You should read the following discussion and analysis in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2018, 2019, and 2020, including the notes thereto, included in the Accountant's Report in Appendix I, together with the respective accompanying notes. Our consolidated financial information has been prepared in accordance with U.S. GAAP.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this **[REDACTED]**. *For further details, see "Forward-Looking Statements."*

OVERVIEW

We are a leading one-stop travel platform globally, integrating a comprehensive suite of travel products and services and differentiated travel content. We are the go-to destination for travelers in China, and increasingly for travelers around the world, to explore travel and get inspired, to make informed and cost-effective travel bookings, and to enjoy hassle-free, on-the-go support and share travel experience. Users come to our platform for any type of trip, from local activities, weekend getaways, and short-haul trips, to cross-border vacations and business trips. Our diverse product and service portfolio covers budget, high-end, customized, and boutique offerings that appeal to both our domestic users and our growing global user base. Founded in 1999, we now operate the most well-known travel brands in China according to the Analysys Report, and have solidified our leadership over the past two decades. We have been the largest online travel platform in China over the past decade and the largest online travel platform globally from 2018 to 2020, both in terms of GMV, according to the Analysys Report.

Our strong financial performance during the past few years proved our leading position in the travel industry in China and globally, showcasing the value that we provide for both our users and ecosystem partners. Our net revenues increased from RMB31.0 billion in 2018 to RMB35.7 billion in 2019 prior to the outbreak of the COVID-19 pandemic, and our net revenues were RMB18.3 billion for 2020. We had net income attributable to Trip.com Group Limited of RMB1.1 billion and RMB7.0 billion in 2018 and 2019, respectively, and net loss attributable to Trip.com Group Limited of RMB3.2 billion in 2020.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economy and travel industry trends

As a leading travel platform both in China and globally, our business is driven by the demand for travel services in our key markets, especially in China, which primarily depends on the growth of the economy. Economic growth generally stimulates willingness to pay for travel services and their affordability, thus helping increase travel frequency and spending.

We also benefit from certain other key trends in China's travel industry that affect how and how often users choose to purchase travel services, such as the increasing consumption potential in China's rising middle class, user preference for diverse travel options and quality experience, the booming demand for travel and high-quality user experience, and technology-driven enhancement in the travel industry supply chain.

Our business and results of operations can be adversely affected by disruptions in the travel industry, such as (i) the outbreaks of pandemics such as COVID-19, epidemics, or fear of spread of contagious diseases, (ii) geopolitical uncertainty, political unrest, or civil strife, (iii) natural disasters or poor weather conditions, such as hurricanes, earthquakes, or tsunamis, and (iv) any travel restrictions or other security procedures implemented in connection with any major events in key markets. While we have demonstrated the resilience of our business model during the current COVID-19 pandemic, our financial condition, results of operations, and cash flows for 2020 were affected by the downturn in the travel industry and general economy associated with the COVID-19 pandemic, and the impact may continue in subsequent periods. For details, see "—Impact of the COVID-19 Pandemic on Our Operations."

Despite the setback in the global economy and travel industry in 2020 due to the COVID-19 pandemic, we expect the economy and travel industry to resume growth in 2021 and beyond. According to the Analysys Report, the sizes of the China and global travel markets are expected to resume growth and reach US$1.6 trillion and US$7.1 trillion in 2025, respectively.

The depth and breadth of our travel offerings

Our results of operations depend on the effectiveness of our product and service offerings and our ability to broaden our offerings to appeal to wider audience, which contributes to our GMV growth. We offer a comprehensive suite of travel products and services leveraging our massive network of ecosystem partners. Our relationships with the expanding pool of ecosystem partners enable us to provide diverse selection of travel offerings from budget to premium products and services, including long-tail and customized products, to satisfy the needs of our diverse user base. In addition, we have been constantly upgrading our open platform that connects us with domestic and international travel partners, search engines, e-commerce platforms, and other ecosystem partners to expand our business opportunities.

Our financial performance is also affected by our product and service mix. Our products and services have different, sometimes contrasting, GMV contribution and take rates. For example, transportation ticketing is relatively a low take rate service, while accommodation reservation is typically a high take rate service. In addition, GMVs, take rates, and terms of travel products and service may vary depending on the specific ecosystem partners providing them. Any material changes in our product and service mix could materially affect our results of operations.

Our ability to strengthen our brand recognition and maintain market leadership

We operate some of the most recognized travel brands. Our ability to strengthen our brand recognition and maintain our leading position among the OTA platforms is critical for us to build and maintain relationships with our users and ecosystem partners. We have built a number of well-known travel brands in China and globally, and have solidified our market leadership over the past two decades. We have been the largest online travel platform in China over the past decade and the largest online travel platform globally from 2018 to 2020 both in terms of GMV, according to the Analysys Report. In order to strengthen our brand recognition and maintain market leadership, we may need to increase our investments in marketing activities, product and service development, and user and ecosystem partner engagement, which may affect our operating margin.

Our market leading position and our ability to attract new users and continue to retain and engage our existing users also depends on our ability to continue to provide users with superior experiences. For years, we have been consistently enhancing our technology, product, service, and content offerings, and user interfaces to offer a personalized, convenient, enjoyable, and inspirational user experience. We have also been innovating continuously to cater to our users' diverse needs and evolving preferences.

Our ability to enhance operating efficiency

Our results of operations have been, and will continue to be, affected by our ability to improve our operating efficiency, especially through investment in technology. As our business continues to scale up, it is essential to improve operating efficiency to enhance the competitiveness of our platform. For example, our big data and AI capabilities coupled with our in-depth travel insights accumulated throughout our operating history allow us to curate suitable travel products and offer personalized recommendations to individual users, which enables significant cross-selling opportunities on our platform. In addition, we apply various big data and AI technologies to achieve highly effective and precise marketing with reduced cost. In the future, we will continue to invest in technology to further enhance our operations, which may increase our capital expenditure or operating costs but will improve our operating and cost efficiency and service quality in the long run.

Seasonality

Our users generally come to our platform for travel products and services to satisfy their leisure and business trip needs. Therefore, our business is subject to seasonal fluctuations, and our revenues may vary from quarter to quarter throughout a year. Since most of our users are from China, to date, the third quarter of each year generally contributes the highest portion of our annual net revenues primarily due to the strong demand for both leisure and business travel activities during the summer. Our future results may continue to be affected by such seasonal fluctuations.

IMPACT OF THE COVID-19 PANDEMIC ON OUR OPERATIONS

Our results of operations for the year ended December 31, 2020 have been significantly and negatively impacted by the COVID-19 pandemic. The pandemic drove a significant decline in travel demand resulting in reservation cancelations and reduced new orders. In addition, the allowance for credit losses and impairments of long-term investments both increased. In response to the COVID-19 pandemic, we have swiftly adopted cost control measures to mitigate a significant slowdown in user demand. As the COVID-19 pandemic is still evolving, we will continuously review the provisions for losses and make adjustment accordingly.

