards of options and RSUs of the Company's ordinary shares.

#### Share options

Options granted typically expire in 10 years from the respective grant dates. For previously granted options that were near its expiration date (i.e., 10 years after grant date) in 2017 and 2018, their expiration date was extended to October 5, 2025. The options have graded vesting terms, and vest in tranches from the grant date over 4 years, on condition that employees remain in service without any performance requirements.

The options may be exercised at any time after they have vested subject to the terms of the award agreement and are exercisable for a maximum period of 10 years after the date of grant.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 SHARE-BASED PAYMENTS *(Continued)*

#### Share options *(Continued)*

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Unaudited	Weighted average exercise price per share option (USD)
	Number of share options	
<b>Outstanding as of January 1, 2019</b>	<b>116,321,663</b>	<b>2.90</b>
Forfeited during the period	(6,850,099)	3.29
Exercised during the period	<u>(22,103,782)</u>	<u>1.15</u>
<b>Outstanding as of June 30, 2019</b>	<b>87,367,782</b>	<b>3.32</b>
Vested and exercisable as of June 30, 2019	<u>38,131,937</u>	<u>2.47</u>
<b>Outstanding as of January 1, 2018</b>	121,961,415	1.94
Granted during the period	4,728,565	2.90
Mobike option replacement (Note a)	21,290,122	1.34
Forfeited during the period	(4,572,824)	1.57
Exercised during the period	<u>(36,414,391)</u>	<u>0.54</u>
<b>Outstanding as of June 30, 2018</b>	<b>106,992,887</b>	<b>2.36</b>
Vested and exercisable as of June 30, 2018	<u>37,192,401</u>	<u>1.12</u>

- (a) On April 4, 2018, the Company acquired Mobike and assumed all the outstanding incentive share awards of Mobike (the "Mobike option replacement"). The number and types of the shares issuable upon the exercise of the Mobike option replacement, and the applicable exercise price for share options were adjusted according to the same term as the 2015 Share Incentive Plan. After the replacement awards were issued, Mobike's original incentive plan ceased to operate.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 SHARE-BASED PAYMENTS *(Continued)*

#### Share options *(Continued)*

A total of 21,290,122 share options were assumed by the Group in the acquisition of Mobike. The Mobike option replacement has been analysed to determine whether the awards relate to pre-combination or post-combination services or both. To the extent Mobike option replacement is for pre-combination services, a portion of the value of the awards has been allocated to the consideration transferred for the acquiree. To the extent the Mobike option replacement is for post-combination services, the value of the awards is recognized as compensation expenses attributable to post-combination services.

The incremental fair value, calculated as the difference between the fair value of share option award assumed by the Group in the Mobike option replacement and the fair value of the outstanding incentive share awards of Mobike as of the acquisition date, has been included in the measurement of the amount recognized for the services received over the remainder of the vesting period, and is recognized in the Group's consolidated income statements as share-based compensation expenses.

The weighted average remaining contractual life of outstanding share options was 7 years and 7 years as of June 30, 2019 and December 31, 2018, respectively.

#### Fair value of share options

Before the Listing on September 20, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted option-pricing model and equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Black-Scholes model to determine the fair value of the share option as of the grant date. There was no option granted for the six months ended June 30, 2019. Key assumptions for the six months ended June 30, 2018 are set as below:

	Unaudited Six months ended June 30, 2018
Risk-free interest rates	3.2% – 3.8%
Expected term – years	2.8-6.4
Expected volatility	45.0% – 50.0%
Fair value of ordinary shares (USD)	5.18-5.49
Exercise price (USD)	0-3.86
Dividend yield	–

The weighted average fair value of granted options was USD4.14 per share, for the six months ended June 30, 2018.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 SHARE-BASED PAYMENTS *(Continued)*

#### RSUs

The Company also grants RSUs to the Company's employees, consultants, and directors under the 2015 Incentive Share Plan and Post-IPO Share Award Scheme. The RSUs awarded vest in tranches from the grant date over a certain service period, on condition that employees remain in service without any performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

Movements in the number of RSUs granted and the respective weighted average grant date fair value are as follows:

	Unaudited Number of RSUs	Weighted average grant date fair value per RSU (USD)
Outstanding as of January 1, 2019	164,133,960	4.59
Granted during the period	3,497,792	6.88
Vested during the period	(33,212,125)	4.05
Forfeited during the period	(15,398,732)	5.46
<b>Outstanding as of June 30, 2019</b>	<b>119,020,895</b>	<b>4.70</b>
Outstanding as of January 1, 2018	114,505,992	3.34
Granted during the period	14,328,965	4.77
Vested during the period	(18,075,533)	3.14
Forfeited during the period	(4,187,485)	3.48
<b>Outstanding as of June 30, 2018</b>	<b>106,571,939</b>	<b>3.56</b>

The fair value of each RSU at the grant dates is determined by reference to the fair value of the underlying ordinary shares on the date of grant.

According to the merger agreement with Mobike, RSUs of the Company with a total valuation of USD60 million shall be granted to current Mobike officers, directors, and employees, and subject to the Company's Share Incentive Plan. The Company recorded share-based compensation expenses over the service period based on its best estimate of the grant day fair value of related RSUs.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 SHARE-BASED PAYMENTS *(Continued)*

#### RSUs *(Continued)*

The total share-based compensation expenses recognized in the consolidated income statement are RMB954 million and RMB682 million for the six months ended June 30, 2019 and 2018, respectively. The following table sets forth a breakdown of the share-based compensation expenses by nature:

	Unaudited	
	Six months ended June 30,	
	2019	2018
	RMB' 000	RMB' 000
Share options	154,602	136,045
RSUs	797,619	497,553
Incremental fair value for repurchase of ordinary shares	–	48,660
Others	1,348	–
	<u>953,569</u>	<u>682,258</u>

### 32 DIVIDENDS

No dividends have been paid or declared by the Company during each of the six months ended June 30, 2019 and 2018.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 33 COMMITMENTS

#### (a) Capital commitments

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Within 1 year	12,016	37,426
1 – 2 years	593	3,628
	<u>12,609</u>	<u>41,054</u>

#### (b) Operating lease commitments

The Group leases office under non-cancelable operating lease agreements. Future minimum lease payments under non-cancelable operating lease agreements with initial terms within 1 year or more consist of the following:

	Unaudited As of June 30, 2019 RMB' 000	Audited As of December 31, 2018 RMB' 000
Within 1 year	–	605,723
1 – 5 years	–	1,281,789
Over 5 years	–	223,965
	<u>–</u>	<u>2,111,477</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

#### (a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions with the Group during the six months ended June 30, 2019 and 2018, and/or balances with the Group as of June 30, 2019 and December 31, 2018.

Name of related parties	Relationship
Tencent Group	One of the Company's shareholders
Tianjin Maoyan and its subsidiaries	Associate of the Group
Changsha Xiangjiang Longzhu Private Equity Investment Fund Enterprise (Limited Partnership)	Associate of the Group
Jilin billion-Allians Bank Co., Ltd.	Associate of the Group
Beijing Wisdom Map Technology Co., Ltd.	Associate of the Group
Dalian Tongda Enterprise Management Co., Ltd.	Associate of the Group
Dalian Sen Cheng Logistics Co., Ltd.	Associate of the Group
Shanghai Shang Mi Technology Co., Ltd.	Associate of the Group
AsiaSea Co., Ltd.	Associate of the Group
Acewill information Technology (Beijing) Co., Ltd.	Associate of the Group
Hefei Haizhitun Technology Co., Ltd.	Associate of the Group
Wang Xing	Core connected person
Mu Rongjun	Core connected person

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 34 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Significant transactions with related parties

		Unaudited	
		Six months ended June 30,	
		2019	2018
		RMB' 000	RMB' 000
(i)	Sales of service		
	Associate of the Group	484,882	198,218
(ii)	Purchase of service		
	One of the Company's shareholders	733,807	301,545
	Associate of the Group	233,556	3,685
		967,363	305,230
(iii)	Sales of investments		
	Associate of the Group	-	38,776

#### (c) Balances with related parties

		Unaudited	Audited
		As of	As of
		June 30,	December 31,
		2019	2018
		RMB' 000	RMB' 000
(i)	Other receivables from related parties		
	Associate of the Group	378,055	19,654
	One of the Company's shareholders	149,484	175,548
		527,539	195,202
(ii)	Other payables to related parties		
	Associate of the Group	493,462	378,972
	One of the Company's shareholders	98,374	28,276
		591,836	407,248



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 34 RELATED PARTY TRANSACTIONS *(Continued)*

#### (d) Key Management compensation

	Unaudited Six months ended June 30,	
	2019 RMB' 000	2018 RMB' 000
Fees	744	–
Wages, salaries and bonuses	12,721	6,184
Pension costs and other employee benefits	385	179
Share-based compensation expenses	240,711	64,402
Others	189	–
	<u>254,750</u>	<u>70,765</u>

### 35 CONTINGENCIES

The Group did not have any material contingent liabilities as of June 30, 2019.

