



Meituan Dianping

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

Stock Code: 3690



2020 Interim Report



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Wang Xing (王興) (*Chairman of the Board*)

Mu Rongjun (穆榮均)

Wang Huiwen (王慧文)

Non-Executive Directors

Lau Chi Ping Martin (劉熾平)

Neil Nanpeng Shen (沈南鵬)

Independent Non-Executive Directors

Orr Gordon Robert Halyburton

Leng Xuesong (冷雪松)

Shum Heung Yeung Harry (沈向洋)

AUDIT COMMITTEE

Orr Gordon Robert Halyburton (*Chairman*)

Leng Xuesong (冷雪松)

Shum Heung Yeung Harry (沈向洋)

REMUNERATION COMMITTEE

Leng Xuesong (冷雪松) (*Chairman*)

Shum Heung Yeung Harry (沈向洋)

Mu Rongjun (穆榮均)

NOMINATION COMMITTEE

Leng Xuesong (冷雪松) (*Chairman*)

Shum Heung Yeung Harry (沈向洋)

Wang Huiwen (王慧文)

CORPORATE GOVERNANCE COMMITTEE

Leng Xuesong (冷雪松) (*Chairman*)

Shum Heung Yeung Harry (沈向洋)

Orr Gordon Robert Halyburton

JOINT COMPANY SECRETARIES

Xu Sijia (徐思嘉)

Lau Yee Wa (劉綺華)

AUTHORIZED REPRESENTATIVES

Wang Xing (王興)

Wang Huiwen (王慧文)

AUDITOR

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*Certified Public Accountants and
Registered PIE Auditor*
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

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COMPANY WEBSITE

about.meituan.com

KEY HIGHLIGHTS

FINANCIAL SUMMARY

	Unaudited				
	Three Months Ended				
	June 30, 2020		June 30, 2019		Year-over-year change
Amount	As a percentage of revenues	Amount	As a percentage of revenues		
	<i>(RMB in thousands, except for percentages)</i>				
Revenues	24,721,837	100.0%	22,703,137	100.0%	8.9%
Operating profit	2,174,645	8.8%	1,112,578	4.9%	95.5%
Profit for the period	2,210,181	8.9%	875,828	3.9%	152.4%
Non-IFRS Measures:					
Adjusted EBITDA	2,610,255	10.6%	2,330,809	10.3%	12.0%
Adjusted net profit	2,718,478	11.0%	1,493,546	6.6%	82.0%

	Unaudited				
	Six Months Ended				
	June 30, 2020		June 30, 2019		Year-over-year change
Amount	As a percentage of revenues	Amount	As a percentage of revenues		
	<i>(RMB in thousands, except for percentages)</i>				
Revenues	41,475,724	100.0%	41,876,649	100.0%	(1.0%)
Operating profit/(loss)	459,115	1.1%	(191,064)	(0.5%)	NA
Profit/(loss) for the period	630,903	1.5%	(557,502)	(1.3%)	NA
Non-IFRS Measures:					
Adjusted EBITDA	2,651,566	6.4%	2,789,683	6.7%	(5.0%)
Adjusted net profit	2,502,130	6.0%	444,417	1.1%	463.0%

FINANCIAL INFORMATION BY SEGMENT

	Unaudited		Year-over-year change
	Three Months Ended		
	June 30, 2020	June 30, 2019	
<i>(RMB in thousands, except for percentages)</i>			
Revenues:			
Food delivery	14,544,095	12,844,720	13.2%
In-store, hotel & travel	4,543,982	5,245,308	(13.4%)
New initiatives and others	5,633,760	4,613,109	22.1%
Total revenues	24,721,837	22,703,137	8.9%
Operating profit/(loss):			
Food delivery	1,253,421	756,347	65.7%
In-store, hotel & travel	1,891,563	2,147,499	(11.9%)
New initiatives and others	(1,459,539)	(1,645,735)	(11.3%)
Unallocated items ¹	489,200	(145,533)	NA
Total operating profit	2,174,645	1,112,578	95.5%

	Unaudited		Year-over-year change
	Six Months Ended		
	June 30, 2020	June 30, 2019	
<i>(RMB in thousands, except for percentages)</i>			
Revenues:			
Food delivery	24,034,518	23,550,523	2.1%
In-store, hotel & travel	7,638,960	9,737,410	(21.6%)
New initiatives and others	9,802,246	8,588,716	14.1%
Total revenues	41,475,724	41,876,649	(1.0%)
Operating profit/(loss):			
Food delivery	1,182,540	602,144	96.4%
In-store, hotel & travel	2,571,742	3,740,377	(31.2%)
New initiatives and others	(2,823,256)	(4,228,859)	(33.2%)
Unallocated items	(471,911)	(304,726)	54.9%
Total operating profit/(loss)	459,115	(191,064)	NA

¹ Unallocated 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.

KEY HIGHLIGHTS

OPERATING METRICS

	Twelve Months Ended		
	June 30, 2020	June 30, 2019	Year-over- year change
	<i>(in millions, except for percentages)</i>		
Number of Transacting Users	457.3	422.6	8.2%
Number of Active Merchants	6.3	5.9	6.7%
	<i>(units, except for percentages)</i>		
Average number of transactions per annual Transacting User	25.7	25.5	0.5%
	Three Months Ended		
	June 30, 2020	June 30, 2019	Year-over- year change
	<i>(in millions, except for percentages)</i>		
Gross Transaction Volume of food delivery	108,827.1	93,082.3	16.9%
Number of food delivery transactions	2,228.9	2,085.1	6.9%
Number of domestic hotel room nights	78.0	94.0	(17.0%)

To our Shareholders:

Since the beginning of this year, the world has been profoundly impacted by the outbreak of COVID-19, causing significant disruptions to people's daily lives and local commerce. We are very grateful that during the pandemic, our platform helped to ensure adequate food and necessity supply for consumers, supported local merchants to weather the storm, and contributed to the broader economic recovery. Our social responsibility was built in our mission that "we help people eat better, live better", since the day we founded the company. During the past six months, despite all the challenges and negative impacts that we faced, our business demonstrated resilience and strong recovery. In addition, we upgraded our product and service offerings, further optimized our on-demand delivery network, and continued to innovate.

Digitization for the local service industry is an inevitable trend. We help consumers and merchants to better adapt to the new era, and we are pleased to witness the transformation that it brings along the course. Thanks to our relentless investment with a long-term perspective, we have successfully established the world largest on-demand delivery network, which has become an indispensable infrastructure for the entire society nowadays. Our leading e-commerce platform has facilitated millions of business owners to improve efficiency through advanced operational tools and marketing solutions. Our consumers not only enjoy convenient food delivery services, but also gradually cultivated habits to order grocery and many other things besides food online. As a result, we reaffirmed our determination to improve the platform capabilities, enable local merchants to achieve sustainable growth, provide consumers with more pleasant experience, and reinforce our ecosystem to bring maximum value to the society.

On behalf of the Board, I am pleased to present the Group's interim results for the six months ended June 30, 2020.

BUSINESS REVIEW AND OUTLOOK

Company Financial Highlights

Total revenues for the second quarter of 2020 increased by 8.9% year-over-year to RMB24.7 billion from RMB22.7 billion for the same period of 2019. Operating profit improved to RMB2.2 billion in the second quarter of 2020, increasing by 95.5% year-over-year, while operating margin increased from 4.9% to 8.8%. Both adjusted EBITDA and adjusted net profit experienced positive year-over-year growth and improved to RMB2.6 billion and RMB2.7 billion, respectively. Our operating cash flow also turned to positive RMB5.6 billion for the second quarter of 2020 from negative RMB5.0 billion for the first quarter of 2020. We had cash and cash equivalents of RMB13.9 billion and short-term investments of RMB44.5 billion as of June 30, 2020, compared to the balances of RMB14.1 billion and RMB42.4 billion, respectively, as of March 31, 2020.

Company Business Highlights

Food delivery

For the second quarter of 2020, GTV of our food delivery business increased by 16.9% year-over-year to RMB108.8 billion. The daily average number of food delivery transactions increased by 6.9% year-over-year to 24.5 million. The average value per order of our food delivery business increased by 9.4% year-over-year. Monetization rate of our food delivery business decreased to 13.4% for the second quarter of 2020 from 13.8% for the same period of 2019. As a result, revenues of food delivery business increased by 13.2% year-over-year to RMB14.5 billion for the second quarter of 2020. Operating profit from our food delivery business turned to positive RMB1.3 billion for the second quarter of 2020, compared to operating loss of RMB70.9 million for the first quarter of 2020, while operating margin turned to positive 8.6% from negative 0.7%. Moreover, operating profit from the food delivery business increased by 65.7% year-over-year, while operating margin improved by 2.7 percentage points year-over-year.

Despite the pandemic's continuous impact, we further demonstrated the unique competitiveness of our business model and validated the essential needs for food delivery services from both consumers and merchants. Especially, our immediate response to the COVID-19 new cases that occurred in Beijing showcased our increasing experience in managing the recurring outbreaks of COVID-19. To ensure the safety of our delivery riders and consumers, among other measures, we immediately organized nucleic acid testing for all of our delivery riders in Beijing, expanded the use of "intelligent lockers" in the city, and further upgraded our contactless delivery process. For merchants, we rolled out targeted support and commission rebate programs to help them better survive the COVID-19 new cases that occurred in Beijing. We also created a portal for merchants to upload their green COVID-19 testing results so as to provide consumers with extra food safety assurance.

In the second quarter of 2020, we continued to launch various promotional campaigns to stimulate the recovery of our food delivery business. For example, we rolled out the "June 18 Food Delivery Festival" and engaged around 4,000 reputable restaurants and brands to provide consumers with a wide variety of attractive promotions in the period. We were also spot-on in identifying consumers' behavioral changes and used targeted promotions to actively increase the consumption of afternoon tea and late-night snacks. Moreover, we have further stepped up the portion of subsidies allocated to targeted repeat consumers through our effective food delivery membership program. As a result, the order volume of our food delivery business experienced positive year-over-year growth in the second quarter of 2020, with the daily average number of food delivery transactions increasing by 6.9% year-over-year to 24.5 million.

On the merchant side, a further recovery in merchant operation and consumer consumption led to the strong marketing demand from merchants in the second quarter of 2020. Meanwhile, the pandemic has accelerated the restaurants' online migration, increasing the mix of high-quality merchants on our platform during the period. Notably, the number of newly-onboard branded merchants increased by more than 110% in the second quarter as compared to the prior year period. Their increased demand for online traffic has accelerated their adoption of our online marketing services. As a result, online marketing services revenues experienced rapid growth in the second quarter of 2020, increased by 62.2% year-over-year.

On the delivery front, we further improved our delivery efficiency in the second quarter of 2020, attributable to the refinement of our proprietary dispatching system algorithms and the continuous improvement of the operation of our delivery network. In addition, the sufficient delivery capacity and the favorable weather condition across the country enabled us to reduce the amount of seasonal incentives paid to delivery riders on a quarter-over-quarter basis. These factors together have allowed us to better control delivery cost per order on both a quarter-over-quarter and a year-over-year basis. Meantime, the importance of our on-demand delivery network as a critical component of society's broader logistical infrastructure has been substantially elevated post the outbreak of COVID-19. Our delivery network helped to ensure continuity in people's daily lives during the pandemic and served as a stabilizing force for society by creating abundant employment opportunities. We will continue to explore diversified delivery models and invest in the cutting-edge technology for autonomous delivery to further improve our operating efficiency and enlarge our capacity while striving to serve the needs of our merchants and consumers in more service categories.

In-store, hotel & travel

Revenues from our in-store, hotel & travel businesses decreased by 13.4% year-over-year to RMB4.5 billion in the second quarter of 2020. Operating profit of our in-store, hotel & travel businesses decreased by 11.9% year-over-year, but increased by 178.1% quarter-over-quarter to RMB1.9 billion in the second quarter of 2020, while operating margin increased by 0.7 percentage points year-over-year and by 19.6 percentage points quarter-over-quarter to 41.6%.