For the year ended December 31, 2020, our financial performance was materially and adversely affected as a result of the domestic and international travel restrictions and significant incremental costs and expenses incurred to facilitate our users' cancelations and refund requests. While we have seen recovery in the China travel market since the second half of 2020 due to the substantial containment of the COVID-19 pandemic in China, we have seen a slower recovery of the international travel market, and in turn, a slower recovery of our international business. In addition, we made provisions for the expected difficulty in collection of receivables, which resulted in additional allowance for expected credit losses from the receivables due from our customers, and significant downward adjustments and impairment to our long-term investments, as the impacts of the COVID-19 pandemic on certain of our long-term investments are considered to be other than temporary. In 2020, we recognized allowance for credit losses of RMB700 millions primarily for our ecosystem partners, such as airlines, hotels, and packaged-tour providers in China and globally, and impairments of long-term investments of RMB905 million, compared to RMB191 million and RMB205 million in 2019, respectively. As of December 31, 2020, our long-term investments consisted of debt investment of RMB18.2 billion and equity investments of RMB29.7 billion. For a breakdown of long-term investments during the Track Record Period, please see Note 7 to the Accountant's Report in Appendix I to this **[REDACTED]**. Our net revenues in 2020 decreased by 49% from 2019. While the duration and the development of the pandemic is difficult to predict, our performance generally improved in the third and fourth quarter of 2020 compared to the first two quarters of 2020, in terms of our key financial metrics such as revenues and gross margin, and we have recorded net income in each of the third and fourth quarters of 2020, compared with net loss recorded in the first and second quarter of 2020, benefiting from the containment of the COVID-19 pandemic in China starting from the third quarter of 2020. Our GMV decreased by 51%, 72%, 51%, and 45% in the first, second, third, and fourth quarter of 2020, each comparing to the respective periods in 2019. In each of the third and fourth quarter of 2020, we recorded a reversal of allowance for credit losses for our travel ecosystem partners reflecting the improvement in credit risk profile with domestic travel industry recovery. In particular, we recorded reversal of allowance for credit losses for our ecosystem partners, including major airlines in China as they gradually recovered from the COVID-19 pandemic. As a result, our allowance for credit losses increased from the pre-COVID level in the first quarter of 2020, followed by a decrease thereafter. Since the third quarter of 2020, we have also seen reservations cancellation rate of users dropping back to a level prior to the COVID-19 pandemic, which was substantially lower than the reservation cancellation rate in the first quarter of 2020. In each of the third and fourth quarter of 2020, no significant impairment expense was recognized on our long-term investments.

The global spread of COVID-19 pandemic in a significant number of countries around the world has resulted in, and may intensify, global economic distress, and the extent to which it may affect our financial condition, results of operations, and cash flows will depend on future developments, which are highly uncertain and cannot be reasonably predicted. Since the beginning of 2021, a few waves of COVID-19 infections have emerged in various regions of China, and varying levels of travel restrictions were reinstated. In early 2021, precautionary measures, including varying levels of travel restrictions and encouragement of reduced travel during the Chinese New Year, were reinstated in China. These travel restrictions reduce users' demand for our products, and are expected to materially and adversely affect our results of operations in the first quarter of 2021 and potentially beyond. According to the Analysys Report, the travel market in China exhibited a quick rebound after the Chinese New Year. See "Risk Factors—Risks Relating to Our Business and Industry—Pandemics (such as COVID-19), epidemics, or fear of spread of contagious diseases could disrupt the travel industry and our operations, which could materially and adversely affect our business, financial condition, and results of operations."

Any future outbreak of contagious diseases or similar adverse public health developments, extreme unexpected bad weather, or severe natural disasters would affect our business and operating results. Ongoing concerns regarding contagious disease or natural disasters, particularly its effect on travel, could adversely affect our users' desire to travel. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, travel to and from affected regions could be curtailed. Public policy regarding, or governmental restrictions on, travel to and from these and other regions on account of an outbreak of any contagious disease or occurrence of natural disasters could materially and adversely affect our business and operating results.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

We generate revenues primarily from our accommodation reservation and transportation ticketing businesses.

The following table sets forth a breakdown of revenues by our principle business line in absolute amount and as a percentage of our total revenues for the periods indicated.

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in millions, except percentages)					
Revenue						
Accommodation reservation	11,580	37	13,514	38	7,132	39
Transportation ticketing	12,947	42	13,952	39	7,146	39
Packaged tours	3,772	12	4,534	13	1,241	7
Corporate travel	981	3	1,255	4	877	5
Others	1,824	6	2,461	6	1,931	10
Total	**31,104**	**100**	**35,716**	**100**	**18,327**	**100**

Under most circumstances, we do not take ownership of the products and services being sold and act as an agent in substantially all of our transactions. Our risk of loss due to obligations for canceled hotel and airline ticket reservations is thus relatively remote. Accordingly, we recognize revenues primarily based on commissions earned rather than transaction value.

Since current PRC laws and regulations impose substantial restrictions on foreign ownership of travel agency and value-added telecommunications businesses in China, we conduct part of our transportation ticketing and packaged-tour businesses through our consolidated affiliated Chinese entities. Historically, we generated a portion of our revenues from fees charged to these entities. For a description of our relationships with these entities, see "History and Corporate Structure—Contractual Arrangements."

Accommodation Reservation

Accommodation reservation revenue constitutes a significant source of our revenues. In 2018, 2019, and 2020, our accommodation reservation revenue was RMB11.6 billion, RMB13.5 billion, and RMB7.1 billion, representing 37%, 38%, and 39% of our total revenues, respectively.

We generate substantially all of our accommodation reservation revenue through commissions from hotel reservation partners through our platform. We recognize revenues when the reservation becomes non-cancellable, which is the point considered when we complete our performance obligation in accommodation reservation services. Contracts with certain hotel reservation partners contain incentive commissions that are typically subject to specific performance targets. We generally receive incentive commissions from hotels through monthly arrangements based on performance targets of accommodation reservations where our users have completed their stay.

Transportation Ticketing

In 2018, 2019, and 2020, our transportation ticketing revenue was RMB12.9 billion, RMB14.0 billion, and RMB7.1 billion, representing 42%, 39%, and 39% of our total revenues, respectively.

We operate our transportation ticketing business primarily through our wholly-owned subsidiaries, consolidated affiliated Chinese entities, and a network of ecosystem partners. Commissions from transportation ticketing rendered are recognized after tickets are issued as this is when our performance obligation is satisfied.

Packaged Tours

Our packaged-tour business has grown rapidly during the Track Record Period, except for 2020 due to the COVID-19 pandemic. In 2018, 2019, and 2020, our packaged-tour revenue was RMB3.8 billion, RMB4.5 billion, and RMB1.2 billion, respectively. We bundle the packaged-tour products and services and receive referral fees from ecosystem partners for packaged-tour products and services through our platform. Referral fees are recognized on the departure date of the packaged tours as this is when our performance obligation is satisfied.