### 36 SUBSEQUENT EVENTS

There were no material subsequent events during the period from June 30, 2019 to the approval date of these consolidated financial statements by the Board on August 23, 2019.

### 37 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period presentation.

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**To the Board of Directors of Meituan Dianping**

*(incorporated in the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim financial information set out on pages 57 to 102, which comprises the interim condensed consolidated statement of financial position of Meituan Dianping (the “Company”) and its subsidiaries (together, the “Group”) as of June 30, 2020 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income/(loss), the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information 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 International 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.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, August 21, 2020

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited	
		Six months ended June 30,	
		2020	2019
		RMB' 000	RMB' 000
<b>Revenues</b>			
Commission	7	26,711,465	28,594,292
Online marketing services	7	7,187,420	6,493,037
Interest revenue	7	413,875	360,473
Other services and sales	7	7,162,964	6,428,847
		<u>41,475,724</u>	<u>41,876,649</u>
Cost of revenues	8	<u>(27,704,300)</u>	<u>(28,866,674)</u>
<b>Gross profit</b>		<b>13,771,424</b>	<b>13,009,975</b>
Selling and marketing expenses	8	(7,371,771)	(7,855,222)
Research and development expenses	8	(4,673,195)	(4,068,430)
General and administrative expenses	8	(2,227,833)	(2,050,511)
Net provision for impairment losses on financial assets		(283,218)	(201,691)
Fair value changes on other financial investments at fair value through profit or loss	17	(161,572)	(158,359)
Other gains, net	9	<u>1,405,280</u>	<u>1,133,174</u>
<b>Operating profit/(loss)</b>		<b>459,115</b>	<b>(191,064)</b>
Finance income	10	98,282	74,463
Finance costs	10	(108,775)	(96,936)
Share of gains of investments accounted for using equity method		<u>54,009</u>	<u>25,378</u>
<b>Profit/(loss) before income tax</b>		<b>502,631</b>	<b>(188,159)</b>
Income tax credits/(expenses)	12	<u>128,272</u>	<u>(369,343)</u>
<b>Profit/(loss) for the period</b>		<b><u>630,903</u></b>	<b><u>(557,502)</u></b>
<b>Profit/(loss) for the period attributable to:</b>			
Equity holders of the Company		631,411	(554,362)
Non-controlling interests		<u>(508)</u>	<u>(3,140)</u>
		<u>630,903</u>	<u>(557,502)</u>
<b>Earnings/(loss) per share for profit/(loss) for the period attributable to the equity holders of the Company</b>			
Basic earnings/(loss) per share (RMB)	13	<u>0.11</u>	<u>(0.10)</u>
Diluted earnings/(loss) per share (RMB)	13	<u>0.11</u>	<u>(0.10)</u>

The accompanying notes on pages 65 to 102 form an integral part of this interim financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

		Unaudited	
		Six months ended June 30,	
		2020	2019
Note		RMB' 000	RMB' 000
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to profit or loss</i>			
	Share of other comprehensive income of investments accounted for using the equity method	2,711	–
23			
<i>Items that may not be reclassified to profit or loss</i>			
	Currency translation differences	<u>647,370</u>	<u>47,893</u>
	<b>Other comprehensive income for the period, net of tax</b>	<u>650,081</u>	<u>47,893</u>
	<b>Total comprehensive income/(loss) for the period</b>	<u><u>1,280,984</u></u>	<u><u>(509,609)</u></u>
<b>Total comprehensive income/(loss) for the period is attributable to:</b>			
	Equity holders of the Company	1,281,492	(506,395)
	Non-controlling interests	<u>(508)</u>	<u>(3,214)</u>
		<u><u>1,280,984</u></u>	<u><u>(509,609)</u></u>

The accompanying notes on pages 65 to 102 form an integral part of this interim financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	7,445,625	5,376,217
Intangible assets	15	32,162,824	32,699,575
Deferred tax assets	16	518,210	590,054
Long-term treasury investments	18	1,625,332	200,275
Other financial investments at fair value through profit or loss	17	8,246,687	7,166,122
Investments accounted for using the equity method	11	2,351,252	2,283,590
Prepayments, deposits and other assets	19	2,050,728	1,562,037
		<u>54,400,658</u>	<u>49,877,870</u>
<b>Current assets</b>			
Inventories	20	284,411	275,227
Trade receivables	21	859,730	676,762
Prepayments, deposits and other assets	19	11,071,779	9,591,157
Short-term treasury investments	18	44,522,946	49,435,599
Restricted cash		8,509,705	8,760,115
Cash and cash equivalents		13,935,056	13,396,185
		<u>79,183,627</u>	<u>82,135,045</u>
<b>Total assets</b>		<u><b>133,584,285</b></u>	<u><b>132,012,915</b></u>
<b>EQUITY</b>			
Share capital	22	393	389
Share premium	22	262,367,560	260,359,929
Other reserves	23	(4,136,865)	(4,447,252)
Accumulated losses		<u>(163,169,210)</u>	<u>(163,800,621)</u>
<b>Equity attributable to equity holders of the Company</b>		<b>95,061,878</b>	<b>92,112,445</b>
<b>Non-controlling interests</b>		<u><b>(58,559)</b></u>	<u><b>(58,051)</b></u>
<b>Total equity</b>		<u><b>95,003,319</b></u>	<u><b>92,054,394</b></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)

		Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
	Note		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	16	1,220,070	1,388,469
Financial liabilities at fair value through profit or loss		40,950	–
Deferred revenues	24	280,541	389,028
Borrowings	27	–	466,676
Lease liabilities		1,021,196	992,233
Other non-current liabilities		152,390	129,552
		<u>2,715,147</u>	<u>3,365,958</u>
<b>Current liabilities</b>			
Trade payables	25	7,332,014	6,766,253
Payables to merchants		6,366,529	7,495,262
Advances from transacting users		3,181,943	3,855,559
Deposits from transacting users		2,353,451	2,491,947
Other payables and accruals	26	8,492,212	7,237,412
Borrowings	27	3,323,694	3,552,587
Deferred revenues	24	4,171,251	4,567,171
Lease liabilities		628,976	534,566
Income tax liabilities		15,749	91,806
		<u>35,865,819</u>	<u>36,592,563</u>
<b>Total liabilities</b>		<u>38,580,966</u>	<u>39,958,521</u>
<b>Total equity and liabilities</b>		<u>133,584,285</u>	<u>132,012,915</u>

The notes on pages 65 to 102 are an integral part of this interim financial information.

On behalf of the Board

Wang Xing  
Director

Mu Rongjun  
Director

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited						
		Attributable to equity holders of the Company						
	Note	Share capital RMB' 000	Share premium RMB' 000	Other reserves RMB' 000	Accumulated losses RMB' 000	Sub-total RMB' 000	Non- controlling interests RMB' 000	Total RMB' 000
As of January 1, 2020		389	260,359,929	(4,447,252)	(163,800,621)	92,112,445	(58,051)	92,054,394
<b>Comprehensive income</b>								
Profit/(loss) for the period		-	-	-	631,411	631,411	(508)	630,903
<b>Other comprehensive income</b>								
Share of other comprehensive income of investments accounted for using the equity method	23	-	-	2,711	-	2,711	-	2,711
Currency translation differences	23	-	-	647,370	-	647,370	-	647,370
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>650,081</b>	<b>631,411</b>	<b>1,281,492</b>	<b>(508)</b>	<b>1,280,984</b>
<b>Transaction with owners in their capacity as owners</b>								
Share-based compensation expenses	28	-	-	1,393,787	-	1,393,787	-	1,393,787
Exercise of option and RSU vesting		4	2,007,631	(1,733,481)	-	274,154	-	274,154
<b>Total transaction with owners in their capacity as owners</b>		<b>4</b>	<b>2,007,631</b>	<b>(339,694)</b>	<b>-</b>	<b>1,667,941</b>	<b>-</b>	<b>1,667,941</b>
As of June 30, 2020		<b>393</b>	<b>262,367,560</b>	<b>(4,136,865)</b>	<b>(163,169,210)</b>	<b>95,061,878</b>	<b>(58,559)</b>	<b>95,003,319</b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

		Unaudited						
		Attributable to equity holders of the Company						
	Note	Share capital RMB' 000	Share premium RMB' 000	Other reserves RMB' 000	Accumulated losses RMB' 000	Sub-total RMB' 000	Non- controlling interests RMB' 000	Total RMB' 000
As of January 1, 2019		384	258,284,687	(5,741,347)	(166,039,390)	86,504,334	5,438	86,509,772
<b>Comprehensive loss</b>								
Loss for the period		-	-	-	(554,362)	(554,362)	(3,140)	(557,502)
<b>Other comprehensive loss</b>								
Currency translation differences	23	-	-	47,967	-	47,967	(74)	47,893
<b>Total comprehensive loss</b>		-	-	47,967	(554,362)	(506,395)	(3,214)	(509,609)
<b>Transaction with owners in their capacity as owners</b>								
Share-based compensation expenses	28	-	-	952,221	-	952,221	-	952,221
Exercise of option and RSU vesting		4	1,297,814	(1,126,859)	-	170,959	-	170,959
<b>Total transaction with owners in their capacity as owners</b>		4	1,297,814	(174,638)	-	1,123,180	-	1,123,180
As of June 30, 2019		388	259,582,501	(5,868,018)	(166,593,752)	87,121,119	2,224	87,123,343

The accompanying notes on pages 65 to 102 form an integral part of this interim financial information.