During the second quarter of 2020, the in-store segment continued to recover at a slower pace than the food delivery business as consumers needed more time to rebuild confidence in certain discretionary in-store consumptions. In order to stimulate local services consumption and restore local economies, we cooperated with local governments to launch the "Safe Consumption Festival" in more than 60 cities and issued e-Vouchers during this quarter. These e-Vouchers were mainly for in-store dining initially, but we have since expanded them to cover hotels, shopping, and other local services. We also launched a series of promotional campaigns in the second quarter of 2020, including Labour Day promotions, Dragon Boat Festival promotions, and June 18 Marketing Festival promotions. These events covered all the aspects of our in-store services and helped to accelerate our collaborations with popular merchant brands to further improve our merchant base and offer consumers a wider variety of choices in turn. As a result, the recovery of transaction volume and merchants' marketing demand of our in-store segment was on the right track. The year-over-year decline in commission revenues and online marketing services revenues were significantly narrowed from the first quarter of 2020. Moreover, we published a new 2020 version of our reputable "Must List Series." This series has evolved into a comprehensive and professional local services guide over the years. During the COVID-19 pandemic, we noticed that consumers became more price-sensitive and conscious of hygiene factors, which further compounded the ability of our trusted Must List Series (2020 new version) to attract user traffic and guide consumers to quality merchants. It also created a positive feedback loop for merchants to upgrade their services and better meet the emerging needs of consumers.

CHAIRMAN'S STATEMENT

Our hotel business continued to be significantly affected by the pandemic, with the number of domestic room nights consumed on our platform in the second quarter of 2020 decreasing by 17% year-over-year. Nevertheless, we kept increasing our partnership with more hotels via our “Safe Stay” program to provide travelers with accommodation options that are more conducive to their desires and the quarantine environment. Meantime, in light of the increasing demand for intra-city and short-distance local travel, we also launched the “Safe Travel” program to help expedite the recovery of the industry. More notably, the pace of development for our high-star hotel partnerships also picked up, and we established a significant increase in relationships with these types of hotels in the second quarter of 2020 by increasing their non-lodging revenues through our “hotel + x” program. As a result, the contribution from high-end hotels further increased year-over-year.

New initiatives and others

Revenues from the new initiatives and others segment increased by 22.1% year-over-year to RMB5.6 billion in the second quarter of 2020. On a sequential basis, operating loss from the new initiatives and others segment expanded by 7.0% to RMB1.5 billion for the second quarter of 2020 from RMB1.4 billion for the first quarter of 2020, while operating margin improved by 6.8 percentage points to negative 25.9% for the second quarter of 2020 from negative 32.7% for the first quarter of 2020. Operating loss from the new initiatives and others segment narrowed by 11.3% on a year-over-year basis, while operating margin improved by 9.8 percentage points year-over-year.

The COVID-19 pandemic was a catalyst for several of our new initiatives, and we saw a noticeable shift in the online shopping behavior on the consumer side and accelerated online penetration of traditional offline service businesses during the pandemic. During the second quarter of 2020, we maintained the rapid expansion of our key businesses, especially grocery retail business. Our marketplace model “Meituan Instashopping” achieved stellar revenue growth during the second quarter of 2020 on a year-over-year basis as we expanded our product variety and SKU categories to significantly grow our merchant base. “Caidaquan,” our relatively nascent fresh produce-focused brand under “Meituan Instashopping,” enabled more than 300 traditional wet markets to sell online and operate digitally. Our self-operated model, “Meituan Grocery,” not only significantly expanded its coverage in key cities, such as Beijing and Shenzhen, but also began operations in new cities, such as Guangzhou, in July 2020. During the second quarter of 2020, we also established a new business division for community group purchase services, rolling out the “Meituan Selected” service brand accordingly in Jinan, Shandong in July 2020, which offers carefully selected fresh produce and daily necessities at attractive prices for local consumers living in different communities. Group leaders are appointed by us in each community to promote our discounted grocery products via WeChat groups. Group members can place orders through our WeChat Mini Program and pick up their products the next day at self-pickup points located in nearby convenience stores.

For bike-sharing services, we replaced around 1.5 million old bikes with new “Meituan Bikes” during the second quarter of 2020. The average turnover rate per bike improved incrementally and the unit economics also improved. Additionally, we launched more than 290,000 electric bikes. During this period, the average turnover rate per electric bike achieved better unit economics as compared to traditional bikes and demonstrated a clear path to independent profitability.

APPRECIATION

As we enter the second half of 2020, uncertainty remains ahead. However, we are more confident than ever before that we will be able to navigate through hard times and obstacles, as our perseverance and capability have already been proven. I shall start with my appreciation for all of our employees, consumers, merchants, delivery riders and business partners for their diligence and contribution. Also, I would like to express my sincere gratitude to our shareholders and stakeholders for their continuous support and trust. Going forward, we will continue to build and develop the infrastructure for services, continue to enhance our products and solutions, continue to invest resources in technology innovations, and continue to support the advancement of the whole society.

Wang Xing

Chairman

Hong Kong, August 21, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

1. SECOND QUARTER OF 2020 COMPARED TO SECOND QUARTER OF 2019

The following table sets forth the comparative figures for the second quarter of 2020 and 2019:

	Unaudited	
	Three Months Ended	
	June 30, 2020	June 30, 2019
	<i>(RMB in thousands)</i>	
Revenues		
Commission	15,911,364	15,429,574
Online marketing services	4,323,011	3,632,236
Interest revenue	201,730	201,883
Other services and sales	4,285,732	3,439,444
	<u>24,721,837</u>	<u>22,703,137</u>
Cost of revenues	<u>(16,146,879)</u>	<u>(14,762,502)</u>
Gross profit	8,574,958	7,940,635
Selling and marketing expenses	(4,172,332)	(4,149,110)
Research and development expenses	(2,376,737)	(2,032,330)
General and administrative expenses	(1,158,092)	(1,038,298)
Net provision for impairment losses on financial assets	(45,676)	(138,711)
Fair value changes on other financial investments at fair value through profit or loss	346,689	(323,651)
Other gains, net	<u>1,005,835</u>	<u>854,043</u>
Operating profit	2,174,645	1,112,578
Finance income	40,352	21,541
Finance costs	(60,731)	(50,115)
Share of gains of investments accounted for using equity method	<u>42,881</u>	<u>17,848</u>
Profit before income tax	2,197,147	1,101,852
Income tax credits/(expenses)	<u>13,034</u>	<u>(226,024)</u>
Profit for the period	<u><u>2,210,181</u></u>	<u><u>875,828</u></u>
Non-IFRS measures:		
Adjusted EBITDA	2,610,255	2,330,809
Adjusted net profit	2,718,478	1,493,546

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

Our revenues increased by 8.9% to RMB24.7 billion for the second quarter of 2020 from RMB22.7 billion for the same period of 2019. The increase was mainly driven by the solid revenue growth of our food delivery business and robust revenue growth of our new initiatives.

The following table sets forth our revenues by segment and type in absolute amount for the second quarter of 2020 and 2019:

Unaudited				
Three Months Ended June 30, 2020				
	Food delivery	In-store, hotel & travel	New initiatives and others	Total
<i>(RMB in thousands)</i>				
Revenues				
Commission	12,719,014	2,092,858	1,099,492	15,911,364
Online marketing services	1,795,740	2,445,305	81,966	4,323,011
Other services and sales (including interest revenue)	29,341	5,819	4,452,302	4,487,462
Total	14,544,095	4,543,982	5,633,760	24,721,837
Unaudited				
Three Months Ended June 30, 2019				
	Food delivery	In-store, hotel & travel	New initiatives and others	Total
<i>(RMB in thousands)</i>				
Revenues				
Commission	11,711,634	2,742,867	975,073	15,429,574
Online marketing services	1,107,070	2,478,018	47,148	3,632,236
Other services and sales (including interest revenue)	26,016	24,423	3,590,888	3,641,327
Total	12,844,720	5,245,308	4,613,109	22,703,137

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenues from the food delivery segment increased by 13.2% to RMB14.5 billion for the second quarter of 2020 from RMB12.8 billion for the same period of 2019. Commission revenues increased by 8.6% to RMB12.7 billion as a result of: (i) the increase in Gross Transaction Volume, which was driven by the increase in both order volume by 6.9% and average order value by 9.4% year-over-year as more Transacting Users ordered with higher ticket size or from branded restaurants, and (ii) the decrease in Monetization rate by 0.4 percentage points to 13.4% due to increased subsidies to Transacting Users and higher portion of orders from branded merchants on our platform. Online marketing services revenues increased by 62.2% to RMB1.8 billion, primarily due to the increase in the number of online marketing Active Merchants and the revenue contributed by each merchant.

Our revenues from the in-store, hotel & travel segment decreased by 13.4% to RMB4.5 billion for the second quarter of 2020 from RMB5.2 billion for the same period of 2019, mainly due to the decrease in commission revenues as the in-store dining, hotel and travel sectors had not fully recovered from the epidemic yet.

Our revenues from the new initiatives and others segment increased by 22.1% to RMB5.6 billion for the second quarter of 2020 from RMB4.6 billion for the same period of 2019, mainly due to the increase in revenues from the B2B food distribution services, micro loan business, Meituan Grocery and Meituan Instashopping as we expanded these businesses to satisfy customers' growing needs, partially offset by the decrease in revenues from car-hailing services as customers commuted less under the crowd control policies and the decrease in revenues from the restaurant management systems.

Costs and Expenses

The following table sets forth a breakdown of our costs and expenses by function for the periods indicated:

	Unaudited		Three Months Ended		Year-over-year change
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	
<i>(RMB in thousands, except for percentages)</i>					
Costs and Expenses:					
Cost of revenues	16,146,879	65.3%	14,762,502	65.0%	9.4%
Selling and marketing expenses	4,172,332	16.9%	4,149,110	18.3%	0.6%
Research and development expenses	2,376,737	9.6%	2,032,330	9.0%	16.9%
General and administrative expenses	1,158,092	4.7%	1,038,298	4.6%	11.5%
Net provision for impairment losses on financial assets	45,676	0.2%	138,711	0.6%	(67.1%)

Cost of Revenues

Our cost of revenues increased by 9.4% to RMB16.1 billion for the second quarter of 2020 from RMB14.8 billion for the same period of 2019, and remained flat as a percentage of revenues on a year-over-year basis. The increase in amount was primarily attributable to the increase of RMB727.3 million in food delivery rider costs, and the increase of RMB572.4 million in cost of goods sold due to the growth of our food delivery business, Meituan Instashopping, Meituan Grocery and B2B food distribution services, partially offset by the decrease of RMB347.1 million in car-hailing driver-related costs.

Selling and Marketing Expenses

Our selling and marketing expenses was RMB4.2 billion for the second quarter of 2020 and RMB4.1 billion for the same period of 2019, and decreased by 1.4 percentage points to 16.9% from 18.3% as a percentage of revenues on a year-over-year basis. The RMB109.8 million increase in promotion and advertising expenses, mainly driven by our enlarged promotional campaigns, was partially offset by the RMB92.8 million decrease in Transacting User incentives across various businesses. 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 to RMB2.4 billion for the second quarter of 2020 from RMB2.0 billion for the same period of 2019, and increased by 0.6 percentage points to 9.6% from 9.0% as a percentage of revenues. The increase in both amount and as a percentage of revenues were mainly driven by the increase in the number of employees.

General and Administrative Expenses

Our general and administrative expenses increased to RMB1.2 billion for the second quarter of 2020 from RMB1.0 billion for the same period of 2019, and remained flat as a percentage of revenues on a year-over-year basis. The increase was mainly driven by the increase in the number of employees.