Corporate Travel

Our corporate travel revenue primarily includes commissions from transportation ticket booking, accommodation reservation, and packaged-tour services rendered to corporate clients. In 2018, 2019, and 2020, our corporate travel revenue was RMB981 million, RMB1.3 billion, and RMB877 million, respectively. We contract with corporate clients based on a service fee model. Travel reservations are made via online and offline services for transportation ticket booking, accommodation reservation, and packaged-tour services. Corporate travel revenue is recognized on a net basis after the services are rendered and collections are reasonably assured.

Other Businesses

Our other businesses primarily consist of online advertising and financial services. In 2018, 2019, and 2020, our other revenue was RMB1.8 billion, RMB2.5 billion, and RMB1.9 billion, respectively. We recognize advertising revenue ratably over the fixed term of an agreement as services are provided, and we recognize the revenue from the financial services ratably over the service period. The revenues from our financial services were primarily from our consumer financing services. During the Track Record Period, our revenue from the financial services contributed less than 5.5% of our total revenues. Most of our financial service business is conducted by our financial service ecosystem partners, who directly extend credit loans to our users and ecosystem partners. As of December 31, 2018, 2019, and 2020, the receivables relating to our financial services accounted for less than 1.5% of our total assets, respectively.

Cost of Revenues

Cost of revenues primarily consists of payroll compensation of customer service center personnel, credit card service fees, payments to ecosystem partners, telecommunication expenses, direct cost of principal travel tour services, depreciation, rentals and related expenses incurred by our platform that are directly attributable to the rendering of our travel-related services and other businesses.

Cost of revenues accounted for 20%, 21%, and 22% of our net revenues in 2018, 2019, and 2020, respectively. We believe that our relatively low ratio of cost of revenues to revenues is primarily due to competitive labor costs in China, high efficiency of our user support system, and efficiency of our enhanced website operations.

Operating Expenses

Operating expenses primarily consist of product development expenses, sales and marketing expenses, and general and administrative expenses, all of which include share-based compensation expenses. In 2020, we recorded RMB1.9 billion of share-based compensation expense, compared to

RMB1.7 billion for both 2018 and 2019. Share-based compensation expenses are included in the same income statement category as the cash compensation paid to the recipients of share-based awards.

Product development expenses primarily include expenses that we incur to develop our ecosystem partner network and expenses that we incur to maintain, monitor, and manage our platform. Product development expenses accounted for 31%, 30%, and 42% of our net revenues in 2018, 2019, and 2020, respectively.

Sales and marketing expenses primarily include payroll compensation and benefits for our sales and marketing personnel, advertising expenses, and other related marketing and promotion expenses. Our sales and marketing expenses accounted for 31%, 26%, and 24% of our net revenues in 2018, 2019, and 2020.

General and administrative expenses primarily include payroll compensation, benefits and travel expenses for our administrative staff, credit losses, professional service fees, and administrative office expenses. Our general and administrative expenses accounted for 9%, 9%, and 20% of our net revenues in 2018, 2019, and 2020, respectively.

Taxation

Our effective income tax rate was 41%, 19%, and (29)% in 2018, 2019, and 2020, respectively. The change in our effective income tax rate from 2019 to 2020 was primarily due to valuation allowances provided against the deferred tax assets associated with the accumulated loss, as well as the non-deductible expenses of the fair value changes in equity securities investments and exchangeable senior notes. The change in our effective income tax rate from 2018 to 2019 was mainly due to changes in the profitability of our subsidiaries that have different tax rates, including certain non-taxable income of the fair value gains in equity securities investments in 2019 and certain non-deductible expenses of the fair value losses in equity securities in 2018.

We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, Hong Kong, and mainland China.

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains, or appreciation, and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties, which may be applicable on instruments executed in, or brought within the jurisdiction of, the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017, which introduces the two-tiered profits tax rates regime. The bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

China

Pursuant to the PRC Enterprise Income Tax Law, companies established in China are generally subject to enterprise income tax at a statutory rate of 25%. The 25% rate applies to most of our subsidiaries and consolidated affiliated Chinese entities established in China. Some of our PRC subsidiaries and consolidated affiliated Chinese entities, Ctrip Computer Technology, Ctrip Travel Information, Ctrip Travel Network, Qunar Software, Qunar Beijing, Chengdu Ctrip, Chengdu Ctrip International, and Chengdu Information, benefit from a preferential tax rate of 15% by either qualifying as HNTEs or qualifying under the Western Regions Catalog under the PRC Enterprise Income Tax Law as follows:

- In 2020, Ctrip Computer Technology, Ctrip Travel Information, and Ctrip Travel Network reapplied for their qualification as HNTE, which were approved by the relevant government authority. Thus, these subsidiaries are entitled to a preferential income tax rate of 15% from 2020 to 2022 as long as they maintained their qualifications for HNTEs that are subject to verification by competent authorities and renewals every three years. Qunar Software and Qunar Beijing are also HNTEs entitled to a preferential income tax rate of 15% from 2018 to 2020 and are applying for renewal of their qualifications.

- In 2001, the STA started to implement preferential tax policy in China's western regions, and companies located in applicable jurisdictions covered by the Western Regions Catalog are eligible to apply for a preferential income tax rate of 15% if their businesses fall within the "encouraged" category of the policy. On April 23, 2020, the Ministry of Finance, the STA, and the NDRC jointly issued the Announcement on Renewing the Enterprise Income Tax Policy for Western Development, which reduced the revenue percentage requirement of the "encouraged" businesses to no less than 60% and would be applied from 2021 to 2030. Chengdu Ctrip, Chengdu Ctrip International, and Chengdu Information are entitled to enjoy a preferential tax rate of 15% until 2030, provided that their "encouraged" businesses account for no less than required percentage pursuant to current policies.

In 2018, 2019, and 2020, our subsidiaries in China received financial subsidies from the government authorities in the amount of RMB469 million, RMB589 million, and RMB601 million, respectively, which we recorded as other income upon cash receipt. Such financial subsidies were granted to us at the sole discretion of the government authorities. We cannot assure you that our subsidiaries will continue to receive financial subsidies in the future.

Pursuant to the China's VAT reform, from April 1, 2019 to December 31, 2021, general tax payers engaged in certain industries, including the travel and entertainment industry, are allowed to claim an additional 10% or 15% super-credit on their input VAT (with the 15% super-credit applicable from October 1, 2019). This super-credit amount can be deducted from VAT payable, and any remaining amount can be transferred to the next filing period for credit.

If the PRC tax authorities determine that our Cayman Islands holding company is a "resident enterprise" for PRC enterprise income tax purposes, a withholding tax of 10% may be imposed on dividends that non-PRC resident enterprise holders of our ordinary shares or ADSs receive from us and on gains realized on their sale or other disposition of ordinary shares or ADSs, if such income is considered income derived from within China. See "Risk Factors—Risks Relating to Our Corporate Structure—Our subsidiaries and consolidated affiliated Chinese entities in China are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements."

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated statements of operations in absolute amount and as a percentage of net revenues for the periods indicated.