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited	
		Six months ended June 30,	
		2020	2019
		RMB' 000	RMB' 000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations		636,052	(22,179)
Income tax paid		<u>(90,714)</u>	<u>(127,598)</u>
Net cash flows generated from/(used in) operating activities		<u>545,338</u>	<u>(149,777)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,984,545)	(1,463,481)
Proceeds from disposals of property, plant and equipment		141,601	13,842
Purchase of intangible assets		(8,447)	(7,662)
Proceeds from disposals of intangible assets		–	1,938
Payments for business combinations, net of cash acquired		–	(449,764)
Purchase of treasury investments		(89,623,882)	(93,727,052)
Proceeds from disposals of treasury investments		93,389,672	87,301,456
Acquisition of investments accounted for using the equity method		–	(1,025)
Proceeds from disposals of equity investments and refunds of prepayment for investments		295,137	323,377
Acquisition of other financial investments measured at fair value		(1,190,123)	(338,893)
Gains received from treasury investments		821,471	566,346
Dividends received		17,197	9,701
Decrease in loan to related party		37,081	–
Increase in prepayment for investments		<u>(96,385)</u>	<u>(14,607)</u>
Net cash flows generated from/(used in) investing activities		<u>798,777</u>	<u>(7,785,824)</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Note	Unaudited	
		Six months ended June 30,	
		2020	2019
		RMB' 000	RMB' 000
<b>Cash flows from financing activities</b>			
Proceeds from borrowings, excluding asset-backed securities ("ABS")		2,467,000	1,800,000
Repayments of borrowings, excluding ABS		(2,540,000)	(600,000)
Proceeds from ABS, net		–	467,000
Repayments of ABS		(623,138)	–
Finance costs paid		(101,092)	(100,424)
Proceeds from exercise of option		220,440	131,499
Repurchase of ordinary shares		(90)	–
Lease payments		(377,074)	(398,845)
Increase in financial liabilities		40,950	–
		<u>(913,004)</u>	<u>1,299,230</u>
<b>Net cash flows (used in)/generated from financing activities</b>			
		(913,004)	1,299,230
<b>Net increase/(decrease) in cash and cash equivalents</b>		431,111	(6,636,371)
Cash and cash equivalents at the beginning of the period		13,396,185	17,043,692
Exchange gain/(loss) on cash and cash equivalents		107,760	(198,448)
Cash and cash equivalents reclassified from the assets classified as held for sale		–	28,377
		<u>–</u>	<u>28,377</u>
<b>Cash and cash equivalents at the end of the period</b>		<u>13,935,056</u>	<u>10,237,250</u>

The accompanying notes on pages 65 to 102 form an integral part of this interim financial information.

### 1 GENERAL INFORMATION

Meituan Dianping (formerly known as Internet Plus Holdings Ltd.) (“the Company”) was incorporated in the Cayman Islands on September 25, 2015 as an exempted company with limited liability. The registered office is at PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”), provide platform which uses technology to connect consumers and merchants and offers diversified daily services, including food delivery, in-store dining, hotel and travel booking and other services.

The Company’s Class B Shares have been listed on the Main Board of the Hong Kong Stock Exchange since September 20, 2018 (the “Listing”).

The interim condensed consolidated financial information comprises the interim condensed consolidated statement of financial position as of June 30, 2020, the interim condensed consolidated income statement and the interim condensed consolidated statement of comprehensive income/(loss), the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

### 2 BASIS OF PREPARATION

This condensed consolidated interim financial report for the six months period ended June 30, 2020 has been prepared in accordance with Accounting Standard IAS 34 Interim Financial Reporting.

The Interim Financial Information does not include all the notes of the type normally included in an annual financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards, as set out in the 2019 annual report of the Group dated March 30, 2020 (the “2019 Financial Statements”).

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the 2019 Financial Statements.

#### (a) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after January 1, 2020:

IAS 1 and IAS 8 (Amendment)	Definition of material
IFRS 3 (Amendment)	Definition of a business
IFRS 9, IAS 39 and IFRS 17 (Amendment)	Interest rate benchmark reform
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting

The adoption of the above new and amended standards did not have any significant financial impact on these consolidated financial statements.

#### (b) New and amended standards that have been issued but are not effective

The following new and amended standards have been issued, but are not effective for the Group's financial year beginning on 1 January 2020 and have not been early adopted by the Group's management. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions:

		Effective for annual periods beginning on or after
IAS 28 and IFRS 10 (Amendment)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	A date to be determined by the IASB
IFRS 17	Insurance Contracts	January 1, 2023
IAS 1 (Amendment)	Classification of liabilities as current or non-current	January 1, 2022

The Group is in the process of assessing potential impact of the above new standards and amendments to standards that is relevant to the Group upon initial application. According to the preliminary assessment made by the Directors of the Company, management does not anticipate any significant impact on the Group's financial positions and results of operations upon adopting the above new standards and amendments to existing standards. The management of the Group plans to adopt these new standards and amendments to existing standards when they become effective.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2019 Financial Statements.

### 5 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### (a) Financial risk factors

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial information as set out in the 2019 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2020.

#### (b) Fair value estimation

##### (i) Fair value hierarchy

The table below analyzes the Group's financial instruments carried at fair value as of June 30, 2020 and December 31, 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 5 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Fair value estimation (Continued)

##### (i) Fair value hierarchy (Continued)

The following table presents the Group's assets that are measured at fair value as of June 30, 2020.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<b>As of June 30, 2020</b>				
<b>Financial assets</b>				
Short-term treasury investments at fair value through profit or loss (Note 18)	-	-	31,411,307	31,411,307
Long-term treasury investments at fair value through profit or loss (Note 18)	-	-	620,225	620,225
Other financial investments at fair value through profit or loss (Note 17)	<u>1,920,340*</u>	<u>-</u>	<u>6,326,347</u>	<u>8,246,687</u>
	<u>1,920,340*</u>	<u>-</u>	<u>38,357,879</u>	<u>40,278,219</u>

The following table presents the Group's assets that are measured at fair value as of December 31, 2019.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<b>As of December 31, 2019</b>				
<b>Financial assets</b>				
Short-term treasury investments at fair value through profit or loss (Note 18)	-	-	23,988,182	23,988,182
Other financial investments at fair value through profit or loss (Note 17)	<u>2,076,995*</u>	<u>-</u>	<u>5,089,127</u>	<u>7,166,122</u>
	<u>2,076,995*</u>	<u>-</u>	<u>29,077,309</u>	<u>31,154,304</u>

\* This presents an investment in a listed company with observable quoted price.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the end of the reporting period.

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Fair value estimation *(Continued)*

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments; and
- The discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- The latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

There was no change to valuation techniques during the six months ended June 30, 2020.

All of the resulting fair value estimates are included in level 3, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 5 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (b) Fair value estimation *(Continued)*

##### (iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including short-term treasury investments at fair value through profit or loss, long-term treasury investments at fair value through profit or loss and investments in unlisted companies for the six months ended June 30, 2020 and 2019.