Net Provision for Impairment Losses on Financial Assets

Our net provision for impairment losses on financial assets decreased to RMB45.7 million for the second quarter of 2020 from RMB138.7 million for the same period of 2019, and decreased by 0.4 percentage points to 0.2% as a percentage of revenues year-over-year, primarily due to improved micro loan assets.

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

Our gain in fair value change on other financial investments at fair value through profit or loss was RMB346.7 million for the second quarter of 2020, compared to loss of RMB323.7 million for the second quarter of 2019. This was primarily due to the fair value change in one of our financial investments in listed entities.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Gains, Net

Our other gains, net for the second quarter of 2020 increased by RMB151.8 million to RMB1.0 billion compared to the same period of 2019, primarily due to the increase in tax return and preference, partially offset by the decline in gains from treasury investments, disposal and remeasurement of equity investments.

Operating Profit

As a result of the foregoing, our operating profit and operating margin for the second quarter of 2020 was RMB2.2 billion and 8.8% respectively, compared to RMB1.1 billion and 4.9% for the same period of 2019.

Operating profit and margin by segment are set forth in the table below.

	Unaudited				
	Three Months Ended				
	June 30, 2020		June 30, 2019		
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	Year-over- year change
	<i>(RMB in thousands, except for percentages)</i>				
Food delivery	1,253,421	8.6%	756,347	5.9%	65.7%
In-store, hotel & travel	1,891,563	41.6%	2,147,499	40.9%	(11.9%)
New initiatives and others	(1,459,539)	(25.9%)	(1,645,735)	(35.7%)	(11.3%)
Unallocated items	489,200	NA	(145,533)	NA	NA
Total operating profit	2,174,645	8.8%	1,112,578	4.9%	95.5%

Our operating profit from the food delivery segment increased to RMB1.3 billion for the second quarter of 2020 from RMB756.3 million for the same period of 2019, mainly driven by growth in revenues and gross profit. Our operating margin for this segment increased by 2.7 percentage points to 8.6% from 5.9% on a year-over-year basis mainly attributable to: (i) higher average order value as a result of the higher portion of orders from branded restaurants, slightly offset by the higher subsidies given to Transacting Users to drive order volume growth and (ii) the change in revenues mix as online marketing revenues contributed a higher percentage of revenues.

Our operating profit from the in-store, hotel & travel segment decreased by 11.9% to RMB1.9 billion for the second quarter of 2020 from RMB2.1 billion for the same period of 2019, mainly due to the decline in both commissions and online marketing revenues, partially offset by reduced Transacting User incentives and promotion and advertising expenses. Our operating margin for this segment increased by 0.7 percentage points to 41.6% from 40.9% on a year-over-year basis, mainly due to the decrease in Transacting User incentives resulting from the reduction of subsidies, partially offset by the increase in research and development expenses.

Our operating loss from the new initiatives and others segment narrowed to negative RMB1.5 billion for the second quarter of 2020 from negative RMB1.6 billion for the same period of 2019, primarily attributable to: (i) the decrease in operating loss from our bike-sharing services as Meituan Bikes had a longer life span and lower maintenance costs than the old bikes, and (ii) the increase in operating profit from the growth of micro loan business, partially offset by the increase in operating loss of our grocery retail business as a result of business expansion and the increase in loss from some other new initiatives. Our operating margin for this segment narrowed to negative 25.9% from negative 35.7% on a year-over-year basis, primarily attributable to the improved operating margin from bike-sharing services, restaurant management system, and micro loan business.

Profit before Income Tax

Primarily as a result of the foregoing, our profit before income tax for the second quarter of 2020 was RMB2.2 billion, compared to a profit of RMB1.1 billion for the same period of 2019.

Income Tax Credits/(Expenses)

We had income tax credits of RMB13.0 million for the second quarter of 2020, compared to income tax expenses of RMB226.0 million for the same period of 2019, primarily due to the decrease in profits from certain entities on a year-over-year basis.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.2 billion for the second quarter of 2020, compared to a profit of RMB875.8 million for the same period of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

2. SECOND QUARTER OF 2020 COMPARED TO FIRST QUARTER OF 2020

The following table sets forth the comparative figures for the second quarter of 2020 and the first quarter of 2020:

	Unaudited	
	Three Months Ended	
	June 30, 2020	March 31, 2020
	<i>(RMB in thousands)</i>	
Revenues		
Commission	15,911,364	10,800,101
Online marketing services	4,323,011	2,864,409
Interest revenue	201,730	212,145
Other services and sales	4,285,732	2,877,232
	<u>24,721,837</u>	<u>16,753,887</u>
Cost of revenues	<u>(16,146,879)</u>	<u>(11,557,421)</u>
Gross profit	8,574,958	5,196,466
Selling and marketing expenses	(4,172,332)	(3,199,439)
Research and development expenses	(2,376,737)	(2,296,458)
General and administrative expenses	(1,158,092)	(1,069,741)
Net provision for impairment losses on financial assets	(45,676)	(237,542)
Fair value changes on other financial investments at fair value through profit or loss	346,689	(508,261)
Other gains, net	<u>1,005,835</u>	<u>399,445</u>
Operating profit/(loss)	2,174,645	(1,715,530)
Finance income	40,352	57,930
Finance costs	(60,731)	(48,044)
Share of gains of investments accounted for using equity method	<u>42,881</u>	<u>11,128</u>
Profit/(loss) before income tax	2,197,147	(1,694,516)
Income tax credits	<u>13,034</u>	<u>115,238</u>
Profit/(loss) for the period	<u>2,210,181</u>	<u>(1,579,278)</u>
Non-IFRS measures:		
Adjusted EBITDA	2,610,255	41,311
Adjusted net profit/(loss)	2,718,478	(216,348)

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

Our revenues increased by 47.6% to RMB24.7 billion for the second quarter of 2020 from RMB16.8 billion for the first quarter of 2020. All major revenue streams started to recover along with the gradual recovery from the COVID-19 pandemic.

The following table sets forth our revenues by segment and type in absolute amount for the second quarter of 2020 and the first quarter of 2020:

	Unaudited			Total
	Three Months Ended June 30, 2020			
	Food delivery	In-store, hotel & travel	New initiatives and others	
	<i>(RMB in thousands)</i>			
Revenues				
Commission	12,719,014	2,092,858	1,099,492	15,911,364
Online marketing services	1,795,740	2,445,305	81,966	4,323,011
Other services and sales (including interest revenue)	29,341	5,819	4,452,302	4,487,462
Total	14,544,095	4,543,982	5,633,760	24,721,837

	Unaudited			Total
	Three Months Ended March 31, 2020			
	Food delivery	In-store, hotel & travel	New initiatives and others	
	<i>(RMB in thousands)</i>			
Revenues				
Commission	8,563,624	1,196,998	1,039,479	10,800,101
Online marketing services	919,519	1,886,831	58,059	2,864,409
Other services and sales (including interest revenue)	7,280	11,149	3,070,948	3,089,377
Total	9,490,423	3,094,978	4,168,486	16,753,887

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenues from the food delivery segment increased by 53.3% to RMB14.5 billion for the second quarter of 2020 from RMB9.5 billion for the first quarter of 2020. Commission revenues increased by 48.5% to RMB12.7 billion on a quarter-over-quarter basis, as a result of: (i) the increase in the number of food delivery transactions by 62.2%, driven by the increase in both food delivery user base and their purchase frequency, and (ii) the decrease in average order value by 6.1% caused by the resumption of small- and medium-sized merchants operations. Online marketing services revenues increased by 95.3% to RMB1.8 billion, primarily due to the increase in the number of online marketing Active Merchants and average revenue contributed by each merchant, driven by the increasing demand from merchants for online traffic during the recovery of the food delivery business.

Our revenues from the in-store, hotel & travel segment increased by 46.8% to RMB4.5 billion for the second quarter of 2020 from RMB3.1 billion for the first quarter of 2020. Commission revenues increased by 74.8% to RMB2.1 billion, driven by the recovery in consumers' in-store consumption. Online marketing service revenues increased by 29.6% to RMB2.4 billion due to increased spending on advertising by merchants as the pandemic became under control.

Our revenues from the new initiatives and others segment increased by 35.2% to RMB5.6 billion for the second quarter of 2020 from RMB4.2 billion for the first quarter of 2020, primarily due to the increase in the revenues from the B2B food distribution services, bike-sharing services, restaurant management systems, and car-hailing services, all of which were adversely affected by the pandemic in the first quarter of 2020, but gradually recovered in the second quarter of 2020.

Costs and Expenses

The following table sets forth a breakdown of our costs and expenses by function for the periods indicated:

	Unaudited				
	June 30, 2020		March 31, 2020		Quarter-over-quarter change
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	
<i>(RMB in thousands, except for percentages)</i>					
Costs and Expenses:					
Cost of revenues	16,146,879	65.3%	11,557,421	69.0%	39.7%
Selling and marketing expenses	4,172,332	16.9%	3,199,439	19.1%	30.4%
Research and development expenses	2,376,737	9.6%	2,296,458	13.7%	3.5%
General and administrative expenses	1,158,092	4.7%	1,069,741	6.4%	8.3%
Net provision for impairment losses					
on financial assets	45,676	0.2%	237,542	1.4%	(80.8%)

Cost of Revenues

Our cost of revenues increased by 39.7% to RMB16.1 billion for the second quarter of 2020 from RMB11.6 billion for the first quarter of 2020, but decreased to 65.3% from 69.0% as a percentage of revenues. The increase in amount was mainly attributable to: (i) the RMB3.0 billion increase in food delivery rider costs, which was driven by higher transaction volume, (ii) the RMB884.8 million increase in cost of goods sold, mainly driven by growth of B2B food distribution services, and (iii) the RMB184.7 million increase in payment processing costs. The decrease as a percentage of revenues on a quarter-over-quarter basis mainly resulted from: (i) improved gross margin of the food delivery business, driven by lower delivery cost per order, mainly due to lower delivery rider incentives under favorable weather conditions and the comparatively more sufficient capacity, (ii) improved gross margin of the in-store, hotel and travel segment due to improved operating leverage during the recovery of the pandemic, and (iii) lower gross margin due to revenues mix change of our new initiatives.

Selling and Marketing Expenses

Our selling and marketing expenses increased to RMB4.2 billion for the second quarter of 2020 from RMB3.2 billion for the first quarter of 2020, but decreased by 2.2 percentage points to 16.9% from 19.1% as a percentage of revenues on a quarter-over-quarter basis. The increase in amount was primarily attributable to: (i) the RMB693.1 million increase in Transacting User incentives across all major businesses as they gradually recovered from the pandemic, and (ii) the RMB164.1 million increase in promotion and advertising expenses due to enlarged promotional campaigns. The decrease as a percentage of revenues was mainly driven by the improved marketing efficiency and operating leverage.

Research and Development Expenses

Our research and development expenses increased to RMB2.4 billion for the second quarter of 2020 from RMB2.3 billion for the first quarter of 2020, but decreased by 4.1 percentage points to 9.6% from 13.7% as a percentage of revenues. The increase in amount was primarily attributable to increased employee benefits expenses driven by the increase in number of employees, but partially offset by the decrease in welfare expenses under the welfare relief policy. The decrease as a percentage of revenues was driven by the improved operating leverage.

General and Administrative Expenses

Our general and administrative expenses increased to RMB1.2 billion for the second quarter of 2020 from RMB1.1 billion for the first quarter of 2020, but decreased by 1.7 percentage points to 4.7% from 6.4% as a percentage of revenues. The increase in amount was primarily attributable to increased employee benefits expenses, driven by the increase in share-based compensation and the number of employees. The decrease as a percentage of revenues was driven by the improved operating leverage.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Provision for Impairment Losses on Financial Assets

Our net provision for impairment losses on financial assets decreased to RMB45.7 million for the second quarter of 2020 from RMB237.5 million for the first quarter of 2020, and decreased by 1.2 percentage points to 0.2% as a percentage of revenues, primarily due to the relief from impairment risk as the society gradually recovered from the pandemic.