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in millions, except percentages)					
Revenues:						
—Accommodation reservation	11,580	37	13,514	38	7,132	39
—Transportation ticketing	12,947	42	13,952	39	7,146	39
—Packaged tours	3,772	12	4,534	13	1,241	7
—Corporate travel	981	3	1,255	4	877	5
—Others	1,824	6	2,461	6	1,931	10
Total revenues	31,104	100	35,716	100	18,327	100
Less: Sales tax and surcharges	(139)	(0)	(50)	(0)	(11)	(0)
Net revenues	**30,965**	**100**	**35,666**	**100**	**18,316**	**100**
Cost of revenues	(6,324)	(20)	(7,372)	(21)	(4,031)	(22)
Gross profit	**24,641**	**80**	**28,294**	**79**	**14,285**	**78**
Operating expenses:						
—Product development[(1)]	(9,620)	(31)	(10,670)	(30)	(7,667)	(42)
—Sales and marketing[(1)]	(9,596)	(31)	(9,295)	(26)	(4,405)	(24)
—General and Administrative[(1)]	(2,820)	(9)	(3,289)	(9)	(3,636)	(20)
Total operating expenses	(22,036)	(71)	(23,254)	(65)	(15,708)	(86)
Income/(Loss) from operations	**2,605**	**9**	**5,040**	**14**	**(1,423)**	**(8)**
Interest income	1,899	6	2,094	6	2,187	12
Interest expense	(1,508)	(5)	(1,677)	(5)	(1,716)	(9)
Other (expense)/income	(1,075)	(3)	3,630	10	(273)	(1)
Income/(loss) before income tax expense and equity in loss of affiliates	1,921	7	9,087	25	(1,225)	(6)
Income tax expense	(793)	(3)	(1,742)	(5)	(355)	(2)
Equity in loss of affiliates	(32)	(0)	(347)	(1)	(1,689)	(9)
Net income/(loss)	**1,096**	**4**	**6,998**	**19**	**(3,269)**	**(17)**
Net loss attributable to non-controlling interests	16	0	57	0	62	0
Accretion to redemption value of redeemable non-controlling interests	—	—	(44)	(0)	(40)	(0)
Net income/(loss) attributable to Trip.com Group Limited	**1,112**	**4**	**7,011**	**19**	**(3,247)**	**(17)**

Note:

(1) Share-based compensation was included in the associated operating expense categories as follows:

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	%
	(in millions, except percentages)					
Product development	(934)	(3)	(919)	(3)	(964)	(5)
Sales and marketing	(156)	(1)	(144)	(0)	(159)	(1)
General and administrative	(617)	(2)	(651)	(2)	(750)	(4)

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Total revenues decreased by 49% to RMB18.3 billion in 2020 from RMB35.7 billion in 2019, primarily due to the negative impact from the COVID-19 pandemic in China and globally.

Accommodation Reservation. Our revenues generated from accommodation reservation decreased by 47% to RMB7.1 billion in 2020 from RMB13.5 billion in 2019, primarily due to the decrease in the accommodation reservation GMV facilitated by our platform in 2020 by 47% as a result of the reduction in travel demand from Chinese and international users because of the COVID-19 pandemic in China and globally.

Transportation Ticketing. Our revenues generated from transportation ticketing decreased by 49% to RMB7.1 billion in 2020 from RMB14.0 billion in 2019, primarily due to the decrease in the transportation ticketing GMV facilitated by our platform in 2020 by 57% as a result of the reduction in travel demand from Chinese and international users because of the COVID-19 pandemic in China and globally.

Packaged tours. Packaged tours revenues decreased by 73% to RMB1.2 billion in 2020 from RMB4.5 billion in 2019, primarily due to the cross-region travel restrictions in China and globally in response to the COVID-19 pandemic.

Corporate Travel. Corporate travel revenues decreased by 30% to RMB877 million in 2020 from RMB1.3 billion in 2019, primarily due to the decrease in travel demand from our corporate clients as a result of the COVID-19 pandemic.

Others. Other revenues decreased by 22% to RMB1.9 billion in 2020 from RMB2.5 billion in 2019, primarily due to the decrease in the advertising revenue as a result of a decrease in online advertising demand as our advertising clients, including our ecosystem partners, were negatively impacted by the COVID-19 pandemic.

Cost of Revenues

Cost of revenues decreased by 45% to RMB4.0 billion in 2020 from RMB7.4 billion in 2019, which was in line with the revenue decrease in the same year.

Operating Expenses

Operating expenses include product development expenses, sales and marketing expenses, and general and administrative expenses.

Product Development. Product development expenses decreased by 28% to RMB7.7 billion in 2020 from RMB10.7 billion in 2019, primarily due to a decrease in product development personnel related expenses.

Sales and Marketing. Sales and marketing expenses decreased by 53% to RMB4.4 billion in 2020 from RMB9.3 billion in 2019, primarily due to a decrease in sales and marketing related activities during the COVID-19 pandemic.

General and Administrative. General and administrative expenses increased by 11% to RMB3.6 billion in 2020 from RMB3.3 billion in 2019, primarily due to the allowance for expected credit losses for the increased receivables mainly attributable to the refunds for reservation cancelations that we paid on behalf of our ecosystem partners that are subject to the increased credit risk as a result of the COVID-19 pandemic.

Interest Income

Interest income increased by 4% to RMB2.2 billion in 2020 from RMB2.1 billion in 2019, primarily due to an increase in short-term investments, held to maturity deposits and financial products in 2020.

Interest Expense

Interest expense increased by 2% to RMB1.7 billion in 2020 from RMB1.7 billion in 2019, primarily due to the fluctuations in the principal amount of both short-term and long-term debt in 2020.

Other Income/(Expense)

Other expense was RMB273 million in 2020, compared to other income of RMB3.6 billion in 2019, primarily due to the RMB612 million fair value loss of equity securities investments and exchangeable senior notes for the year ended December 31, 2020 and the RMB2.3 billion fair value gain of equity securities investments for the year ended December 31, 2019.

Income Tax Expense

Income tax expense decreased significantly to RMB355 million in 2020 from RMB1.7 billion in 2019, primarily due to a decrease in our taxable income.

Equity in Loss of Affiliates

Equity in loss of affiliates increased significantly to RMB1.7 billion in 2020 from RMB347 million in 2019, primarily due to the losses incurred from our equity method investments, mainly in MakeMyTrip, which was significantly impacted by the COVID-19 pandemic.

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

Revenues

Total revenues increased by 15% to RMB35.7 billion in 2019 from RMB31.1 billion in 2018, primarily due to our brands' extensive reach and expansion in our product portfolio.

Accommodation Reservation. Accommodation reservation revenue increased by 17% to RMB13.5 billion in 2019 from RMB11.6 billion in 2018, primarily due to our brands' extensive reach and provision of diversified accommodation choices to prospective users.

Transportation Ticketing. Transportation ticketing revenue increased by 8% to RMB14.0 billion in 2019 from RMB12.9 billion in 2018, primarily due to an increase in demands for international air tickets and ground transportation tickets.