	Short-term treasury investments at fair value through profit or loss RMB' 000	Long-term treasury investments at fair value through profit or loss RMB' 000	Other financial investments at fair value through profit or loss Investments in unlisted companies RMB' 000	Total RMB' 000
As of January 1, 2020	23,988,182	–	5,089,127	29,077,309
Additions	78,870,635	620,389	1,189,947	80,680,971
Disposals	(71,904,239)	(6,205)	–	(71,910,444)
Changes in fair value	360,431	180	(4,917)	355,694
Currency translation differences	96,298	5,861	52,190	154,349
<b>As of June 30, 2020</b>	<b>31,411,307</b>	<b>620,225</b>	<b>6,326,347</b>	<b>38,357,879</b>
Net unrealized gains/(losses) for the period	40,698	180	(4,917)	35,961



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 5 FINANCIAL RISK MANAGEMENT *(Continued)*

#### (b) Fair value estimation *(Continued)*

##### *(iii) Fair value measurements using significant unobservable inputs (level 3) (Continued)*

	Short-term treasury investments at fair value through profit or loss RMB' 000	Other financial investments at fair value through profit or loss Investments in unlisted companies RMB' 000	Total RMB' 000
<b>As of January 1, 2019</b>	15,067,960	4,904,247	19,972,207
Additions	72,947,026	338,893	73,285,919
Disposals/settlements	(69,088,532)	(219)	(69,088,751)
Reclassifications	–	319,373	319,373
Changes in fair value	282,534	(17,546)	264,988
Currency translation differences	9,585	4,880	14,465
<b>As of June 30, 2019</b>	<b>19,218,573</b>	<b>5,549,628</b>	<b>24,768,201</b>
Net unrealized gains/(losses) for the period	<u>130,077</u>	<u>(17,765)</u>	<u>112,312</u>

##### *(iv) Valuation process, inputs and relationships to fair value*

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

As these level 3 instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 5 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Fair value estimation (Continued)

##### (iv) Valuation process, inputs and relationships to fair value (Continued)

Description	Fair value as of June 30, 2020 RMB' 000	Fair value as of December 31, 2019 RMB' 000	Un-observable inputs	Range of inputs		Relationship of unobservable inputs to fair value
				As of June 30, 2020	As of December 31, 2019	
Investments in unlisted companies	6,326,347	5,089,127	Expected volatility Discount for lack of marketability ("DLOM")	40%-45% 23%	40%-55% 15%-25%	The higher the expected volatility, the lower the fair value The higher the DLOM, the lower the fair value
Short-term treasury investments at fair value through profit or loss	31,411,307	23,988,182	Expected rate of return	(4.2%)-5.2%	1.7%-7%	The higher the expected rate of return, the higher the fair value
Long-term treasury investments at fair value through profit or loss	620,225	-	Expected rate of return	0%-16.7%	N/A	The higher the expected rate of return, the higher the fair value

### 6 SEGMENT REPORTING

#### 6.1 Segment reporting

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

The CODM assesses the performance of the operating segments mainly based on segment revenues and cost of revenues and operating expenses of each operating segment. Thus, segment result would present revenues, cost of revenues and operating expenses and operating profit/(loss) for each segment, which is in line with CODM's performance review.

##### *Food delivery*

The food delivery segment offers food ordering and delivery service through the Group's platform. Revenues from the food delivery segment are primarily derived from (a) platform service to merchants to display the food information and connect transacting users; (b) food delivery service; (c) online marketing services in various advertising formats provided to merchants.

## 6 SEGMENT REPORTING (Continued)

### 6.1 Segment reporting (Continued)

#### *In-store, hotel & travel*

The in-store, hotel & travel segment offers merchants to sell vouchers, coupons, tickets and reservations on the Group's platform. Revenues from the in-store, hotel & travel segment are primarily derived from (a) commissions from merchants for vouchers, coupons, tickets and reservations sold on the Group's platform; and (b) online marketing services to merchants, including performance-based and display-based marketing services, as well as marketing services provided under annual plans.

#### *New initiatives and others*

Revenues from the new initiatives and others segment are primarily derived from (a) B2B food distribution services; (b) micro loan business; (c) Meituan Instashopping; (d) car-hailing services.

The CODM assesses the performance of operating segments mainly based on segment revenues and segment cost of revenues and operating expenses. The revenues from external customers reported to CODM are measured as segment revenues, which is the revenues derived from customers in each segment.

The Group's cost of revenues and operating expenses for the food delivery segment primarily consists of (a) food delivery rider costs; (b) employee benefits expenses; (c) transacting user incentives; (d) payment processing costs.

The Group's cost of revenues and operating expenses for the in-store, hotel & travel segment primarily consists of (a) employee benefits expenses; (b) transacting user incentives; (c) promotion and advertising; (d) depreciation of property, plant and equipment; (e) bandwidth and server custody fees.

The Group's cost of revenues and operating expenses for the new initiatives and others segment primarily consists of (a) cost of goods sold; (b) employee benefits expenses; (c) car-hailing driver related costs; (d) depreciation of property, plant and equipment.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

The revenue is mainly generated in China.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 SEGMENT REPORTING (Continued)

#### 6.1 Segment reporting (Continued)

The segment information provided to the Group's CODM for the reportable segments for the relevant periods is as follows:

	Unaudited				Total RMB' 000
	Six months ended June 30, 2020				
	Food delivery RMB' 000	In-store, hotel & travel RMB' 000	New initiatives and others RMB' 000	Unallocated item (Note i) RMB' 000	
Commission	21,282,638	3,289,856	2,138,971	–	26,711,465
Online marketing services	2,715,259	4,332,136	140,025	–	7,187,420
Other services and sales (including interest revenue)	36,621	16,968	7,523,250	–	7,576,839
<b>Revenues in total</b>	<b>24,034,518</b>	<b>7,638,960</b>	<b>9,802,246</b>	<b>–</b>	<b>41,475,724</b>
Cost of revenues and operating expenses	(22,851,978)	(5,067,218)	(12,625,502)	(471,911)	(41,016,609)
<b>Operating profit/(loss)</b>	<b>1,182,540</b>	<b>2,571,742</b>	<b>(2,823,256)</b>	<b>(471,911)</b>	<b>459,115</b>

	Unaudited				Total RMB' 000
	Six months ended June 30, 2019				
	Food delivery RMB' 000	In-store, hotel & travel RMB' 000	New initiatives and others RMB' 000	Unallocated item (Note i) RMB' 000	
Commission	21,632,175	5,168,087	1,794,030	–	28,594,292
Online marketing services	1,867,796	4,534,423	90,818	–	6,493,037
Other services and sales (including interest revenue)	50,552	34,900	6,703,868	–	6,789,320
<b>Revenues in total</b>	<b>23,550,523</b>	<b>9,737,410</b>	<b>8,588,716</b>	<b>–</b>	<b>41,876,649</b>
Cost of revenues and operating expenses	(22,948,379)	(5,997,033)	(12,817,575)	(304,726)	(42,067,713)
<b>Operating profit/(loss)</b>	<b>602,144</b>	<b>3,740,377</b>	<b>(4,228,859)</b>	<b>(304,726)</b>	<b>(191,064)</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 SEGMENT REPORTING (Continued)

#### 6.1 Segment reporting (Continued)

- (i) Unallocated items are cost of revenues and operating expenses which could not be categorized into a segment. These items include (i) share-based compensation, (ii) amortization of intangible assets resulting from acquisitions, (iii) fair value changes on other financial investments at fair value through profit or loss, (iv) other gains, net, and (v) impairment provision and restructuring expense for Mobike restructuring plan.

The reconciliation of operating profit/(loss) to profit/(loss) before income tax of respective period during the six months ended June 30, 2020 and 2019 is shown in the consolidated income statement.

There is no concentration risk as no revenue from a single external customer was more than 10% of the Group's total revenue for the six months ended June 30, 2020 and 2019.

#### 6.2 Segment assets

As of June 30, 2020 and December 31, 2019, substantially all of the non-current assets of the Group were located in the PRC.

### 7 REVENUES BY TYPE

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
Commission	26,711,465	28,594,292
Online marketing services	7,187,420	6,493,037
Other services and sales (including interest revenue)	7,576,839	6,789,320
	<u>41,475,724</u>	<u>41,876,649</u>

Further disaggregation of revenues are included in Note 6.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 8 EXPENSES BY NATURE

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
Food delivery rider costs	16,987,123	17,745,098
Employee benefits expenses	9,329,956	8,495,505
Cost of goods sold	3,476,551	3,062,898
Transacting User incentives	2,556,502	3,008,945
Other outsourcing labor costs	1,745,562	1,344,524
Depreciation of property, plant and equipment	1,495,289	2,414,017
Payment processing costs	913,469	937,859
Promotion and advertising	889,770	744,177
Car-hailing driver related costs	727,002	1,558,401
Amortization of intangible assets	546,965	593,100
Bandwidth and server custody fees	419,766	362,929
Online traffic costs	168,932	172,657
Rental, facility and utilities	127,517	139,906
Professional fees	105,212	97,331
Tax surcharge expenses	34,677	100,407
Auditor's remuneration		
– Audit and audit-related services	27,903	22,782
– Non-audit services	460	1,299
Others (Note i)	2,424,443	2,039,002
	<u>41,977,099</u>	<u>42,840,837</u>
Total cost of revenues, selling and marketing expenses, research and development expenses and general and administrative expenses		

- (i) Others mainly comprise message and verification fees, transportation fees, travelling and entertainment expenses and bike maintenance and relocation fees.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 9 OTHER GAINS, NET