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

Our gain in fair value change on other financial investments at fair value through profit or loss was RMB346.7 million for the second quarter of 2020, compared to loss of RMB508.3 million for the first quarter of 2020. This was primarily due to the fair value change in one of our financial investments in listed entities.

Other Gains, Net

Our other gains, net for the second quarter of 2020 increased by RMB606.4 million to RMB1.0 billion compared to the first quarter of 2020, mainly attributable to increased tax preference received in the second quarter of 2020 and a one-off donation to a special support fund that we made in the first quarter of 2020.

Operating Profit/(Loss)

As a result of the foregoing, our operating profit for the second quarter of 2020 was RMB2.2 billion, compared to an operating loss of RMB1.7 billion for the first quarter of 2020.

Operating profit/(loss) and operating margin by segment are set forth in the table below.

	Unaudited				
	June 30, 2020		March 31, 2020		Quarter-over-quarter change
	Amount	As a percentage of revenues	Amount	As a percentage of revenues	
	<i>(RMB in thousands, except for percentages)</i>				
Food delivery	1,253,421	8.6%	(70,881)	(0.7%)	NA
In-store, hotel & travel	1,891,563	41.6%	680,179	22.0%	178.1%
New initiatives and others	(1,459,539)	(25.9%)	(1,363,717)	(32.7%)	7.0%
Unallocated items	489,200	NA	(961,111)	NA	NA
Total operating profit/(loss)	2,174,645	8.8%	(1,715,530)	(10.2%)	NA

Our operating profit from the food delivery segment turned to positive RMB1.3 billion for the second quarter of 2020 from negative RMB70.9 million for the first quarter of 2020, mainly attributable to increase in gross profit, partially offset by the increase in Transacting User incentives. The operating margin for this segment turned to positive 8.6% from negative 0.7% on a quarter-over-quarter basis, mainly due to: (i) lower delivery cost as a result of higher delivery efficiency due to larger scale orders, less delivery rider incentives under favorable weather conditions and more sufficient delivery capacity, partially offset by lower average order value as more small- and medium-sized merchants resumed operations and (ii) revenue mix change as online marketing revenues contributed a higher percentage of revenues.

Our operating profit from the in-store, hotel & travel segment increased by 178.1% to RMB1.9 billion for the second quarter of 2020 from RMB680.2 million for the first quarter of 2020, mainly due to the increase in gross profit as a result of partial recovery from the pandemic. The operating margin for this segment increase by 19.6 percentage points to 41.6% on a quarter-over-quarter basis, mainly due to the improved marketing efficiency and operating leverage.

Our operating loss from the new initiatives and others segment expanded by 7.0% to negative RMB1.5 billion for the second quarter of 2020 from negative RMB1.4 billion for the first quarter of 2020, primarily attributable to: (i) the increase in operating loss from Meituan Grocery, driven by the decrease in average order value and increase in business volume, (ii) the increase in operating loss from Meituan Instashopping and car-hailing services due to increased Transacting User incentives, partially offset by (iii) the decrease in operating loss from restaurant management systems, as well as (iv) the increase in operating profit from micro loan business. The operating margin for this segment narrowed by 6.8 percentage points to negative 25.9% from negative 32.7% on a quarter-over-quarter basis, mainly due to: (i) the decrease in provision for impairment losses on financial assets, and (ii) the improved operating leverage.

Profit/(Loss) before Income Tax

Primarily as a result of the foregoing, our profit before income tax for the second quarter of 2020 was RMB2.2 billion, compared to a loss of RMB1.7 billion for the first quarter of 2020.

Income Tax Credits

We had income tax credits of RMB13.0 million for the second quarter of 2020, compared to income tax credits of RMB115.2 million for the first quarter of 2020, primarily due to the increase in profits from certain entities on a quarter-over-quarter basis.

Profit/(Loss) for the Period

As a result of the foregoing, we had a profit of RMB2.2 billion for the second quarter of 2020, compared to a loss of RMB1.6 billion for the first quarter of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

3. RECONCILIATION OF NON-IFRS MEASURES TO THE NEAREST IFRS MEASURES

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we also use adjusted EBITDA and adjusted net profit/(loss) 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 has limitations as an analytical tool, and one 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 tables set forth the reconciliations of our non-IFRS financial measures for the three months ended June 30, 2020 and 2019, the three months ended March 31, 2020, and the six months ended June 30, 2020 and 2019 to the nearest measures prepared in accordance with IFRS.

MANAGEMENT DISCUSSION AND ANALYSIS

	Unaudited		
	Three Months Ended		
	June 30, 2020	June 30, 2019	March 31, 2020
	<i>(RMB in thousands)</i>		
Profit/(loss) for the period	2,210,181	875,828	(1,579,278)
Adjusted for:			
Share-based compensation expenses	705,420	515,501	691,676
Fair value (gains)/losses on investments ⁽¹⁾	(347,393)	278,157	508,261
(Gains) on disposal of investments and subsidiaries	-	(160,884)	-
(Gains) from the remeasurement of investments	-	(176,880)	-
Amortization of intangible assets resulting from acquisitions	160,857	165,548	160,857
Impairment and expense reversal for Mobike restructuring plan	(2,953)	(5,124)	(238)
Tax effects on non-IFRS adjustments	(7,634)	1,400	2,374
Adjusted net profit/(loss)	2,718,478	1,493,546	(216,348)
Adjusted for:			
Income tax (credits)/expenses, except for tax effects on non-IFRS adjustments	(5,400)	224,624	(117,612)
Share of (gains) of investments accounted for using equity method	(42,881)	(17,848)	(11,128)
Finance income	(40,352)	(21,541)	(57,930)
Finance costs	60,731	50,115	48,044
Other (gains) except for (gains)/losses related to fair value change, disposal and remeasurement of investments and subsidiaries	(1,005,131)	(470,785)	(399,445)
Amortization of software and others	93,615	131,093	131,636
Depreciation on property, plant and equipment	831,195	941,605	664,094
Adjusted EBITDA	2,610,255	2,330,809	41,311

- (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, and (ii) dilution gain.

MANAGEMENT DISCUSSION AND ANALYSIS

	Unaudited	
	Six Months Ended	
	June 30, 2020	June 30, 2019
	<i>(RMB in thousands)</i>	
Profit/(loss) for the period	630,903	(557,502)
Adjusted for:		
Share-based compensation expenses	1,397,096	953,569
Fair value losses on investments	160,868	66,999
(Gains) on disposal of investments and subsidiaries	–	(159,394)
(Gains) from the remeasurement of investments	–	(176,880)
Amortization of intangible assets resulting from acquisitions	321,714	331,096
Impairment and expense reversal for Mobike restructuring plan	(3,191)	(5,124)
Tax effects on non-IFRS adjustments	(5,260)	(8,347)
Adjusted net profit	2,502,130	444,417
Adjusted for:		
Income tax (credits)/expenses, except for tax effects on non-IFRS adjustments	(123,012)	377,690
Share of (gains) of investments accounted for using equity method	(54,009)	(25,378)
Finance income	(98,282)	(74,463)
Finance costs	108,775	96,936
Other (gains) except for (gains)/losses related to fair value change, disposal and remeasurement of investments and subsidiaries	(1,404,576)	(705,540)
Amortization of software and others	225,251	262,004
Depreciation on property, plant and equipment	1,495,289	2,414,017
Adjusted EBITDA	2,651,566	2,789,683

4. LIQUIDITY AND CAPITAL RESOURCES

We had 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.

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

	Unaudited Three Months Ended June 30, 2020	Unaudited Six Months Ended June 30, 2020
	<i>(RMB in thousands)</i>	
Net cash generated from operating activities	5,584,234	545,338
Net cash (used in)/generated from investing activities	(4,934,774)	798,777
Net cash used in financing activities	(843,129)	(913,004)
Net (decrease)/increase in cash and cash equivalents	(193,669)	431,111
Cash and cash equivalents at the beginning of the period	14,137,828	13,396,185
Exchange (loss)/gain on cash and cash equivalents	(9,103)	107,760
Cash and cash equivalents at the end of the period	13,935,056	13,935,056

Net Cash Generated from 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 for the second quarter of 2020, as adjusted by non-cash items and changes in working capital.

For the second quarter of 2020, net cash generated from operating activities was RMB5.6 billion, which was primarily attributable to our profit before income tax of RMB2.2 billion, as adjusted by (i) non-cash items, which primarily comprised depreciation and amortization of RMB1.1 billion, and share-based payments of RMB705.4 million, and (ii) changes in working capital, which primarily comprised an increase in other payables and accruals of RMB2.8 billion, an increase in payables to merchants of RMB2.3 billion and an increase in trade payables of RMB1.3 billion, partially offset by an increase in restricted cash of RMB2.7 billion and an increase in prepayments, deposits and other assets of RMB1.8 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash (Used in)/Generated from Investing Activities

For the second quarter of 2020, net cash used in investing activities was RMB4.9 billion, which was mainly attributable to purchase of treasury investments of RMB57.1 billion, purchase of property, plant and equipment of RMB2.3 billion, and acquisition of equity investments of RMB556.9 million, partially offset by proceeds from disposals of treasury investments of RMB54.1 billion, gains received from treasury investments of RMB483.3 million, and proceeds from disposals of equity investments of RMB295.1 million.

Net Cash Used in Financing Activities

For the second quarter of 2020, net cash used in financing activities was RMB843.1 million, which was mainly attributable to repayments of borrowings of RMB1.8 billion and lease payments of RMB216.9 million, partially offset by proceeds from borrowings of RMB1.1 billion.

Gearing ratio

As of June 30, 2020, our gearing ratio, calculated as total borrowings divided by total equity attributable to equity holders of the Company, was approximately 3.5%.

5. INDEBTEDNESS

As of June 30, 2020, we had total borrowings of RMB3.3 billion. The maturity profile of our borrowings are disclosed in Note 27 to the interim financial information.

6. CONTINGENT LIABILITIES

As of June 30, 2020, we did not have any material contingent liabilities.

7. CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS

	Unaudited Six Months Ended	
	June 30, 2020	June 30, 2019
	<i>(RMB in thousands)</i>	
Purchase of property, plant and equipment	2,984,545	1,463,481
Purchase of intangible assets	8,447	7,662
Payments for business combinations	–	449,764
Acquisition of investments accounted for using the equity method	–	1,025
Acquisition of other financial investments measured at fair value	1,190,123	338,893
Prepayment for investments	96,385	14,607
Total	<u>4,279,500</u>	<u>2,275,432</u>

The increase of RMB2.0 billion in our total capital expenditures and long-term investments from the first half of 2019 to the first half of 2020 was primarily due to (i) the increase of RMB1.5 billion in our purchase of bikes and vehicles; and (ii) the increase of RMB851.2 million in our other financial investments.

8. OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

9. MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended June 30, 2020, we did not have any material acquisitions or disposals of subsidiaries, associates, joint ventures and affiliated companies.

10. EMPLOYEE AND REMUNERATION POLICY

As of June 30, 2020, we had 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.

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. The total remuneration expenses, for the first half of 2020 were RMB9.3 billion.

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 as required in accordance with government regulations. 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.

11. FOREIGN EXCHANGE RISK

The functional currency of the Company is US dollars whereas the functional currency of the subsidiaries operating in the PRC is Renminbi. As of June 30, 2020, our cash and cash equivalent balance was mainly denominated in US dollars and Renminbi. We manage 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. We operate mainly in the PRC with most of the transactions settled in Renminbi. Management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities denominated in the currencies other than the respective functional currencies of our entities. As of June 30, 2020, we did not have significant foreign currency exposure from our operations.