Packaged Tours. Packaged-tour revenue increased by 20% to RMB4.5 billion in 2019 from RMB3.8 billion in 2018, primarily due to an increase in demands for organized tours and self-guided tours and our further penetration in lower-tier cities in China.

Corporate Travel. Corporate travel revenue increased by 28% to RMB1.3 billion in 2019 from RMB981 million in 2018, primarily due to the expansion in corporate client base and travel product coverage.

Others. Other revenue increased by 35% to RMB2.5 billion in 2019 from RMB1.8 billion in 2018, primarily due to a strong growth in our advertisement services and an increase in demands for financial services.

Cost of Revenues

Cost of revenues increased by 17% to RMB7.4 billion in 2019 from RMB6.3 billion in 2018, primarily due to an increase in credit card service fee, and user support related expenses and payments to ecosystem partners for the service we had control.

Operating Expenses

Operating expenses include product development expenses, sales and marketing expenses, and general and administrative expenses.

Product Development. Product development expenses increased by 11% to RMB10.7 billion in 2019 from RMB9.6 billion in 2018, primarily due to an increase in product development personnel related expenses.

Sales and Marketing. Sales and marketing expenses decreased by 3% to RMB9.3 billion in 2019 from RMB9.6 billion in 2018, primarily due to a decrease in sales and marketing related activities. Our advertising expenses decreased from RMB6.0 billion in 2018 to RMB5.5 billion in 2019.

General and Administrative. General and administrative expenses increased by 17% to RMB3.3 billion in 2019 from RMB2.8 billion in 2018, primarily due to an increase in general and administrative personnel related expenses and allowance for credit losses.

Interest Income

Interest income increased by 10% to RMB2.1 billion in 2019 from RMB1.9 billion in 2018, primarily due to an increase in held-to-maturity deposits and financial products in 2019.

Interest Expense

Interest expense increased by 11% to RMB1.7 billion in 2019 from RMB1.5 billion in 2018, primarily due to fluctuation in the principal amount of both short-term and long-term debt in 2019.

Other (Expense)/Income

Other income was RMB3.6 billion in 2019, compared to other expense of RMB1.1 billion in 2018, primarily due to the RMB2.3 billion fair value gain of equity securities investments in 2019 and the RMB3.1 billion fair value loss of equity securities investments in 2018, largely offset by RMB1.2 billion gain on disposal of long-term investments.

Income Tax Expenses

Income tax expense increased significantly to RMB1.7 billion in 2019 from RMB793 million in 2018, primarily due to an increase in our taxable income.

Equity in Loss of Affiliates

Equity in loss of affiliates increased significantly to RMB347 million in 2019 from RMB32 million in 2018, primarily due to the losses incurred from our equity method investments.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, our principal sources of liquidity were cash generated from operating activities, borrowings from third-party lenders, and the proceeds we received from our public offerings of ordinary shares and our offerings of convertible senior notes and exchangeable senior notes. Our cash and cash equivalents consist of cash on hand and liquid investments that are unrestricted as to withdrawal or use. Our financing activities consist of issuance and sale of our ordinary shares, convertible senior notes, and exchangeable senior notes to investors and related parties and borrowings from third-party lenders. As of January 31, 2021, we had cash and cash equivalents of RMB22.6 billion, convertible senior notes outstanding in an aggregate principal amount of US$1.1 billion, exchangeable senior notes outstanding in an aggregate principal amount of US$500 million, and three term loan facilities outstanding, under which the aggregate outstanding principal balance was US$2.8 billion.

We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months from the date of this **[REDACTED]**. We plan to enhance our cash flow position by generating increased cash from our business operation as our business grows. After the **[REDACTED]**, we may, however, require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions that we may decide to pursue. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increasing fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. We currently do not have any plans for material additional external financing.

Cash Flows

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

	For the Year Ended December 31,		
	2018	2019	2020
	(RMB in millions)		
Operating cash flows before movement in working capital	7,751	10,184	5,992
Changes in working capital	2,123	282	(6,934)
Cash paid during the period for income taxes	(1,315)	(1,496)	(1,239)
Cash paid for interest, net of amounts capitalized	(1,444)	(1,637)	(1,642)
Net cash provided by/(used in) operating activities	7,115	7,333	(3,823)
Net cash used in investing activities	(14,078)	(2,413)	(3,821)
Net cash provided by/(used in) financing activities	11,926	(9,256)	6,025
Effect of foreign exchange rate changes on cash and cash equivalents, restricted cash	819	309	(713)
Net increase/(decrease) in cash and cash equivalents, restricted cash	5,782	(4,027)	(2,332)
Cash and cash equivalents, restricted cash, beginning of year	19,992	25,774	21,747
Cash and cash equivalents, restricted cash, end of year	25,774	21,747	19,415

Operating Activities

In 2020, net cash used in operating activities was RMB3.8 billion in 2020, which was primarily attributable to (i) our net loss of RMB3.3 billion in 2020, (ii) a decrease in accounts payable of RMB7.8 billion in 2020, mainly due to a decrease in new bookings of hotel, transportation ticketing, packaged-tour services during the COVID-19 pandemic, which were exceeded by settlement, (iii) a decrease in advances from customers of RMB4.1 billion, mainly due to a decrease in demand for packaged tours, transportation ticketing, and accommodation services, (iv) a decrease in salary and welfare payable of RMB1.3 billion, mainly due to a decrease in personnel related expenses during the COVID-19 pandemic, (v) a decrease in other payables and accruals of RMB1.3 billion, mainly due to a decrease in accrued operating related expenses, and (vi) the gain on deconsolidation of subsidiaries of RMB1.1 billion. The foregoing were partially offset by (i) an add-back of RMB4.1 billion in non-cash expense or loss items, mainly relating to share-based compensation expenses, depreciation and amortization expenses, allowance for credit losses, and amortization of ROU assets, (ii) a decrease in prepayments and other current assets of RMB3.8 billion, mainly due to a decrease in prepayment for packaged tours and accommodation services, (iii) a decrease in accounts receivable of RMB3.2 billion, mainly due to a decrease of corporate travel management services and credit card payments from our individual users for transportation ticket booking, (iv) the equity in loss of affiliates of RMB1.7 billion mainly in MakeMyTrip, (v) the impairments of long-term investment of RMB905 million, and (vi) a decrease in due from related parties of RMB821 million.