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
Subsidies and tax preference	960,875	65,320
Fair value changes of treasury investments measured at fair value through profit or loss	360,611	282,534
Interest income from treasury investments measured at amortized cost	283,451	454,973
Foreign exchange gains/(losses), net	13,190	(84,053)
Dilution gain	704	91,360
Gains from the remeasurement of investments	-	176,880
Gains from the disposal of investments	-	160,884
Loss from the disposal of subsidiaries	-	(1,490)
Donation	(200,199)	(2,380)
Others	(13,352)	(10,854)
	<u>1,405,280</u>	<u>1,133,174</u>

### 10 FINANCE INCOME/(COSTS)

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
<b>Finance income</b>		
Interest income from bank deposits	<u>98,282</u>	<u>74,463</u>
<b>Finance costs</b>		
Interest expense on bank borrowings	(63,003)	(40,046)
Interest in respect of lease liabilities	(35,845)	(46,624)
Bank charges and others	<u>(9,927)</u>	<u>(10,266)</u>
Total	<u>(108,775)</u>	<u>(96,936)</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Associates	2,337,093	2,269,638
Joint ventures	<u>14,159</u>	<u>13,952</u>
	<u>2,351,252</u>	<u>2,283,590</u>

### 12 INCOME TAX CREDITS/(EXPENSES)

The income tax credits/(expenses) of the Group during all the periods presented are analyzed as follows:

	Unaudited Six months ended June 30,	
	2020 RMB' 000	2019 RMB' 000
Current income tax	29,201	(233,829)
Deferred income tax (Note 16)	<u>99,071</u>	<u>(135,514)</u>
Total income tax credits/(expenses) – Net	<u>128,272</u>	<u>(369,343)</u>

Income tax credits/(expenses) are recognized based on management's best knowledge of the income tax rates that would be applicable to the full financial year.

### 13 EARNINGS/(LOSS) PER SHARE

- (a) Basic earnings/(loss) per share for the six months ended June 30, 2020 and 2019 were calculated by dividing the earnings/(loss) attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the reporting period.

	Unaudited Six months ended June 30,	
	2020	2019
Earnings/(loss) attributable to equity holders of the Company (RMB' 000)	631,411	(554,362)
Weighted average number of ordinary shares in issue (thousand)	<u>5,820,039</u>	<u>5,738,107</u>
Basic earnings/(loss) per share (RMB)	<u>0.11</u>	<u>(0.10)</u>



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 13 EARNINGS/(LOSS) PER SHARE *(Continued)*

- (b) Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and RSUs. As the Group incurred losses for the six months ended June 30, 2019, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the six months ended June 30, 2019 was the same as basic loss per share of the respective periods.

	Unaudited	
	Six months ended June 30,	
	2020	2019
Earnings/(loss) attributable to equity holders of the Company (RMB' 000)	631,411	(554,362)
Weighted average number of ordinary shares in issue (thousand)	5,820,039	5,738,107
Adjustments for RSUs and share options granted to employees (thousand)	156,749	-
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings/(loss) per share (thousand)	5,976,788	5,738,107
Diluted earnings/(loss) per share (RMB)	0.11	(0.10)

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 PROPERTY, PLANT AND EQUIPMENT

	Unaudited							
	Computer equipment	Furniture and appliances	Bikes and vehicles	Leasehold improvements	Assets under construction	Right-of-use assets	Others	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>Cost</b>								
As of January 1, 2020	4,505,983	86,706	5,781,823	322,642	141,368	2,166,794	-	13,005,316
Additions	405,316	22,045	1,865,144	-	895,124	487,429	-	3,675,058
Disposals	(24,332)	(1,972)	(1,414,896)	(2,278)	-	(230,173)	(1,131)	(1,674,782)
Transfers	-	-	645,304	36,567	(821,992)	-	140,121	-
Currency translation differences	(1)	-	-	-	-	4	-	3
As of June 30, 2020	<u>4,886,966</u>	<u>106,779</u>	<u>6,877,375</u>	<u>356,931</u>	<u>214,500</u>	<u>2,424,054</u>	<u>138,990</u>	<u>15,005,595</u>
<b>Accumulated depreciation</b>								
As of January 1, 2020	(2,288,342)	(15,805)	(4,497,479)	(206,251)	-	(605,780)	-	(7,613,657)
Depreciation	(612,116)	(9,153)	(432,084)	(52,073)	-	(383,349)	(6,514)	(1,495,289)
Disposals	19,333	1,361	1,329,549	27	-	214,070	78	1,564,418
Currency translation differences	-	-	-	-	-	-	-	-
As of June 30, 2020	<u>(2,881,125)</u>	<u>(23,597)</u>	<u>(3,600,014)</u>	<u>(258,297)</u>	<u>-</u>	<u>(775,059)</u>	<u>(6,436)</u>	<u>(7,544,528)</u>
<b>Impairment</b>								
As of January 1, 2020 and June 30, 2020	-	-	(7,497)	-	(7,945)	-	-	(15,442)
<b>Net carrying amount</b>								
As of January 1, 2020	<u>2,217,641</u>	<u>70,901</u>	<u>1,276,847</u>	<u>116,391</u>	<u>133,423</u>	<u>1,561,014</u>	<u>-</u>	<u>5,376,217</u>
As of June 30, 2020	<u>2,005,841</u>	<u>83,182</u>	<u>3,269,864</u>	<u>98,634</u>	<u>206,555</u>	<u>1,648,995</u>	<u>132,554</u>	<u>7,445,625</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Unaudited						
	Computer equipment	Furniture and appliances	Bikes and vehicles	Leasehold improvements	Assets under construction	Right-of-use assets	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>Cost</b>							
As of January 1, 2019	3,198,019	100,342	5,152,325	182,058	194,512	-	8,827,256
Additions	963,542	53,293	120,090	5,236	100,653	2,286,539	3,529,353
Disposals	(33,846)	(36,136)	(167,518)	(20,034)	-	(311,570)	(569,104)
Transfers	-	-	1,215	81,268	(137,302)	-	(54,819)
Assets transferred from derecognition of held for sale	-	-	249,778	-	-	-	249,778
Currency translation differences	-	(1)	926	-	-	-	925
As of June 30, 2019	<u>4,127,715</u>	<u>117,498</u>	<u>5,356,816</u>	<u>248,528</u>	<u>157,863</u>	<u>1,974,969</u>	<u>11,983,389</u>
<b>Accumulated depreciation</b>							
As of January 1, 2019	(1,231,642)	(47,329)	(3,420,977)	(77,979)	-	-	(4,777,927)
Depreciation	(525,705)	(35,243)	(1,344,521)	(74,958)	-	(433,590)	(2,414,017)
Disposals	21,945	18,641	91,683	2,792	-	125,817	260,878
Assets transferred from derecognition of held for sale	-	-	(107,828)	-	-	-	(107,828)
Currency translation differences	-	-	(300)	-	-	-	(300)
As of June 30, 2019	<u>(1,735,402)</u>	<u>(63,931)</u>	<u>(4,781,943)</u>	<u>(150,145)</u>	<u>-</u>	<u>(307,773)</u>	<u>(7,039,194)</u>
<b>Impairment</b>							
As of January 1, 2019	-	-	(70,514)	-	-	-	(70,514)
Additions	-	-	(8,181)	-	-	-	(8,181)
Disposals	-	-	71,198	-	-	-	71,198
Assets transferred from derecognition of held for sale	-	-	(141,950)	-	-	-	(141,950)
As of June 30, 2019	<u>-</u>	<u>-</u>	<u>(149,447)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(149,447)</u>
<b>Net carrying amount</b>							
As of January 1, 2019	<u>1,966,377</u>	<u>53,013</u>	<u>1,660,834</u>	<u>104,079</u>	<u>194,512</u>	<u>-</u>	<u>3,978,815</u>
As of June 30, 2019	<u>2,392,313</u>	<u>53,567</u>	<u>425,426</u>	<u>98,383</u>	<u>157,863</u>	<u>1,667,196</u>	<u>4,794,748</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 15 INTANGIBLE ASSETS