MANAGEMENT DISCUSSION AND ANALYSIS

12. THE OUTBREAK RISK OF THE NOVEL CORONAVIRUS (COVID-19)

In December 2019, a novel strain of coronavirus temporarily named COVID-19 by the World Health Organization was reported to have surfaced in Wuhan, China. After the outbreak of the COVID-19 epidemic in China, strict epidemic 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 the affected regions. The aforementioned restrictive measures and consumers' concerns about hygiene have drastically reduced consumers' demands for local lifestyle services, and a considerable number of local lifestyle merchants have suspended their operations or postponed to resume operations. The above situations may cause serious interference to our operations and adversely affect our business. At the same time, the further outbreak of the COVID-19 epidemic around the world may exacerbate market volatility and have continuous negative economic impact on China and the global market, and may raise concerns about China's economic and global economic prospects. The degree of impact of the above COVID-19 on our business will depend on future evolution of the situation, including, among other things, the latest news about the severity of the coronavirus and the effect of suppressing or treating the coronavirus on the human body. Due to the significant uncertainty and unpredictability of these factors, it is currently difficult to reasonably estimate the duration of interference with our business and its related financial impact.

Since the outbreak of COVID-19, we have adopted a number of the following positive measures to address COVID-19 epidemic as set forth in detail in the 2019 Environmental, Social and Governance Report. The positive measures have demonstrated effective control and prevention of the spread of COVID-19, provided active support and assistance to our merchants' operations and assurance to our customers. Highlight of the relevant measures and updates as follows:

On the consumer side, we (1) introduced and rolled out "contact free" delivery services; (2) ensured adequate supply and delivery service for food, medicine and daily necessities; (3) guaranteed timely refund on hotel booking cancellations without penalty; (4) provided food supply for medical staffs; (5) assisted local governments in virus transmission tracking; (6) launched various campaigns to help restore consumer confidence.

On the merchant side, we (1) established a dedicated fund to support local service merchants across the country; (2) partnered with banks to provide over RMB20 billion loans with favorable interest rates to eligible merchants; (3) for food delivery merchants, we waived commissions, refunded part of the commission for future marketing usage, and provided free traffic support and subsidies for merchants; (4) for in-store merchants, we waived commissions nationwide and extended subscription based services for eligible merchants; (5) for hotel & travel, we provided subsidies, anti-pandemic supplies and hotel management systems to eligible hotel merchants.

On the delivery rider side, we (1) implemented strict health surveillance procedures for delivery riders; (2) provided subsidies, antiseptic tools and instructions on pandemic prevention for delivery riders.

13. SIGNIFICANT INVESTMENT HELD

As of June 30, 2020, we had no significant investment held.

14. PLEDGE OF ASSETS

As of June 30, 2020, the Company had securitized certain loan receivables for asset-backed securities. Details are set out in Note 27 to the interim financial information.

15. INTERIM DIVIDENDS

The Board does not recommend the distribution of an interim dividend for the six months ended June 30, 2020.

16. FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, as of June 30, 2020, we did not have other plans for material investments and capital assets.

17. CHARGES ON ASSETS

As of June 30, 2020, we did not have any charges on its assets.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

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:

Interests of Directors and Chief Executives in the Company

Name of Director or chief executive	Nature of interest ⁽¹⁾	Relevant company	Number and class of securities	Approximate percentage of interest in each class of Shares ⁽⁷⁾
WANG Xing ⁽²⁾	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	11.36%
			318 Class B Shares	0.00%
MU Rongjun ⁽³⁾	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	1.00%
			333,334 Class B Shares	0.00%
	Beneficial interest (L)	–	5,666,666 Class B Shares	0.11%

OTHER INFORMATION

Name of Director or chief executive	Nature of interest ⁽¹⁾	Relevant company	Number and class of securities	Approximate percentage of interest in each class of Shares ⁽⁷⁾
WANG Huiwen ⁽⁴⁾	Beneficiary and founder of a Trust (L)	Trust	36,400,000	4.95%
			Class A Shares	
	Interest in controlled corporation (L)	Aim Mars Investment Limited	2,134,660	0.04%
			Class B Shares	
	Interest in controlled corporation (L)	Kevin Sunny	36,400,000	4.95%
			Class A Shares	
	Interest in controlled corporation (L)	Galileo Space Limited	2,134,660	0.04%
			Class B Shares	
	Beneficial interest (L)	–	36,400,000	4.95%
			Class A Shares	
Beneficial interest (L)	–	2,963,001	0.06%	
		Class B Shares		
SHEN Nanpeng Neil ⁽⁵⁾	Interest in controlled corporations (L)	Sequoia Capital China Funds, Sequoia Capital Global Growth Funds and Other Controlled Entities	15,180,939	0.30%
			Class B Shares	
	Beneficial interest (L)	–	417,230,593	8.15%
			Class B Shares	
Beneficial interest (L)	–	7,782,112	0.15%	
		Class B Shares		
ORR Gordon Robert Halyburton ⁽⁶⁾	Beneficial interest (L)	–	60,000	0.00%
			Class B Shares	
LENG Xuesong ⁽⁶⁾	Beneficial interest (L)	–	60,000	0.00%
			Class B Shares	
SHUM Heung Yeung Harry ⁽⁶⁾	Beneficial interest (L)	–	60,000	0.00%
			Class B Shares	

OTHER INFORMATION

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.

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.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

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 ⁽⁵⁾
<i>Class A Shares – Wang Xing</i>			
Crown Holdings ⁽¹⁾	Beneficial interest	489,600,000 Class A Shares	66.56%
Share Patience ⁽¹⁾	Beneficial interest	83,588,783 Class A Shares	11.36%
Songtao Limited ⁽¹⁾	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 ⁽¹⁾	489,600,000 Class A Shares	66.56%
	Founder of a trust ⁽¹⁾	489,600,000 Class A Shares	66.56%
	Interest in controlled corporation ⁽¹⁾	83,588,783 Class A Shares	11.36%
<i>Class A Shares – Mu Rongjun</i>			
Charmway Enterprises ⁽²⁾	Beneficial interest	118,650,000 Class A Shares	16.13%
Shared Vision ⁽²⁾	Beneficial interest	7,330,000 Class A Shares	1.00%
Day One Holdings Limited ⁽²⁾	Interest in controlled corporation	118,650,000 Class A Shares	16.13%
TMF (Cayman) Ltd	Trustee	118,650,000 Class A Shares	16.13%

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Name of Substantial Shareholder	Capacity/Nature of interest	Number and class of Shares held	Approximate percentage of interest in each class of Shares ⁽⁶⁾
Mu Rongjun	Beneficiary of a trust ⁽²⁾	118,650,000 Class A Shares	16.13%
	Founder of a trust ⁽²⁾	118,650,000 Class A Shares	16.13%
	Interest in controlled corporation ⁽²⁾	7,330,000 Class A Shares	1.00%
<i>Class B Shares – Tencent</i>			
Huai River Investment Limited ⁽³⁾	Beneficial interest	623,420,905 Class B Shares	12.18%
Tencent Mobility Limited ⁽³⁾	Beneficial interest	389,413,655 Class B Shares	7.61%
Morespark Limited ⁽³⁾	Beneficial interest	8,850,245 Class B Shares	0.17%
Great Summer Limited ⁽³⁾	Beneficial interest	25,000,000 Class B Shares	0.49%
TPP Follow-on I Holding B Limited ⁽³⁾	Beneficial interest	3,150,931 Class B Shares	0.06%
TPP Follow-on I Holding C Limited ⁽³⁾	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%
<i>Class B Shares – Sequoia</i>			
Sequoia Capital China Funds, Sequoia Capital Global Growth Funds and Other Controlled Entities ⁽⁴⁾	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.

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- (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.

PRE-IPO ESOP

The Pre-IPO ESOP was approved and adopted pursuant to the written resolutions of all shareholders of the Company dated October 6, 2015 as amended from time to time. The Pre-ESOP commenced on October 6, 2015 and will expire on the tenth anniversary of the commencement date. The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company by linking the personal interests of the Directors, employees and consultants to those of the shareholders of the Company and by providing such individuals with an incentive for outstanding performance to generate superior returns to the shareholders of the Company. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Directors, employees and consultants upon whose judgment, interest, contribution and special effort the successful conduct of the Company's operation is largely dependent.

OTHER INFORMATION

Outstanding Share Options Granted under the Pre-IPO ESOP

The Company has not granted further share options under the Pre-IPO ESOP after the Listing Date. The table below shows the details of movements of share options granted to the Directors and other employees under the Pre-IPO ESOP:

Name	Date of Grant	Vesting Period ⁽¹⁾	Exercise Price	Number of Shares underlying options outstanding as of January 1, 2020	Number of options exercised during the Reporting Period and the exercise price	Weighted average price of Class B Shares immediately before the date of exercise	Number of options lapsed during the Reporting Period	Number of options cancelled during the Reporting Period	Number of Shares underlying options outstanding as of June 30, 2020
Directors									
Mu Rongjun	July 1, 2017 to July 1, 2018	6 years	US\$3.86 – US\$5.18	5,000,000	0	0	0	0	5,000,000
Wang Huiwen	February 1, 2015 to July 1, 2018	4-6 years	US\$1.005 – US\$5.18	5,055,940	0	0	0	0	5,055,940
Other Employees	May 31, 2006 to August 1, 2018	0.5 to 6 years	US\$0.000017 – US\$5.18	62,912,454	11,589,621 US\$0.000017 – US\$5.18	HKD116.975	4,349	3,533,368	47,785,116
Total				<u>72,968,394</u>	<u>11,589,621</u>	<u>HKD116.975</u>	<u>4,349</u>	<u>3,533,368</u>	<u>57,841,056</u>

Note:

- (1) The exercise period of the share options granted under the Pre-IPO ESOP shall be any time after the end of the vesting period and before the 10th anniversary of the grant date, subject to the terms of the Pre-IPO ESOP and the share option award agreements signed by the grantees.

Outstanding RSUs Granted under the Pre-IPO ESOP

The Company has not granted further RSUs under the Pre-IPO ESOP after the Listing Date. The table below shows the details of movements of RSUs granted to the Directors and other employees under the Pre-IPO ESOP.

Name	Date of Grant	Vesting Period	Number of Shares underlying RSUs				Number of Shares underlying RSUs outstanding as of June 30, 2020
			outstanding as of January 1, 2020	RSUs vested during the Reporting Period	RSUs cancelled during the Reporting Period	RSUs lapsed during the Reporting Period	
Directors							
Mu Rongjun	July 1, 2017	6 years	666,666	0	0	0	666,666
Wang Huiwen	January 1, 2016 to July 1, 2018	4 to 6 years	10,124,999	0	0	0	10,124,999
Other Employees	December 29, 2010 to August 2, 2018	0 to 6 years	81,642,506	23,314,908	4,800,635	0	53,526,963
Total			<u>92,434,171</u>	<u>23,314,908</u>	<u>4,800,635</u>	<u>0</u>	<u>64,318,628</u>

POST-IPO SHARE OPTION SCHEME

A post-IPO employee 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 as amended from time to time. The Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date. The terms of the Post-IPO Share Option Scheme are governed by Chapter 17 of the Listing Rules. The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of the Company and Shareholders as a whole. The Post-IPO ESOP will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

OTHER INFORMATION

Outstanding Share Options Granted under the Post-IPO Share Option Scheme

The table below shows the details of movement of share options granted under the Post-IPO Share Option Scheme:

Name	Date of Grant	Closing price of the Shares immediately before the date on which the options were granted	Vesting Period	Exercise Price	Number of Shares underlying options outstanding as of January 1, 2020	Number of Shares underlying options granted during the Reporting Period	Number of options exercised during the Reporting period and the exercise price	Weighted Average price of Class B Shares immediately before the date of exercise	Number of options lapsed during the Reporting Period	Number of options cancelled during the Reporting Period	Number of Shares underlying options outstanding as of June 30, 2020
Other Employees	July 5, 2019	HK\$70.0	4 years ⁽¹⁾	HK\$69.1	740,000	0	0	0	0	0	740,000
Other Employees	April 24, 2020	HK\$100.0	5.2 years ⁽²⁾	HK\$100.15	0	1,356,000	0	0	0	0	1,356,000
Total					740,000	1,356,000	0	0	0	0	2,096,000

Notes:

- (1) The share options are exercisable in installments from the commencement of the relevant vesting period until July 5, 2029. Subject to the terms of the Post-IPO Share Option Scheme and the share option award agreements signed by the grantees, the first 25% of the options can be exercised 1 year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- (2) The share options are exercisable in installments from the commencement of the relevant vesting period until April 24, 2030. Subject to the terms of the Post-IPO Share Option Scheme and the share option award agreements signed by the grantees, the first 1/6 of the options can be exercised on June 30, 2020 and each 1/6 of the total options will become exercisable in each subsequent year.