In 2019, net cash provided by operating activities was RMB7.3 billion, which was primarily attributable to (i) our net income of RMB7.0 billion in 2019, (ii) an add-back of RMB3.9 billion in non-cash expense or loss items, mainly relating to equity in loss of affiliates, share-based compensation expenses, depreciation and amortization expenses, and amortization of ROU assets, (iii) an increase in advances from customers of RMB2.2 billion, mainly due to an increase in demand for packaged-tour, transportation ticketing, and accommodation services, (iv) an increase in other payables and accruals of RMB1.2 billion, mainly due to an increase in accrued operating related expenses, (v) an increase in salary and welfare payable of RMB1.1 billion, mainly due to an increase in personnel related expenses, and (vi) an increase in accounts payable of RMB540 million, mainly due to an increase in hotel, transportation ticketing, and packaged-tour services, as we are generally entitled to certain credit terms from our suppliers. The foregoing were partially offset by (i) changes in fair value for equity securities investments measured at fair value of RMB2.3 billion, (ii) an increase in prepayments and other current assets of RMB2.2 billion, mainly due to an increase in prepayment for packaged-tour, transportation ticketing, and accommodation services, (iii) an increase in accounts receivable of RMB2.0 billion, mainly due to an increase of corporate travel management services, hotels, and credit card payments from our individual customers for transportation ticket booking, (iv) an increase in due from related parties of RMB1.1 billion, and (v) the gain on disposal and settlement of long-term investment of RMB921 million.

In 2018, net cash provided by operating activities was RMB7.1 billion, which was primarily attributable to (i) our net income of RMB1.1 billion in 2018, (ii) an add-back of RMB6.0 billion in non-cash expense or loss items, primarily relating to share-based compensation expenses, depreciation expenses and changes in fair value for equity securities investments measured at fair value, (iii) an increase in accounts payable of RMB3.7 billion, primarily due to an increase in volume of hotel, transportation ticketing, and packaged-tour services, as we are generally entitled to certain credit terms from our suppliers, (iv) an increase in advances from customers of RMB1.3 billion, primarily due to an increase in demand for packaged-tour, ticketing and accommodation services, and (v) an increase in other payable and accruals of RMB914 million primarily due to the increase in accrued advertising expenses. The foregoing were partially offset by (i) an increase in prepayments and other current assets of RMB2.0 billion, primarily due to an increase in prepayment for packaged-tour, ticketing and accommodation services, (ii) an increase in due from related parties of RMB1.3 billion, (iii) the gain on disposal of long-term investment of RMB1.2 billion, and (iv) an increase in accounts receivable of RMB704 million, primarily due to an increase of volume of corporate travel management services and credit card payments from our individual users for transportation ticket booking.

Investing Activities

In 2020, net cash used in investing activities was RMB3.8 billion, which was primarily attributable to (i) the cash paid for long-term investments of RMB9.8 billion, (ii) cash paid for loans to the users of RMB3.9 billion, (iii) cash paid for business combination of RMB958 million, and (iv) purchase of property, equipment, and software of RMB532 million, partially offset by (y) decrease in short-term investments of RMB6.9 billion, and (z) cash received from loans to the users of RMB4.0 billion.

In 2019, net cash used in investing activities was RMB2.4 billion, which was primarily attributable to (i) the cash paid for long-term investments of RMB15.8 billion, (ii) cash paid for loans to the users of RMB2.7 billion, (iii) net change in loans to the users of RMB1.1 billion, (iv) purchase of property, equipment, and software of RMB823 million, and (v) cash paid for business combination of RMB212 million, partially offset by (x) decrease in short-term investments of RMB15.0 billion, (y) cash received from loans to the users of RMB2.6 billion, and (z) cash received from disposal of long-term investments of RMB719 million.

In 2018, net cash used in investing activities was RMB14.1 billion, which was primarily attributable to (i) increase in short-term investments of RMB8.8 billion, (ii) the cash paid for long-term investments of RMB4.4 billion, (iii) cash paid for loans to the users of RMB998 million, (iv) net change in loans to the users of RMB918 million, and (v) purchase of property, equipment, and software of RMB673 million, partially offset by (y) cash received from loans to the users of RMB1.0 billion, and (z) cash received from disposal of long-term investments of RMB723 million.

Financing Activities

In 2020, net cash provided by financing activities was RMB6.0 billion, which primarily comprised (i) proceeds from long-term loans of RMB14.2 billion and proceeds from short-term bank loans, net of RMB4.0 billion, and (ii) proceeds from issuances of exchangeable senior notes of RMB3.4 billion, partially offset by (x) cash paid for settlement of convertible notes of RMB9.5 billion, (y) repayment of long-term loan of RMB3.6 billion, and (z) cash paid for acquisition of additional equity stake in subsidiaries of RMB2.1 billion.

In 2019, net cash used in financing activities was RMB9.3 billion, which primarily comprised (i) cash paid for settlement of convertible notes of RMB10.0 billion, (ii) repayment of long-term bank loans, including current portion, of RMB3.1 billion, and repayment of short-term bank loans of RMB3.1 billion, (iii) cash paid for settlement of securitization debt of RMB608 million, and (iv) cash paid for acquisition of additional equity stake in subsidiaries of RMB220 million, partially offset by (w) proceeds from long-term bank loans of RMB5.1 billion, (x) cash received from non-controlling shareholders of RMB1.2 billion, (y) proceeds from securitization debt of RMB1.1 billion, and (z) proceeds from exercise of share options of RMB467 million.

In 2018, net cash provided by financing activities was RMB11.9 billion, which primarily comprised (i) proceeds from short-term bank loans, net of RMB11.8 billion and proceeds from long-term loans of RMB3.0 billion, (ii) proceeds from exercise of share option of RMB677 million, and (iii) proceeds from securitization debt of RMB608 million, partially offset by (y) cash paid for settlement of convertible notes of RMB3.3 billion and (z) cash paid for acquisition of additional equity stake in subsidiaries of RMB1.2 billion.

CAPITAL EXPENDITURES

Our capital expenditures are primarily incurred for purchases of property, equipment, and software. Our total capital expenditures were RMB673 million, RMB823 million, and RMB532 million in 2018, 2019, and 2020. We intend to fund our future capital expenditures with our existing cash balance and **[REDACTED]** from the **[REDACTED]**. We will continue to make capital expenditures to meet the expected growth of our business.

HOLDING COMPANY STRUCTURE

Trip.com Group Limited is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries and consolidated affiliated Chinese entities in China. As a result, our ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our consolidated affiliated Chinese entities in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. Each of the other PRC subsidiaries and our consolidated affiliated Chinese entities is required to allocate a portion of its after-tax profits after contribution of statutory reserve funds based on PRC accounting standards to a discretionary surplus funds at its discretion. The statutory reserve funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of December 31, 2020.

		Payment Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(RMB in millions)				
Convertible senior notes with principal and interest	7,191	6,659	500	32	—
Exchangeable senior notes with principal and interest	3,581	49	98	98	3,336
Term loans and other debt, with principal and interest	45,812	27,567	15,456	2,775	14
Purchase obligations	13	11	2	—	—
Total	**56,597**	**34,286**	**16,056**	**2,905**	**3,350**

In June 2015, we issued the US$700 million in aggregate principal amount of 1.00% convertible senior notes due 2020, or the 2020 Notes, which may be converted at any time prior to the close of business on the second business day immediately preceding the maturity date of July 1, 2020 based on an initial conversion rate of 9.1942 of our ADSs per US$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2020 Notes bear interest at a rate of 1.00% per year, payable semiannually in arrears on January 1 and July 1 of each year, beginning on January 1, 2016. In July 2020, we redeemed the 2020 Notes for cash. The aggregate purchase price of these 2020 Notes was US$700 million.