	Unaudited								Total RMB' 000
	Trade name RMB' 000	User generated content RMB' 000	Software and others RMB' 000	Online payment licenses RMB' 000	Technology and licenses RMB' 000	User list RMB' 000	Supplier relationship RMB' 000	Goodwill RMB' 000	
<b>Cost</b>									
As of January 1, 2020	5,006,300	490,000	1,877,633	390,000	849,830	907,000	28,700	27,849,022	37,398,485
Additions	-	-	13,163	-	-	-	-	-	13,163
Disposals	-	-	(12,647)	-	-	-	-	-	(12,647)
As of June 30, 2020	<u>5,006,300</u>	<u>490,000</u>	<u>1,878,149</u>	<u>390,000</u>	<u>849,830</u>	<u>907,000</u>	<u>28,700</u>	<u>27,849,022</u>	<u>37,399,001</u>
<b>Accumulated Amortization</b>									
As of January 1, 2020	(768,984)	(416,500)	(1,178,322)	(88,833)	(389,525)	(351,016)	(11,473)	-	(3,204,653)
Amortization	(92,329)	(49,000)	(225,251)	(13,000)	(74,675)	(90,700)	(2,010)	-	(546,965)
Disposals	-	-	9,698	-	-	-	-	-	9,698
As of June 30, 2020	<u>(861,313)</u>	<u>(465,500)</u>	<u>(1,393,875)</u>	<u>(101,833)</u>	<u>(464,200)</u>	<u>(441,716)</u>	<u>(13,483)</u>	<u>-</u>	<u>(3,741,920)</u>
<b>Impairment</b>									
As of January 1, 2020 and June 30, 2020	<u>(1,347,510)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,238)</u>	<u>-</u>	<u>(88)</u>	<u>(143,421)</u>	<u>(1,494,257)</u>
<b>Net carrying amount</b>									
As of January 1, 2020	<u>2,889,806</u>	<u>73,500</u>	<u>699,311</u>	<u>301,167</u>	<u>457,067</u>	<u>555,984</u>	<u>17,139</u>	<u>27,705,601</u>	<u>32,699,575</u>
As of June 30, 2020	<u>2,797,477</u>	<u>24,500</u>	<u>484,274</u>	<u>288,167</u>	<u>382,392</u>	<u>465,284</u>	<u>15,129</u>	<u>27,705,601</u>	<u>32,162,824</u>

The Group normally performs goodwill impairment test in the fourth quarter of each year, and there is no indicator for impairment of goodwill as of June 30, 2020. For details of goodwill impairment assessment for the year ended December 31, 2019, please refer to the 2019 Financial Statements.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 15 INTANGIBLE ASSETS (Continued)

	Unaudited								Total RMB' 000
	Trade name RMB' 000	User generated content RMB' 000	Software and others RMB' 000	Online payment licenses RMB' 000	Technology and licenses RMB' 000	User list RMB' 000	Supplier relationship RMB' 000	Goodwill RMB' 000	
<b>Cost</b>									
As of January 1, 2019	5,006,300	490,000	1,865,688	390,000	849,830	907,000	28,700	27,861,023	37,398,541
Additions	-	-	7,662	-	-	-	-	-	7,662
Disposals	-	-	(2,284)	-	-	-	-	-	(2,284)
As of June 30, 2019	<u>5,006,300</u>	<u>490,000</u>	<u>1,871,066</u>	<u>390,000</u>	<u>849,830</u>	<u>907,000</u>	<u>28,700</u>	<u>27,861,023</u>	<u>37,403,919</u>
<b>Accumulated</b>									
<b>Amortization</b>									
As of January 1, 2019	(565,565)	(318,500)	(652,138)	(62,833)	(240,174)	(169,616)	(7,453)	-	(2,016,279)
Amortization	(101,710)	(49,000)	(262,004)	(13,000)	(74,676)	(90,700)	(2,010)	-	(593,100)
Disposals	-	-	346	-	-	-	-	-	346
As of June 30, 2019	<u>(667,275)</u>	<u>(367,500)</u>	<u>(913,796)</u>	<u>(75,833)</u>	<u>(314,850)</u>	<u>(260,316)</u>	<u>(9,463)</u>	<u>-</u>	<u>(2,609,033)</u>
<b>Impairment</b>									
As of January 1, 2019 and June 30, 2019	(1,347,510)	-	-	-	(3,238)	-	(88)	(155,422)	(1,506,258)
<b>Net carrying amount</b>									
As of January 1, 2019	<u>3,093,225</u>	<u>171,500</u>	<u>1,213,550</u>	<u>327,167</u>	<u>606,418</u>	<u>737,384</u>	<u>21,159</u>	<u>27,705,601</u>	<u>33,876,004</u>
As of June 30, 2019	<u>2,991,515</u>	<u>122,500</u>	<u>957,270</u>	<u>314,167</u>	<u>531,742</u>	<u>646,684</u>	<u>19,149</u>	<u>27,705,601</u>	<u>33,288,628</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 16 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

#### (a) Deferred tax assets

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
The balance comprises temporary differences attributable to:		
– Tax losses	683,440	848,365
– Others	229,601	35,820
Total gross deferred tax assets	<u>913,041</u>	<u>884,185</u>
Set-off of deferred tax assets pursuant to set-off provisions	<u>(394,831)</u>	<u>(294,131)</u>
Net deferred tax assets	<u>518,210</u>	<u>590,054</u>

#### (b) Deferred tax liabilities

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
The balance comprises temporary differences attributable to:		
– Intangible assets arising from business combinations	(682,039)	(750,046)
– Investments accounted for using the equity method or at fair value	(457,260)	(438,363)
– Deferred revenues	(417,136)	(469,175)
– Others	(58,466)	(25,016)
Total gross deferred tax liabilities	<u>(1,614,901)</u>	<u>(1,682,600)</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>394,831</u>	<u>294,131</u>
Net deferred tax liabilities	<u>(1,220,070)</u>	<u>(1,388,469)</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 16 DEFERRED INCOME TAXES (Continued)

The movement on the gross deferred tax assets is as follows:

	Unaudited		Total RMB' 000
	Tax losses RMB' 000	Others RMB' 000	
As of January 1, 2020	848,365	35,820	884,185
(Charged)/credited to consolidated income statement	<u>(164,925)</u>	<u>193,781</u>	<u>28,856</u>
As of June 30, 2020	<u>683,440</u>	<u>229,601</u>	<u>913,041</u>
As of January 1, 2019	1,373,351	142,294	1,515,645
(Charged)/credited to consolidated income statement	<u>(623,498)</u>	<u>153,027</u>	<u>(470,471)</u>
As of June 30, 2019	<u>749,853</u>	<u>295,321</u>	<u>1,045,174</u>

The movement on the gross deferred tax liabilities is as follows:

	Unaudited				Total RMB' 000
	Intangible assets RMB' 000	Investments using the equity method or at fair value RMB' 000	Deferred revenues RMB' 000	Others RMB' 000	
As of January 1, 2020	(750,046)	(438,363)	(469,175)	(25,016)	(1,682,600)
Credited/(charged) to consolidated income statement	68,007	(16,381)	52,039	(33,450)	70,215
Charged to other comprehensive loss	<u>-</u>	<u>(2,516)</u>	<u>-</u>	<u>-</u>	<u>(2,516)</u>
As of June 30, 2020	<u>(682,039)</u>	<u>(457,260)</u>	<u>(417,136)</u>	<u>(58,466)</u>	<u>(1,614,901)</u>
As of January 1, 2019	(886,398)	(416,830)	(862,290)	(100,955)	(2,266,473)
Credited/(charged) to consolidated income statement	68,138	(7,957)	186,843	87,933	334,957
Charged to other comprehensive loss	<u>-</u>	<u>(1,180)</u>	<u>-</u>	<u>-</u>	<u>(1,180)</u>
As of June 30, 2019	<u>(818,260)</u>	<u>(425,967)</u>	<u>(675,447)</u>	<u>(13,022)</u>	<u>(1,932,696)</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 16 DEFERRED INCOME TAXES *(Continued)*

The Group only recognizes deferred tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred tax assets in future reporting periods. As of June 30, 2020 and December 31, 2019, the Group did not recognize deferred tax assets of RMB6.6 billion and RMB6.6 billion in respect of cumulative tax losses amounting to RMB29.4 billion and RMB28.7 billion. These tax losses will expire from 2020 to 2024, and certain subsidiaries of the Group may extend to 2029 if they can maintain the “high and new technology enterprises” qualification at that time.

### 17 OTHER FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Other financial investments at fair value through profit or loss	<u>8,246,687</u>	<u>7,166,122</u>

	Unaudited Six months ended June 30,	
	2020 RMB' 000	2019 RMB' 000
At the beginning of the period	7,166,122	6,241,972
Additions	1,189,947	338,893
Changes in fair value	(161,572)	(158,359)
Disposals	-	(219)
Reclassifications	-	319,373
Currency translation differences	52,190	4,880
At the end of the period	<u>8,246,687</u>	<u>6,746,540</u>

The Group made investments in certain companies through convertible redeemable preferred shares or ordinary shares with preferential rights and maintained significant influence in these companies. The Group also has interests in certain investee companies in form of ordinary shares without significant influence, which are managed and their performance are evaluated on a fair value basis. The Group designated these instruments as other financial investments at fair value through profit or loss.