POST-IPO SHARE AWARD SCHEME

The Company has also adopted a share award scheme (the “Post-IPO Share Award Scheme”) pursuant to the written resolutions of the then shareholders passed on August 30, 2018.

The purpose of the Post-IPO Share Award Scheme is to align the interests of 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 the Group or any affiliate (an “Eligible Person” and, collectively, “Eligible Persons”) with those of the Group through ownership of Class B Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group.

The Post-IPO Share Award Scheme shall terminate on the earlier of:

- (i) the end of the period of ten years commencing on the Listing Date except in respect of any non-vested Award Shares granted hereunder prior to the expiration of the Post-IPO Share Award Scheme, for the purpose of giving effect to the vesting of such Award Shares or otherwise as may be required in accordance with the provisions of the Post-IPO Share Award Scheme; and
- (ii) such date of early termination as determined by the Board, provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the Post-IPO Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Award Shares already granted to a selected participant.

OTHER INFORMATION

Outstanding RSUs Granted under the Post-IPO Share Award Scheme

The table below shows the details of RSUs granted to the Directors and other employees under the Post-IPO Share Award Scheme:

Name	Date of Grant	Vesting Period	Number of Shares underlying RSUs outstanding as of January 1, 2020	Number of Shares underlying RSUs granted during the Reporting Period	RSUs vested during the Reporting Period ⁽¹⁾	RSUs cancelled during the Reporting Period	RSUs lapsed during the Reporting Period	Number of Shares underlying RSUs outstanding as of June 30, 2020
Directors								
Orr Gordon Robert Halyburton	November 23, 2018	6.25% to vest in each quarter commencing from December 20, 2018 until September 20, 2022	41,250	0	7,500	0	0	33,750
Leng Xuesong	November 23, 2018	6.25% to vest in each quarter commencing from December 20, 2018 until September 20, 2022	41,250	0	7,500	0	0	33,750
Shum Heung Yeung Harry	November 23, 2018	6.25% to vest in each quarter commencing from December 20, 2018 until September 20, 2022	41,250	0	7,500	0	0	33,750
Other Employees	October 4, 2018 to April 24, 2020	4 to 5.2 years	50,584,766	15,318,466	10,338,612	1,889,671	0	53,674,949
Total			<u>50,708,516</u>	<u>15,318,466</u>	<u>10,361,112</u>	<u>1,889,671</u>	<u>0</u>	<u>53,776,199</u>

Note:

- (1) Including the RSUs which have vested before the Reporting Period but the Shares were issued to the grantees during the Reporting Period.

WEIGHTED VOTING RIGHTS

The Company is controlled through weighted voting rights. Each Class A Share has 10 votes per share and each Class B Share has one vote per share except with respect to resolutions regarding a limited number of Reserved Matters, where each Share has one vote. The Company's WVR Structure enables the WVR Beneficiaries to exercise voting control over the Company notwithstanding the WVR Beneficiaries do not hold a majority economic interest in the share capital of the Company. This allows the Company to benefit from the continuing vision and leadership of the WVR Beneficiaries who control the Company with a view to its long-term prospects and strategy.

Shareholders and prospective investors are advised to be aware of the potential risks of investing in companies with WVR Structures, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of the Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of the Company and the outcome of Shareholders' resolutions, irrespective of how other Shareholders vote. Shareholders and prospective investors should make the decision to invest in the Company only after due and careful consideration.

As at the Date of this Interim Report, the WVR Beneficiaries are Wang Xing, Mu Rongjun and Wang Huiwen. Wang Xing beneficially owned 573,188,783 Class A Shares, representing approximately 45.86% of the voting rights in the Company with respect to Shareholders' resolutions relating to matters other than the Reserved Matters. The Class A Shares beneficially owned by Wang Xing are held by (i) Crown Holdings, a company indirectly wholly owned by a trust established by Wang Xing (as settlor) for the benefit of Wang Xing and his family; and (ii) Shared Patience, a company directly wholly owned by Wang Xing. Mu Rongjun beneficially owned 125,980,000 Class A Shares, representing approximately 10.08% of the voting rights in the Company with respect to Shareholders' resolutions relating to matters other than the Reserved Matters. The Class A Shares beneficially owned by Mu Rongjun are held by (i) Charmway Enterprises, a company indirectly wholly owned by a trust established by Mu Rongjun (as settlor) for the benefit of Mu Rongjun and his family; and (ii) Shared Vision, a company directly wholly owned by Mu Rongjun. Wang Huiwen beneficially owned 36,400,000 Class A Shares, representing approximately 2.91% of the voting rights in the Company with respect to Shareholders' resolutions relating to matters other than the Reserved Matters. The Class A Shares beneficially owned by Wang Huiwen are held by Kevin Sunny, a company indirectly wholly owned by a trust established by Wang Huiwen (as settlor) for the benefit of Wang Huiwen and his family.

Class A Shares may be converted into Class B Shares on a one to one ratio. As at the Date of this Interim Report, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 735,568,783 Class B Shares, representing approximately 14.30% the total number of issued Class B Shares as at the Date of this Interim Report.

The weighted voting rights attached to our Class A Shares will cease when none of the WVR Beneficiaries have beneficial ownership of any of our Class A Shares, in accordance with Listing Rule 8A.22. This may occur:

- (i) upon the occurrence of any of the circumstances set out in Listing Rule 8A.17, in particular where a WVR Beneficiary is: (1) deceased; (2) no longer a member of the Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;

OTHER INFORMATION

- (ii) when the Class A Shareholders have transferred to another person the beneficial ownership of, or economic interest in, all of the Class A Shares or the control over the voting rights attached to them, other than in the circumstances permitted by Listing Rule 8A.18;
- (iii) where a vehicle holding Class A Shares on behalf of a WVR Beneficiary no longer complies with Listing Rule 8A.18(2); or
- (iv) when all of the Class A Shares have been converted to Class B Shares.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting stringent corporate governance standards. The principle of the Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all shareholders.

The Company has adopted the principles and code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices.

Save for code provision A.2.1, the Company has complied with all the code provisions as set out in the CG Code where applicable during the Reporting Period.

Pursuant to code provision A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Wang Xing currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of chairman of the Board and the chief executive officer of the Company at an appropriate time when it is appropriate by taking into account the circumstances of the Group as a whole.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding the Directors' dealings in the securities of the Company. The provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions have been applicable to the Company during the Reporting Period.

Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the provision of the Model Code throughout the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the first half of 2020.

CHANGES OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Below is the changes of Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2019 Annual Report:

Directors' Updated Information

Neil Nanpeng Shen ceased to be a non-executive director of China Renaissance Holdings Limited (HKEx Stock Code: 1911) since June 2020 and a non-executive director of 360 Security Technology Inc. (SHSE Stock Code: 601360) since May 2020.

Shum Heung Yeung Harry resigned as Executive Vice President from Microsoft Corporation in March 2020.

Save for the information disclosed herein, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

BIOGRAPHICAL INFORMATION OF THE DIRECTORS

During the Annual General Meeting of the Company dated May 20, 2020, Orr Gordon Robert Halyburton, Leng Xuesong and Shum Heung Yeung Harry were re-elected as the independent non-executive Directors of the Company. For details, please refer the announcements and circular of the Company dated April 17 and May 20, 2020.

Please refer to below biographical details of the directors.

Executive Directors

Wang Xing (王興), aged 41, is a Co-founder, an executive Director, the Chief Executive Officer and Chairman of the Board. Wang Xing is responsible for the overall strategic planning, business direction and management of the 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 the Company.

Wang Xing has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding the 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 electrical engineering from University of Delaware in January 2005.

OTHER INFORMATION

Mu Rongjun (穆榮均), aged 40, is a Co-founder, an executive Director and a Senior Vice President of the Company. He is responsible for the financial services and corporate affairs of the Company.

Mu Rongjun has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding the 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 a Co-founder, an executive Director and a Senior Vice President of the Company. He is responsible for the on-demand delivery and certain new initiatives of the Company. He will withdraw from his day-to-day management duties in the Company in December 2020. Wang Huiwen 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 the 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 (淘房網) 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 a non-executive Director. He was appointed as Director in October 2017 and 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 (HKEx Stock Code: 700) in February 2005 as the Chief Strategy and Investment Officer. In February 2006, Lau Chi Ping Martin was promoted as the president of Tencent to manage the day-to-day operation of Tencent. In March 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 July 2016, Lau Chi Ping was appointed as a director of Tencent Music Entertainment Group (formerly known as China Music Corporation) (NYSE Ticker: TME). 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 a non-executive Director. He was appointed as Director in October 2015 and 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 Trip.com Group Ltd. (NASDAQ Ticker: TCOM), formerly Ctrip.com International, Ltd. (NASDAQ Ticker: CTRP), or Ctrip, 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 Ltd. (NASDAQ Ticker: TCOM), formerly Ctrip.com International, Ltd. (NASDAQ Ticker: CTRP) since October 2008, a non-executive director of Noah Holdings Limited (NYSE Ticker: NOAH) since January 2016, a non-executive director of BTG Hotels Group Co., Ltd. (SHSE Stock Code: 600258) since January 2017 and an independent non-executive director of Pinduoduo Inc. (NASDAQ Ticker: PDD) since April 2018.

Neil Nanpeng Shen served as a non-executive director of China Renaissance Holdings Limited (HKEx Stock Code: 1911) from June 2018 to June 2020 and a non-executive director of 360 Security Technology Inc. (SHSE Stock Code: 601360) from February 2018 to May 2020.

Independent Non-executive Directors

Orr Gordon Robert Halyburton, aged 57, is an independent non-executive Director. He was appointed as Director in September 2018 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.

OTHER INFORMATION

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 an independent non-executive director of EQT AB (Stockholm Stock Code: EQT) since September 2019. He was appointed as a non-executive director of Lenovo Group Limited (HKEx Stock Code: 992) in September 2015 and redesignated as an independent non-executive director in September 2016. He has also been an independent non-executive director of Swire Pacific Limited (HKEx Stock Code: 00019 and 00087) since August 2015. He is also the vice chairman of China-Britain Business Council.

Leng Xuesong (冷雪松), aged 51, is an independent non-executive Director. He was appointed as Director in September 2018 and 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 September 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. He also serves as non-executive director of China Index Holdings Limited (NASDAQ Ticker: CIH) from July 2019 till now.

Shum Heung Yeung Harry (沈向洋), aged 53, is an independent non-executive Director. He was appointed as Director in September 2018 and 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. From November 2013 to March 2020, he served as the executive vice president of Microsoft Corporation. He has also become an independent non-executive director of Youdao, Inc. (NYSE Ticker: DAO) since October 2019.

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.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the IPO were approximately RMB28,516.2 million, after deducting the underwriting fees, commissions and related total expenses paid and payable by us in connection thereto (“IPO Proceeds”). From the Listing Date up to June 30, 2020, we have not utilized any IPO Proceeds. We will gradually utilize the IPO Proceeds for the following purposes consistent with those set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus, namely:

- approximately 35% to upgrade our technology and enhance our research and development capabilities;
- approximately 35% to development new services and products;
- approximately 20% to selectively pursue acquisitions or investments in assets and businesses which are complementary to our business and are in line with our strategies; and
- approximately 10% for working capital and general corporate purpose.

OTHER INFORMATION

Since we are an offshore holding company, we will need to make capital contributions and loans to our PRC subsidiaries or through loans to our Consolidated Affiliated Entities such that the IPO Proceeds can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under PRC laws and regulations. There are no costs associated with registering loans or capital contributions with relevant PRC authorities, other than nominal processing charges. Under PRC laws and regulations, the PRC governmental authorities are required to process such approvals, filings or registrations or deny our application within a prescribed period, which are usually less than 90 days. The actual time taken, however, may be longer due to administrative delay. We cannot assure you that we can obtain the approvals from the relevant governmental authorities, or complete the registration and filing procedures required to use our the IPO Proceeds as described above, in each case on a timely basis, or at all. This is because PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the IPO Proceeds to make loans or additional capital contributions to our PRC subsidiaries or Consolidated Affiliated Entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. The Audit Committee comprises three independent non-executive Directors, namely, Orr Gordon Robert Halyburton, Leng Xuesong and Shum Heung Yeung Harry. Orr Gordon Robert Halyburton is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended June 30, 2020. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, PricewaterhouseCoopers.

The interim financial report of the Group for the six months ended June 30, 2020 has been reviewed by the Audit Committee of the Company and by the Company's external auditor 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.

OTHER BOARD COMMITTEES

In addition to the Audit Committee, the Company has also established a corporate governance committee, a nomination committee and a remuneration committee.

CORPORATE GOVERNANCE COMMITTEE

The Company has established a corporate governance committee (the “Corporate Governance Committee”) in compliance with Rule 8A.30 of the Listing Rules and the CG Code. The primary duties of the Corporate Governance Committee are to ensure that the Company is operated and managed for the benefit of all shareholders and to ensure the Company’s compliance with the Listing Rules and safeguards relating to the weighted voting rights structure of the Company.

The Corporate Governance Committee comprises three independent non-executive Directors, namely Leng Xuesong, Orr Gordon Robert Halyburton and Shum Heung Yeung Harry. Leng Xuesong is the chairman of the Corporate Governance Committee.

On March 25, 2020, the Corporate Governance Committee held a meeting, considered, approved and reviewed the following matters:

- (a) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (b) reviewing and monitoring the code of conduct applicable to employees and Directors;
- (c) the re-appointment of the Company’s compliance advisor;
- (d) the disclosure in the Corporate Governance Report and the Company’s compliance with the CG Code;
- (e) the Conflict of Interest Declaration Policy of the Company and any potential conflict of interest between the Company and the WVR beneficiaries;
- (f) all risks related to the Company’s WVR Structure, including connected transactions between the Company and its subsidiary or Consolidated Affiliated Entity on the one hand and any WVR Beneficiary on the other;
- (g) the written confirmation provided by the WVR Beneficiaries that they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the period from the Listing Date to December 31, 2019;
- (h) reviewing the Company’s various policies and practices on corporate governance; and
- (i) reviewing and monitoring the Company policies and practices on compliance with legal and regulatory requirements.

OTHER INFORMATION

QUALIFICATION REQUIREMENTS

Updates in Relation to the Qualification Requirements

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “FITE Regulations”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations and the existing Special Administrative Measures for Entry of Foreign Investment (Negative List) (2020 Version), which became effective on July 23, 2020, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing certain categories of value-added telecommunications services, including internet content provision services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “Qualification Requirements”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. According to our consultation with the Ministry of Industry and Information Technology (the “MIIT”) in May 2018, it confirms that there is no clear guidance about how a foreign investor could meet the Qualification Requirements, and it applies a relatively strict standard for identifying whether foreign investors meet the Qualification Requirements.

Efforts and Actions Undertaken to Comply with the Qualification Requirements

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Onshore Holdcos or any of our Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold entire equity interests in enterprises which engage in the value-added telecommunications business. For the purposes of meeting the Qualification Requirements, we have established and accumulated overseas operation experience, for example:

- (a) Dianping (Hong Kong) Limited, Meituan Limited and Xigua Limited have been incorporated in Hong Kong in August 2010, November 2010 and September 2015, respectively, for the purposes of establishing and expanding the Company’s operations overseas.
- (b) Xigua Limited has rented an office for the expansion of our business overseas. It has employed local employees in Hong Kong and obtained a travel agents license on November 7, 2018. It has also purchased fourth domain names outside of the PRC for display and promotion of our services since June 2015.
- (c) Dianping (Hong Kong) Limited has employed local employees in Hong Kong.

MATERIAL LITIGATION

During the Reporting Period, the Company was not involved in any material litigation or arbitration. Nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

EVENTS AFTER THE END OF REPORTING PERIOD

On July 1, 2020, the Company invested US\$500 million to acquire approximately 15% convertible redeemable preferred shares of Li Auto Inc. (“Li Auto”). On July 30, 2020, Li Auto has successfully listed on the Nasdaq and all the convertible redeemable preferred shares held by the Company automatically converted into Li Auto’s Class A ordinary shares. The Company also entered into a share subscription agreement to make an additional investment of US\$300 million in Class A shares of Li Auto in the concurrent private placement of global offering. Other than disclosed above, there was no significant events that might affect the Company since the end of the six months ended June 30, 2020.

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
Revenues			
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>
Gross profit		13,771,424	13,009,975
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	1,405,280	1,133,174
Operating profit/(loss)		459,115	(191,064)
Finance income	10	98,282	74,463
Finance costs	10	(108,775)	(96,936)
Share of gains of investments accounted for using equity method		54,009	25,378
Profit/(loss) before income tax		502,631	(188,159)
Income tax credits/(expenses)	12	128,272	(369,343)
Profit/(loss) for the period		<u>630,903</u>	<u>(557,502)</u>
Profit/(loss) for the period attributable to:			
Equity holders of the Company		631,411	(554,362)
Non-controlling interests		(508)	(3,140)
		<u>630,903</u>	<u>(557,502)</u>
Earnings/(loss) per share for profit/(loss) for the period attributable to the equity holders of the Company			
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,	
	Note	2020 RMB' 000	2019 RMB' 000
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Share of other comprehensive income of investments accounted for using the equity method	23	2,711	–
<i>Items that may not be reclassified to profit or loss</i>			
Currency translation differences		647,370	47,893
Other comprehensive income for the period, net of tax		650,081	47,893
Total comprehensive income/(loss) for the period		1,280,984	(509,609)
Total comprehensive income/(loss) for the period is attributable to:			
Equity holders of the Company		1,281,492	(506,395)
Non-controlling interests		(508)	(3,214)
		1,280,984	(509,609)

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		
ASSETS			
Non-current assets			
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>
Current assets			
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>
Total assets		<u><u>133,584,285</u></u>	<u><u>132,012,915</u></u>
EQUITY			
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>
Equity attributable to equity holders of the Company		<u>95,061,878</u>	<u>92,112,445</u>
Non-controlling interests		<u>(58,559)</u>	<u>(58,051)</u>
Total equity		<u><u>95,003,319</u></u>	<u><u>92,054,394</u></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
LIABILITIES			
Non-current liabilities			
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>
Current liabilities			
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>
Total liabilities		<u>38,580,966</u>	<u>39,958,521</u>
Total equity and liabilities		<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
Comprehensive income							
Profit/(loss) for the period	-	-	-	631,411	631,411	(508)	630,903
Other comprehensive income							
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
Total comprehensive income	-	-	650,081	631,411	1,281,492	(508)	1,280,984
Transaction with owners in their capacity as owners							
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
Total transaction with owners in their capacity as owners		4	2,007,631	(339,694)	1,667,941	-	1,667,941
As of June 30, 2020	393	262,367,560	(4,136,865)	(163,169,210)	95,061,878	(58,559)	95,003,319

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	
Comprehensive loss								
Loss for the period	-	-	-	(554,362)	(554,362)	(3,140)	(557,502)	
Other comprehensive loss								
Currency translation differences	23	-	47,967	-	47,967	(74)	47,893	
Total comprehensive loss	-	-	47,967	(554,362)	(506,395)	(3,214)	(509,609)	
Transaction with owners in their capacity as owners								
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	
Total transaction with owners in their capacity as owners		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
Cash flows from operating activities			
Cash generated from/(used in) operations		636,052	(22,179)
Income tax paid		(90,714)	(127,598)
Net cash flows generated from/(used in) operating activities		<u>545,338</u>	<u>(149,777)</u>
Cash flows from investing activities			
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		(96,385)	(14,607)
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)

		Unaudited	
		Six months ended June 30,	
	Note	2020 RMB' 000	2019 RMB' 000
Cash flows from financing activities			
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	–
Net cash flows (used in)/generated from financing activities		<u>(913,004)</u>	<u>1,299,230</u>
Net increase/(decrease) in cash and cash equivalents			
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
Cash and cash equivalents at the end of the period		<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.

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
As of June 30, 2020				
Financial assets				
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)	1,920,340*	-	6,326,347	8,246,687
	<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
As of December 31, 2019				
Financial assets				
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)	2,076,995*	-	5,089,127	7,166,122
	<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
As of June 30, 2020	<u>31,411,307</u>	<u>620,225</u>	<u>6,326,347</u>	<u>38,357,879</u>
Net unrealized gains/(losses) for the period	<u>40,698</u>	<u>180</u>	<u>(4,917)</u>	<u>35,961</u>

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
As of January 1, 2019	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
As of June 30, 2019	<u>19,218,573</u>	<u>5,549,628</u>	<u>24,768,201</u>
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	Fair value as of	Un-observable inputs	Range of inputs		Relationship of unobservable inputs to fair value
	June 30, 2020 RMB' 000	December 31, 2019 RMB' 000		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
Revenues in total	24,034,518	7,638,960	9,802,246	-	41,475,724
Cost of revenues and operating expenses	(22,851,978)	(5,067,218)	(12,625,502)	(471,911)	(41,016,609)
Operating profit/(loss)	1,182,540	2,571,742	(2,823,256)	(471,911)	459,115

	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
Revenues in total	23,550,523	9,737,410	8,588,716	-	41,876,649
Cost of revenues and operating expenses	(22,948,379)	(5,997,033)	(12,817,575)	(304,726)	(42,067,713)
Operating profit/(loss)	602,144	3,740,377	(4,228,859)	(304,726)	(191,064)

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
Finance income		
Interest income from bank deposits	<u>98,282</u>	<u>74,463</u>
Finance costs		
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	14,159	13,952
	<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)	99,071	(135,514)
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							Total RMB' 000
	Computer equipment RMB' 000	Furniture and appliances RMB' 000	Bikes and vehicles RMB' 000	Leasehold improvements RMB' 000	Assets under construction RMB' 000	Right-of-use assets RMB' 000	Others RMB' 000	
Cost								
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>
Accumulated depreciation								
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>
Impairment								
As of January 1, 2020 and June 30, 2020	<u>-</u>	<u>-</u>	<u>(7,497)</u>	<u>-</u>	<u>(7,945)</u>	<u>-</u>	<u>-</u>	<u>(15,442)</u>
Net carrying amount								
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						Total RMB' 000
	Computer equipment RMB' 000	Furniture and appliances RMB' 000	Bikes and vehicles RMB' 000	Leasehold improvements RMB' 000	Assets under construction RMB' 000	Right-of-use assets RMB' 000	
Cost							
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>
Accumulated depreciation							
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>
Impairment							
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>
Net carrying amount							
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								
	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	Total RMB' 000
Cost									
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>
Accumulated Amortization									
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>
Impairment									
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>
Net carrying amount									
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								
	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	Total RMB' 000
Cost									
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>
Accumulated Amortization									
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>
Impairment									
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>
Net carrying amount									
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><u>518,210</u></u>	<u><u>590,054</u></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><u>(1,220,070)</u></u>	<u><u>(1,388,469)</u></u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