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 18 TREASURY INVESTMENTS

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Long-term treasury investments measured at		
– Amortized cost	1,005,107	200,275
– Fair value through profit or loss	620,225	–
	<b>1,625,332</b>	<b>200,275</b>
Short-term treasury investments measured at		
– Amortized cost	13,111,639	25,447,417
– Fair value through profit or loss	31,411,307	23,988,182
	<b>44,522,946</b>	<b>49,435,599</b>

Treasury investments measured at amortized cost are large-denomination negotiable certificates of term deposits, fixed rate certificate of deposits and term deposits.

Treasury investments measured at fair value through profit or loss are wealth management products.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 19 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
<b>Non-current</b>		
Prepayments for fixed assets	1,180,799	159,703
Recoverable value-added tax	391,353	972,099
Prepayment for investments	297,044	282,044
Rental deposits	166,117	135,813
Others	15,415	12,378
	<u>2,050,728</u>	<u>1,562,037</u>
<b>Current</b>		
Loan receivables (Note i)	5,091,418	5,387,552
Tax prepayments	2,060,044	1,534,292
Receivables related to share options and RSUs	1,612,206	86,273
Amounts due from related parties (Note 31)	493,746	324,741
Contract assets	409,256	373,609
Prepayments to merchants	255,518	408,248
Deposits	133,369	147,940
Prepayments for channel marketing fee	128,463	102,593
Receivables from third-party payment service providers	94,149	303,868
Receivables from investment disposal	–	287,577
Others	793,610	634,464
	<u>11,071,779</u>	<u>9,591,157</u>

- (i) Loan receivables are derived from micro loan business. Loan receivables are recorded initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance. The loan periods extended by the Group to the merchants or individuals are generally within 12 months.

For prepayments, deposits and other assets (excluding loan receivables, tax prepayments and recoverable value-added tax), management makes periodic collective assessments as well as individual assessments on the recoverability of other receivables and prepayments to merchants based on historical settlement records and past experiences. Impairment on prepayments, deposits and other assets is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

As of June 30, 2020 and December 31, 2019, the carrying value of prepayments, deposits and other assets was primarily denominated in RMB.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 20 INVENTORIES

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Raw materials	80,264	98,047
Finished goods	<u>267,536</u>	<u>265,975</u>
	<u>347,800</u>	<u>364,022</u>
Less: provision for impairment	<u>(63,389)</u>	<u>(88,795)</u>
	<u><u>284,411</u></u>	<u><u>275,227</u></u>

### 21 TRADE RECEIVABLES

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Trade receivables	1,016,262	832,616
Less: allowance for impairment	<u>(156,532)</u>	<u>(155,854)</u>
	<u><u>859,730</u></u>	<u><u>676,762</u></u>

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

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 21 TRADE RECEIVABLES (Continued)

Movements on the Group's loss allowance of trade receivables are as follows:

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
At the beginning of the period	(155,854)	(124,069)
Provision	(66,800)	(53,181)
Assets transferred from derecognition of held for sale	–	(16,840)
Reversal	48,538	17,507
Receivables written off during the period as uncollectable	17,584	3,934
At the end of the period	<u>(156,532)</u>	<u>(172,649)</u>

The Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of June 30, 2020 and December 31, 2019.

The Group allows a credit period of 30 to 180 days to its customers. Aging analysis of trade receivables (net off loss allowance of trade receivables) based on invoice date is as follows:

	Unaudited	Audited
	As of	As of
	June 30,	December 31,
	2020	2019
	RMB' 000	RMB' 000
Trade receivables		
Up to 3 months	702,512	544,784
3 to 6 months	104,923	87,114
6 months to 1 year	45,225	34,574
Over 1 year	7,070	10,290
	<u>859,730</u>	<u>676,762</u>

The majority of the Group's trade receivables were denominated in RMB.

The maximum exposure to credit risk as of June 30, 2020 and December 31, 2019 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 22 SHARE CAPITAL AND SHARE PREMIUM

As of June 30, 2020 and 2019, the authorized share capital of the Company comprises 10,000,000,000 ordinary shares with par value of USD0.00001 per share.

Issued:

	Number of ordinary shares '000	Nominal value of ordinary shares USD' 000	Unaudited		Total RMB' 000
			Share capital RMB' 000	Share premium RMB' 000	
As of January 1, 2020	5,808,666	58	389	260,359,929	260,360,318
Exercise of option and RSU vesting	51,939	1	4	2,007,631	2,007,635
<b>As of June 30, 2020</b>	<b>5,860,605</b>	<b>59</b>	<b>393</b>	<b>262,367,560</b>	<b>262,367,953</b>
As of January 1, 2019	5,727,447	57	384	258,284,687	258,285,071
Exercise of option and RSU vesting	55,484	1	4	1,297,814	1,297,818
<b>As of June 30, 2019</b>	<b>5,782,931</b>	<b>58</b>	<b>388</b>	<b>259,582,501</b>	<b>259,582,889</b>

### 23 OTHER RESERVES

	Capital Reserve RMB' 000	Share-based compensation reserve RMB' 000	Unaudited		Total RMB' 000
			Currency translation reserve RMB' 000	Others RMB' 000	
As of January 1, 2020	20	3,161,201	(7,439,014)	(169,459)	(4,447,252)
Share-based compensation expenses	-	1,393,787	-	-	1,393,787
Exercise of option and RSU vesting	-	(1,733,481)	-	-	(1,733,481)
Share of OCI of investments accounted for using the equity method	-	-	-	2,711	2,711
Currency translation differences	-	-	647,370	-	647,370
<b>As of June 30, 2020</b>	<b>20</b>	<b>2,821,507</b>	<b>(6,791,644)</b>	<b>(166,748)</b>	<b>(4,136,865)</b>
As of January 1, 2019	20	2,594,722	(8,118,061)	(218,028)	(5,741,347)
Share-based compensation expenses	-	952,221	-	-	952,221
Exercise of option and RSU vesting	-	(1,126,859)	-	-	(1,126,859)
Currency translation differences	-	-	47,967	-	47,967
<b>As of June 30, 2019</b>	<b>20</b>	<b>2,420,084</b>	<b>(8,070,094)</b>	<b>(218,028)</b>	<b>(5,868,018)</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 24 DEFERRED REVENUES

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
<b>Non-current</b>		
Business cooperation agreement with Maoyan	277,833	388,967
Others	<u>2,708</u>	<u>61</u>
	<u>280,541</u>	<u>389,028</u>
<b>Current</b>		
Online marketing services	3,909,155	4,299,191
Business cooperation agreement with Maoyan	222,267	222,267
Mobike monthly pass	39,204	44,010
Others	<u>625</u>	<u>1,703</u>
	<u>4,171,251</u>	<u>4,567,171</u>
	<u><u>4,451,792</u></u>	<u><u>4,956,199</u></u>

### 25 TRADE PAYABLES

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Trade payables	<u>7,332,014</u>	<u>6,766,253</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 25 TRADE PAYABLES (Continued)

As of June 30, 2020 and December 31, 2019, the aging analysis of the trade payables based on invoice date were as follows:

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Trade payables		
Up to 3 months	7,136,697	6,353,368
3 to 6 months	70,330	237,151
6 months to 1 year	59,233	119,630
Over 1 year	65,754	56,104
	<u>7,332,014</u>	<u>6,766,253</u>

The majority of the Group's trade payables were denominated in RMB.

### 26 OTHER PAYABLES AND ACCRUALS

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
Salaries and benefits payable	2,304,821	2,881,176
Other tax payable	2,195,421	881,567
Deposits	2,024,130	1,803,783
Amounts due to related parties (Note 31)	461,667	351,249
Amounts collected for third parties	414,846	312,191
Accrued expenses	193,262	205,715
Advances from customers	91,251	104,252
Payables for acquisition	61,364	55,718
Others	745,450	641,761
	<u>8,492,212</u>	<u>7,237,412</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 27 BORROWINGS

	Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
<b>Included in non-current liabilities</b>		
Asset-backed securities (b)	–	466,676
<b>Included in current liabilities</b>		
Bank loan – unsecured (a)	3,117,000	3,190,000
Asset-backed securities (b)	206,694	362,587
	<b>3,323,694</b>	<b>3,552,587</b>

- (a) As of June 30, 2020, the balance of bank borrowing is RMB3.1 billion, and bear annual average interest rate of 4.134% (2019: 5.199%).

For the six months ended June 30, 2020, the weighted average effective interest rate for bank borrowings was 4.520% (2019: 5.242%).

- (b) Asset-backed securities (“ABS”) of RMB467 million as of December 31, 2019 were reclassified to current liabilities, and no new ABS were issued during the six months ended June 30, 2020. ABS of RMB207 million will be repayable within one year as of June 30, 2020.

### 28 SHARE-BASED PAYMENTS

For background of share-based payments, please refer to the 2019 Financial Statements.