16 DEFERRED INCOME TAXES (Continued)

The movement on the gross deferred tax assets is as follows:

	Tax losses	Unaudited Others	Total
	RMB' 000	RMB' 000	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>(2,516)</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>(1,180)</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	<u>52,190</u>	<u>4,880</u>
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	<u>620,225</u>	<u>–</u>
	<u><u>1,625,332</u></u>	<u><u>200,275</u></u>
Short-term treasury investments measured at		
– Amortized cost	13,111,639	25,447,417
– Fair value through profit or loss	<u>31,411,307</u>	<u>23,988,182</u>
	<u><u>44,522,946</u></u>	<u><u>49,435,599</u></u>

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
Non-current		
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>
Current		
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	267,536	265,975
	<u>347,800</u>	<u>364,022</u>
Less: provision for impairment	(63,389)	(88,795)
	<u>284,411</u>	<u>275,227</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	(156,532)	(155,854)
	<u>859,730</u>	<u>676,762</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
As of June 30, 2020	5,860,605	59	393	262,367,560	262,367,953
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
As of June 30, 2019	5,782,931	58	388	259,582,501	259,582,889

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
As of June 30, 2020	20	2,821,507	(6,791,644)	(166,748)	(4,136,865)
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
As of June 30, 2019	20	2,420,084	(8,070,094)	(218,028)	(5,868,018)

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
Non-current		
Business cooperation agreement with Maoyan	277,833	388,967
Others	2,708	61
	<u>280,541</u>	<u>389,028</u>
Current		
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	625	1,703
	<u>4,171,251</u>	<u>4,567,171</u>
	<u>4,451,792</u>	<u>4,956,199</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
Included in non-current liabilities		
Asset-backed securities (b)	–	466,676
Included in current liabilities		
Bank loan – unsecured (a)	3,117,000	3,190,000
Asset-backed securities (b)	206,694	362,587
	3,323,694	3,552,587

- (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.

	Unaudited Six months ended June 30, 2020
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
	<u>1,397,096</u>	<u>953,569</u>

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	–
	<u>2,093,097</u>	<u>23,749</u>

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.

“Articles” or “Articles of Association”	the articles of association of the Company adopted on August 30, 2018 with effect from the Listing Date, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Kuxun Interaction”	Beijing Kuxun Interaction Technology Co., Ltd. (北京酷訊互動科技有限公司), a limited liability company incorporated under the laws of the PRC on March 29, 2006 and our Consolidated Affiliated Entity
“Beijing Kuxun Technology”	Beijing Kuxun Technology Co., Ltd. (北京酷訊科技有限公司), a limited liability company incorporated under the laws of the PRC on April 27, 2006 and our indirect wholly-owned subsidiary
“Beijing Mobike”	Beijing Mobike Technology Co., Ltd. (北京摩拜科技有限公司), a limited liability company incorporated under the laws of the PRC on January 27, 2015 and our Consolidated Affiliated Entity
“Beijing Sankuai Cloud Computing”	Beijing Sankuai Cloud Computing Co., Ltd. (北京三快雲計算有限公司), a limited liability company incorporated under the laws of the PRC on June 17, 2015 and our Consolidated Affiliated Entity
“Beijing Sankuai Online”	Beijing Sankuai Online Technology Co., Ltd. (北京三快在線科技有限公司), a limited liability company incorporated under the laws of the PRC on May 6, 2011 and our indirect wholly-owned subsidiary
“Beijing Sankuai Technology”	Beijing Sankuai Technology Co., Ltd. (北京三快科技有限公司), a limited liability company incorporated under the laws of the PRC on April 10, 2007 and our Consolidated Affiliated Entity
“Beijing Xinmeida”	Beijing Xinmeida Technology Co., Ltd. (北京新美大科技有限公司), a limited liability company incorporated under the laws of the PRC on March 17, 2016 and our Consolidated Affiliated Entity
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CG Code”	the corporate governance code as set out in Appendix 14 to the Listing Rules

DEFINITIONS

“Charmway Enterprises”	Charmway Enterprises Company Limited, a limited liability company incorporated under the laws of the BVI, which is indirectly wholly owned by a trust established by Mu Rongjun (as settlor) for the benefit of Mu Rongjun and his family
“Chengdu Meigengmei”	Chengdu Meigengmei Information Technology Co., Ltd. (成都美更美信息技術有限公司), a limited liability company incorporated under the laws of the PRC on July 18, 2014 and our Consolidated Affiliated Entity
“Class A Shares”	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”	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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “the Company”	Meituan Dianping (美团点评) (formerly known as Internet Plus Holdings Ltd.), an exempted company with limited liability incorporated under the laws of the Cayman Islands on September 25, 2015, or Meituan Dianping (美团点评) and its subsidiaries and Consolidated Affiliated Entities, as the case may be
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely, the Onshore Holdcos and their respective subsidiaries (each a “Consolidated Affiliated Entity”)
“Contractual Arrangement(s)”	the series of contractual arrangements entered into between WFOEs, Onshore Holdcos and Registered Shareholders (as applicable)
“Crown Holdings”	Crown Holdings Asia Limited, a limited liability company incorporated under the laws of the BVI, which is indirectly wholly owned by a trust established by Wang Xing (as settlor) for the benefit of Wang Xing and his family

“Date of this Interim Report”	August 21, 2020
“Director(s)”	the director(s) of the Company
“Group”, “our Group” or “the Group”, “we”, “us”, or “our”	the Company and its subsidiaries and Consolidated Affiliated Entities from time to time
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“IPO”	initial public offering
“Kevin Sunny”	Kevin Sunny Holding Limited, a limited liability company incorporated under the laws of the BVI on May 22, 2018, which is wholly owned by Wang Huiwen
“Listing”	the listing of the Class B Shares on the Main Board of the Stock Exchange
“Listing Date”	September 20, 2018
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange, which is independent from and operates in parallel with the GEM of the Stock Exchange
“Meituan Finance”	Beijing Meituan Finance Technology Co., Ltd. (北京美团金融科技有限公司), a limited liability company incorporated under the laws of the PRC on August 9, 2017 and our Consolidated Affiliated Entity

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company adopted on August 30, 2018 with effect from the Listing Date, as amended from time to time
“Mobike”	mobike Ltd., an exempted company with limited liability incorporated under the laws of the Cayman Islands on April 2, 2015 and our direct wholly owned subsidiary
“Mobike Beijing”	Mobike (Beijing) Information Technology Co., Ltd. (摩拜(北京)信息技術有限公司), a limited liability company incorporated under the laws of the PRC on January 12, 2016 and our indirect wholly owned subsidiary
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Onshore Holdcos,” each an “Onshore Holdco”	Tianjin Antechu Technology, Shanghai Lutuan, Beijing Kuxun Interaction, Shanghai Sankuai Technology, Meituan Finance, Beijing Sankuai Cloud Computing, Beijing Xinmeida, Chengdu Meigengmei, Beijing Mobike, Beijing Sankuai Technology and Shanghai Hantao
“Post-IPO Share Award Scheme”	the post-IPO share award scheme adopted by the Company on August 30, 2018
“Post-IPO Share Option Scheme”	the post-IPO share option scheme adopted by the Company on August 30, 2018
“PRC”	the People’s Republic of China
“Pre-IPO ESOP”	the pre-IPO employee stock incentive scheme adopted by the Company dated October 6, 2015, as amended from time to time
“Prospectus”	prospectus of the Company dated September 7, 2018
“Registered Shareholders”	the registered shareholders of the Onshore Holdcos
“Reporting Period”	the six months ended June 30, 2020
“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company’s auditors, and (iv) the voluntary liquidation or winding-up of the Company

“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“RSU(s)”	restricted share unit(s)
“Sankuai Cloud Online”	Sankuai Cloud Online Technology Co., Ltd. (三快雲在線(北京)科技有限 公司), a limited liability company incorporated under the laws of the PRC on November 3, 2015 and our indirect wholly-owned subsidiary
“Shanghai Hanhai”	Hanhai Information Technology (Shanghai) Co., Ltd. (漢海信息技術(上海) 有限公司), a limited liability company incorporated under the laws of the PRC on March 16, 2006 and our indirect wholly-owned subsidiary
“Shanghai Hantao”	Shanghai Hantao Information Consultancy Co., Ltd. (上海漢濤信息諮詢 有限公司), a limited liability company incorporated under the laws of the PRC on September 23, 2003 and our Consolidated Affiliated Entity
“Shanghai Juzuo”	Shanghai Juzuo Technology Co., Ltd. (上海駒座科技有限公司), a limited liability company incorporated under the laws of the PRC on April 12, 2018 and our indirect wholly-owned subsidiary
“Shanghai Lutuan”	Shanghai Lutuan Technology Co., Ltd. (上海路團科技有限公司), a limited liability company incorporated under the laws of the PRC on January 12, 2017 and our Consolidated Affiliated Entity
“Shanghai Sankuai Technology”	Shanghai Sankuai Technology Co., Ltd. (上海三快科技有限公司), a limited liability company incorporated under the laws of the PRC on September 19, 2012 and our Consolidated Affiliated Entity
“Share(s)”	the Class A Shares and Class B Shares in the share capital of the Company, as the context so requires
“Shareholder(s)”	holder(s) of the Share(s)
“Shared Patience”	Shared Patience Inc., a limited liability company incorporated under the laws of the BVI, which is wholly owned by Wang Xing
“Shared Vision”	Shared Vision Investment Limited, a limited liability company incorporated under the laws of the BVI, which is wholly owned by Mu Rongjun
“Shenzhen Sankuai Online”	Shenzhen Sankuai Online Technology Co., Ltd. (深圳三快在線科技有限公 司), a limited liability company incorporated under the laws of the PRC on November 18, 2015 and our indirect wholly-owned subsidiary
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Tianjin Antechu Technology”	Tianjin Antechu Technology Co., Ltd. (天津安特廚科技有限公司), a limited liability company incorporated under the laws of the PRC on January 17, 2018 and our Consolidated Affiliated Entity
“Tianjin Wanlong”	Tianjin Wanlong Technology Co., Ltd. (天津萬龍科技有限公司), a limited liability company incorporated under the laws of the PRC on August 18, 2015 and our indirect wholly-owned subsidiary
“Tianjin Xiaoyi Technology”	Tianjin Xiaoyi Technology Co., Ltd. (天津小蟻科技有限公司), a limited liability company incorporated under the laws of the PRC on February 13, 2018 and our indirect wholly-owned subsidiary
“Tencent”	Tencent Holdings Limited (HKEx Stock Code: 700), or Tencent Holdings Limited and/or its subsidiaries, as the case may be
“United States”, “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”, “U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“weighted voting right”	has the meaning ascribed to it in the Listing Rules
“WFOEs”, each a “WFOE”	Tianjin Xiaoyi Technology, Shanghai Juzuo, Beijing Kuxun Technology, Tianjin Wanlong, Beijing Sankuai Online, Shenzhen Sankuai Online, Shanghai Hanhai, Sankuai Cloud Online and Mobike Beijing
“WVR Beneficiaries”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Wang Xing, Mu Rongjun and Wang Huiwen, being the holders of the Class A Shares, entitling each to weighted voting rights
“WVR Structure”	has the meaning ascribed to it in the Listing Rules
“%”	per cent

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

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

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

GLOSSARY

“Active Merchant”	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 ERP systems
“Gross Transaction Volume” or “GTV”	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
“monetization rate”	the revenues for the year/period divided by the Gross Transaction Volume for the year/period
“SKU”	the stock keeping unit
“Transacting User”	a user account that paid for transactions of products and services on our platform in a given period, regardless of whether the account is subsequently refunded
“transaction”	the number of transactions 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; (iv) with respect to our bike-sharing business, if a user uses a 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 a monthly pass, then one transaction is recognized for every ride