On October 6, 2015, the board of Directors of the Company approved the establishment of the Company’s 2015 Share Incentive Plan (“2015 Share Incentive Plan”), an equity-settled share-based compensation plan with the purpose of attracting, motivating, retaining and rewarding certain employees, consultants, and Directors. The 2015 Share Incentive Plan is valid and effective for 10 years from the date of approval by the board of Directors. The Group has reserved 598,483,347 ordinary shares under the 2015 Share Incentive Plan, and permits the awards of options and RSUs of the Company’s ordinary shares.

All the share options and RSUs under the 2015 Share Incentive Plan were granted between May 31, 2006 and August 2, 2018 and the Company will not grant further share options and RSUs under the 2015 Share Incentive Plan after the Listing.



28 SHARE-BASED PAYMENTS *(Continued)*

On August 30, 2018, a new share option scheme (“**Post-IPO Share Option Scheme**”) and a new share award scheme (“**Post-IPO Share Award Scheme**”) had been approved by the shareholders of the Company. The total number of Class B Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 475,568,628 Class B Shares. The aggregate number of Class B Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 272,336,228 Shares without Shareholders’ approval (the “**Post-IPO Share Award Scheme Limit**”) subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

As of June 30, 2020, the Group has authorised and reserved a total of 680,377,705 ordinary shares under the 2015 Share Incentive Plan, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme for awards of options and RSUs of the Company’s ordinary shares.

**Share options**

Options granted typically expire in 10 years from the respective grant dates. For previously granted options that were near its expiration date (i.e., 10 years after grant date) in 2018 and 2019, their expiration date was extended to October 5, 2025. The options have graded vesting terms, and vest in tranches from the grant date over 4 years, on condition that employees remain in service without any performance requirements.

The options may be exercised at any time after they have vested subject to the terms of the award agreement and are exercisable for a maximum period of 10 years after the date of grant.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 28 SHARE-BASED PAYMENTS *(Continued)*

#### Share options *(Continued)*

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Unaudited	
	Number of share options	Weighted average exercise price per share option (HKD)
Outstanding as of January 1, 2020	73,710,007	27.81
Granted during the period	1,356,000	100.15
Forfeited during the period	(3,537,717)	34.04
Exercised during the period	(12,532,358)	24.21
	<hr/>	<hr/>
Outstanding as of June 30, 2020	58,995,932	29.86
Vested and exercisable as of June 30, 2020	31,130,114	23.69
	<hr/>	<hr/>
Outstanding as of January 1, 2019	116,321,663	22.69
Forfeited during the period	(6,850,099)	25.75
Exercised during the period	(22,103,782)	9.00
	<hr/>	<hr/>
Outstanding as of June 30, 2019	87,367,782	25.98
Vested and exercisable as of June 30, 2019	38,131,937	19.33
	<hr/>	<hr/>

The weighted average remaining contractual life of outstanding share options was 7 years and 7 years as of June 30, 2020 and December 31, 2019, respectively. The weighted average price of the shares at the time these options were exercised was HKD120.66 per share (equivalent to approximately RMB109.47 per share) for the six months ended June 30, 2020.

## 28 SHARE-BASED PAYMENTS (Continued)

**Fair value of share options**

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted option-pricing model and equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Black-Scholes model to determine the fair value of the share option as of the grant date. Key assumptions for the six months ended June 30, 2020 are set as below. There was no option granted for the six months ended June 30, 2019.

	<b>Unaudited Six months ended June 30, 2020</b>
Risk-free interest rates	0.52%
Expected term – years	6.4
Expected volatility	45%
Fair value of ordinary shares (HKD)	43.20
Exercise price (HKD)	100.15
Dividend yield	–

The weighted average fair value of granted options was HKD43.20 per share, for the six months ended June 30, 2020.

**RSUs**

The Company also grants RSUs to the Company's employees, consultants, and Directors under the 2015 Share Incentive Plan and Post-IPO Share Awards Plan. The RSUs awarded vest in tranches from the grant date over a certain service period, on condition that employees remain in service without any performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 28 SHARE-BASED PAYMENTS *(Continued)*

#### RSUs *(Continued)*

Movements in the number of RSUs granted and the respective weighted average grant date fair value are as follows:

	Unaudited	
	Number of RSUs	Weighted average grant date fair value per RSU (HKD)
Outstanding as of January 1, 2020	142,875,991	47.26
Granted during the period	15,318,466	103.08
Vested during the period	(39,407,464)	43.60
Forfeited during the period	(6,690,306)	42.95
Outstanding as of June 30, 2020	<u>112,096,687</u>	<u>56.25</u>
Outstanding as of January 1, 2019	164,133,960	35.87
Granted during the period	3,497,792	53.85
Vested during the period	(33,212,125)	31.70
Forfeited during the period	(15,398,732)	42.73
Outstanding as of June 30, 2019	<u>119,020,895</u>	<u>36.79</u>

The fair value of each RSU at the grant dates is determined by reference to the fair value of the underlying ordinary shares on the date of grant.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 28 SHARE-BASED PAYMENTS *(Continued)*

#### RSUs *(Continued)*

The total share-based compensation expenses recognized in the consolidated income statement are RMB1,397 million and RMB954 million for the six months ended June 30, 2020 and 2019, respectively. The following table sets forth a breakdown of the share-based compensation expenses by nature:

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
Share options	74,121	154,602
RSUs	1,319,666	797,619
Others	3,309	1,348
	<b>1,397,096</b>	<b>953,569</b>

### 29 DIVIDENDS

No dividends have been paid or declared by the Company during each of the six months ended June 30, 2020 and 2019.

### 30 COMMITMENTS

#### Capital commitments

	Unaudited	Audited
	As of	As of
	June 30,	December 31,
	2020	2019
	RMB' 000	RMB' 000
Property, plant and equipment	1,403,301	23,749
Investments	689,796	-
	<b>2,093,097</b>	<b>23,749</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

#### (a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions with the Group during the six months ended June 30, 2020 and 2019, and/or balances with the Group as of June 30, 2020 and December 31, 2019.

Name of related parties	Relationship
Tencent Group	One of the Company's shareholders
Changsha Xiangjiang Longzhu Private Equity Investment Fund Enterprise (Limited Partnership)	Associate of the Group
Tianjin Maoyan and its subsidiaries	Associate of the Group
Jilin billion-Allians Bank Co., Ltd.	Associate of the Group
Beijing Wisdom Map Technology Co., Ltd.	Associate of the Group
Dalian Tongda Enterprise Management Co., Ltd.	Associate of the Group
Dalian Sen Cheng Logistics Co., Ltd.	Associate of the Group
Dalian Xiakesong Logistics Co., Ltd	Associate of the Group
AsiaSea Co., Ltd.	Associate of the Group
Acewill information Technology (Beijing) Co., Ltd.	Associate of the Group
Hefei Haizhitun Technology Co., Ltd.	Associate of the Group

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Significant transactions with related parties

		Unaudited Six months ended June 30,	
		2020 RMB' 000	2019 RMB' 000
(i)	Sales of service		
	Associate of the Group	479,447	484,882
	One of the Company's shareholders	2,965	-
		<u>482,412</u>	<u>484,882</u>
(ii)	Purchase of goods and service		
	One of the Company's shareholders	708,627	733,807
	Associate of the Group	335,377	233,556
		<u>1,044,004</u>	<u>967,363</u>

#### (c) Balances with related parties

		Unaudited As of June 30, 2020 RMB' 000	Audited As of December 31, 2019 RMB' 000
(i)	Other receivables from related parties		
	Associate of the Group	461,270	290,917
	One of the Company's shareholders	32,476	33,824
		<u>493,746</u>	<u>324,741</u>
(ii)	Other payables to related parties		
	Associate of the Group	355,021	271,702
	One of the Company's shareholders	106,646	79,547
		<u>461,667</u>	<u>351,249</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 31 RELATED PARTY TRANSACTIONS *(Continued)*

#### (d) Key management compensation

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
Fees	751	744
Basic salaries	6,360	6,361
Bonuses	6,360	6,360
Pension costs and other employee benefits	248	385
Share-based compensation expenses	166,718	240,711
Others	62	189
	<u>180,499</u>	<u>254,750</u>

### 32 CONTINGENCIES

The Group did not have any material contingent liabilities as of June 30, 2020.

### 33 SUBSEQUENT EVENTS

On July 1, 2020, the Group invested US\$500 million to acquire approximately 15% of the convertible redeemable preferred shares of Li Auto Inc. ("Li Auto"). On July 30, 2020, Li Auto was successfully listed on Nasdaq, and all the convertible redeemable preferred shares held by the Group were automatically converted into Li Auto's Class A ordinary shares. The Group also entered into a share subscription agreement to make an additional investment of US\$300 million in Class A ordinary shares of Li Auto in the concurrent private placement of the global offering.



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