In June 2015, we issued US$400 million in aggregate principal amount of 1.99% convertible senior notes due 2025, or the 2025 Notes, which may be converted, at each holder's option at any time prior to the close of business on the second business day immediately preceding the maturity date of July 1, 2025 based on an initial conversion rate of 9.3555 of our ADSs per US$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2025 Notes bear interest at a rate of 1.99% per year, payable semiannually in arrears on January 1 and July 1 of each year, beginning on January 1, 2016. In July 2020, we exercised our put right option relating to the 2025 Notes at an aggregate purchase price of US$395 million.

In September 2016, we issued US$975 million in aggregate principal amount of 1.25% convertible senior notes due 2022 (taking into account of the fully exercised over-allotment option), or the 2022 Notes, which may be converted, at each holder's option at any time prior to the close of business on the business day immediately preceding the maturity date of September 15, 2022 based on an initial conversion rate of 15.2688 of our ADSs per US$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2022 Notes bear interest at a rate of 1.25% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on March 15, 2017. In September 2019, we completed put right offer relating to the 2022 Notes. US$924 million aggregate principal amount of the 2022 Notes were validly surrendered and not withdrawn prior to the expiration of the put right offer. The aggregate purchase price of these 2022 Notes was US$924 million.

In May 2015, we issued US$250 million in aggregate principal amount of 1.00% convertible notes due 2020, or the 2020 Booking Notes, to a subsidiary of Booking, which will mature on May 29, 2020, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 9.5904 of our ADSs per US$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2020 Booking Notes bear interest at a rate of 1.00% per year, payable semiannually beginning on November 29, 2015. In 2020, the 2020 Booking Notes with principal amount of US$250 million were redeemed for cash.

In December 2015, we issued US$500 million in aggregate principal amount of 2.00% convertible notes due 2025, or the 2025 Booking Notes, to a subsidiary of Booking, which will mature on December 11, 2025, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 14.6067 of our ADSs per US$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2025 Booking Notes bear interest at a rate of 2.00% per year, payable semiannually beginning on June 11, 2016.

In December 2015, we issued US$500 million in aggregate principal amount of 2.00% convertible notes due 2025, or the 2025 Hillhouse Notes, to Gaoling Fund, L.P. and YHG Investment, L.P., or collectively Hillhouse, which will mature on December 11, 2025, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 14.6067 of our ADSs per US$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2025 Hillhouse Notes bear interest at a rate of 2.00% per year, payable semiannually beginning on June 11, 2016.

In September 2016, we issued US$25 million in aggregate principal amount of 1.25% convertible notes due 2022, or the 2022 Booking Notes, to a subsidiary of Booking, which will mature on September 15, 2022, unless earlier repurchased or converted into our ADSs based on an initial conversion rate of 15.2688 of our ADSs per US$1,000 principal amount of notes. The conversion rate is subject to adjustment upon occurrence of certain events. The 2022 Booking Notes bear interest at a rate of 1.25% per year, payable semiannually beginning on March 15, 2017.

In July 2019, we entered into a facility agreement as a borrower with certain financial institutions for up to US$2.0 billion equivalent transferable term loan facility with a greenshoe option of up to US$500 million. The facilities have a 3-year tenor. The proceeds borrowed under such facilities may be used for our general working capital requirements, including repayment of any existing financial indebtedness.

In April 2020, we entered into a facility agreement as a borrower with certain financial institutions for up to US$1.0 billion transferrable term and revolving loan facility with an incremental facility of up to US$500 million. The facilities have a 3-year tranche and a 5-year tranche. The proceeds borrowed under the facilities may be used for our general working capital requirements, including repayment of any existing financial indebtedness.

In July 2020, we issued the US$500 million in aggregate principal amount of 1.50% exchangeable senior notes due 2027, or the 2020 Exchangeable Notes. The 2020 Exchangeable Notes are exchangeable, at the option of the holders and subject to certain conditions, into cash, ADSs of Huazhu Group Limited (Nasdaq: HTHT), or a combination thereof, at our election subject to certain conditions. The initial exchange rate of the 2020 Exchangeable Notes is 24.7795 Huazhu ADSs per US$1,000 principal amount of the notes. The 2020 Exchangeable Notes bear interest at a rate of 1.50% per year, payable semiannually beginning on January 1, 2021.

As of December 31, 2020, we obtained short-term bank borrowings of RMB26.8 billion in aggregate, of which RMB7.0 billion were collateralized by short-term and long-term investments of RMB7.0 billion. The weighted average interest rate for the outstanding borrowings was approximately 2.89%.

As of December 31, 2020, we obtained long-term borrowings of RMB17.8 billion in aggregate, of which RMB1.3 billion were collateralized by short-term investments, long-term investments, and properties of the Company. The weighted average interest rate for the outstanding borrowings was approximately 1.68%.

While the table above indicates our contractual obligations as of December 31, 2020, the actual amounts we are eventually required to pay may be different in the event that any agreements are renegotiated, canceled, or terminated.

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

Short-term Investments

Our short-term investments primarily include wealth management products offered by major commercial banks in China and time deposits with a term more than three months but less than one year. There were no material adverse changes in the fair value of our short-term investments as a result of the COVID-19 outbreak. Our short-term investments were RMB24.8 billion as of December 31, 2020, in line with our short-term investments of RMB23.1 billion as of December 31, 2019. Our short-term investments as of December 31, 2019 decreased by 37% from RMB36.8 billion as of December 31, 2018, primarily because we strategically invested a portion of the cash previously invested in short-term financial products to long-term products in 2019 to achieve an optimized rate of investment return.

Investments

Our investments include equity method carrying value, equity securities without readily determinable fair value, equity securities with readily determinable fair value, held to maturity debt fair value, and available-for-sale debt fair value. The following table sets forth our long-term investments as of the dates indicated:

	As of December 31,		
	2018	2019	2020
	(RMB in million)		
Equity method carrying value[(1)]	12,188	23,041	18,907
Equity securities without readily determinable fair value	584	596	588
Equity securities with readily determinable fair value[(2)]	8,995	10,037	10,235
Total equity investments	21,767	33,674	29,730
Held to maturity debt fair value	2,390	15,056	15,357
Available-for-sale debt fair value	2,717	2,548	2,856
Total debt investments	5,107	17,604	18,213
Investments	26,874	51,278	47,943

Notes:

(1) Equity method carrying value:

	Tongcheng-eLong	MakeMyTrip	BTG	Investment funds	Tujia	Others	Total
January 1, 2018	—	—	**2,600**	**780**	**1,497**	**1,191**	**6,068**
Addition/(Disposal) in investment	5,291	—	—	176	—	(226)	5,241
Equity method earnings/(losses)	(8)	—	141	202	(406)	21	(50)
Reclass from equity securities with readily determinable fair values	—	—	—	—	—	760	760
Dividend payments	—	—	(11)	(2)	—	(19)	(32)
Foreign exchange and other adjustment	—	—	—	42	94	65	201
December 31, 2018	**5,283**	**—**	**2,730**	**1,198**	**1,185**	**1,792**	**12,188**
Addition/(Disposal) in investment	—	6,901	—	1,241	—	1,166	9,308
Equity method earnings/(losses)	195	24	85	63	(190)	(148)	29
Reclass from equity securities with readily determinable fair values	—	1,770	—	—	—	—	1,770
Dividend payments	—	—	(17)	(16)	—	(12)	(45)
Foreign exchange and other adjustment	18	(233)	—	(8)	(4)	18	(209)
December 31, 2019	**5,496**	**8,462**	**2,798**	**2,478**	**991**	**2,816**	**23,041**
Addition/(Disposal) in investment	—	—	—	70	(397)	215	(112)
Equity method earnings/(losses)	135	(1,529)	(55)	133	(61)	(348)	(1,725)
Reclass to available-for-sale debt investments	—	—	—	—	(538)	—	(538)
Dividend payments	—	—	(11)	(42)	—	(12)	(65)
Impairments	—	(733)	—	—	—	(107)	(840)
Foreign exchange and other adjustment	(89)	(506)	—	(113)	5	(151)	(854)
December 31, 2020	**5,542**	**5,694**	**2,732**	**2,526**	**—**	**2,413**	**18,907**

(2) Equity securities with readily determinable fair values:

	Huazhu (Nasdaq: HTHT)	China Eastern Airline (SSE: 600115)	MakeMyTrip (Nasdaq: MMYT)	TripAdvisor (Nasdaq: TRIP)	Others	Total
January 1, 2018	**5,180**	**3,825**	**2,092**	**398**	**940**	**12,435**
Disposal in investment	—	—	—	(270)	—	(270)
Fair value changes	(1,103)	(1,612)	(398)	60	(11)	(3,064)
Reclass to equity method investments and reclass from available-for-sale debt investments	—	—	—	—	(472)	(472)
Foreign exchange and other adjustment	263	—	108	9	(14)	366
December 31, 2018	**4,340**	**2,213**	**1,802**	**197**	**443**	**8,995**
Addition in investment	—	—	—	171	144	315
Fair value changes	1,745	494	(103)	(84)	282	2,334
Reclass to equity method investments and reclass from equity securities without readily determinable fair values	—	—	(1,770)	—	16	(1,754)
Foreign exchange and other adjustment	65	—	71	2	9	147
December 31, 2019	**6,150**	**2,707**	**—**	**286**	**894**	**10,037**
Addition/(Disposal) in investment	—	—	—	792	(459)	333
Fair value changes	737	(526)	—	317	(121)	407
Foreign exchange and other adjustment	(410)	—	—	(89)	(43)	(542)
December 31, 2020	**6,477**	**2,181**	**—**	**1,306**	**271**	**10,235**

Our investments decreased by 7% from RMB51.3 billion as of December 31, 2019 to RMB47.9 billion as of December 31, 2020, primarily due to the losses incurred from our equity method investments, mainly in MakeMyTrip, which was significantly impacted by the COVID-19 pandemic. Our investments as of December 31, 2019 increased by 91% from RMB26.9 billion as of December 31, 2018, primarily due to investment in MakeMyTrip and we strategically invested a portion of the cash previously invested in short-term financial products to long-term products in 2019 to achieve an optimized rate of investment return.

Short-term Debt and Current Portion of Long-term Debt

Our short-term debt and current portion of long-term debt increased by 10% from RMB30.5 billion as of December 31, 2019 to RMB33.7 billion as of December 31, 2020. Our short-term debt and current portion of long-term debt as of December 31, 2019 decreased by 15% from RMB36.0 billion as of December 31, 2018. The following table sets forth our short-term debt and current portion of long-term debt as of the dates indicated:

	As of December 31,		
	2018	2019	2020
	(RMB in millions)		
Short-term bank borrowings and current portion of long-term loan	25,090	21,118	26,756
Securitization debt	608	—	384
2020 Notes	—	4,873	—
2022 Notes	6,703	—	—
2025 Notes	—	2,785	—
2019 Booking Notes	3,438	—	—
2020 Booking Notes	—	1,740	—
2022 Booking Notes	172	—	—
2025 Booking and Hillhouse Notes	—	—	6,525
Total	36,011	30,516	33,665

For a detailed discussion on our past debt facilities, see "—Contractual Obligations."

Long-term Debt

Our long-term debt increased by 16% from RMB19.5 billion as of December 31, 2019 to RMB22.7 billion as of December 31, 2020. Our long-term debt as of December 31, 2019 decreased by 19% from RMB24.1 billion as of December 31, 2018. The following table sets forth our long-term debt as of the dates indicated:

	As of December 31,		
	2018	2019	2020
	(RMB in millions)		
2020 Notes	4,813	—	—
2025 Notes	2,750	—	31
2022 Notes	—	353	331
2020 Booking Notes	1,719	—	—
2025 Booking and Hillhouse Notes	6,876	6,962	—
2022 Booking Notes	—	174	163
Exchangeable Senior Notes	—	—	4,249
Long-term loan	8,035	10,981	17,797
Securitization debt	—	1,074	147
Less: Debt issuance cost	(47)	(7)	(0)
Total	24,146	19,537	22,718

For a detailed discussion on our past debt facilities, see "—Contractual Obligations."

We diligently monitor our financial performance and proactively take precautionary measures from time to time to maintain our compliance with financial covenants under our long-term loan arrangements. Pursuant to the relevant loan agreements, we periodically test our compliance with financial covenants such as total assets, debt to asset ratio, and net debt-to-EBITDA ratio, and issue compliance certificates to the relevant lenders. We have been in compliance with the operating and financing covenants in our long-term loan agreements throughout the Track Record Period and up to the Latest Practicable Date.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and consolidated VIEs. Our goodwill was RMB58.0 billion, RMB58.3 billion, and RMB59.4 billion as of December 31, 2018, 2019, and 2020, respectively.

In December 2015, we consolidated Qunar through a step acquisition. The total acquisition cost was RMB32.5 billion. The fair values of net liabilities assumed in this transaction and non-controlling interest were RMB628 million and RMB17.9 billion, respectively. The RMB9.9 billion newly identifiable intangible assets of Qunar primarily consist of trademark and domain, technology, and supplier network for new products. We recognized deferred tax liability of RMB2.5 billion for the identifiable intangible assets. We also recognized goodwill of RMB43.6 billion in this acquisition.

In December 2016, we consummated an acquisition of Skyscanner with a total consideration of RMB12.0 billion, consisting of RMB10.1 billion in cash and our ordinary shares. The fair values of net assets and non-controlling interest were RMB325 million and RMB316 million, respectively. The RMB3.1 billion newly identifiable intangible assets primarily consist of trademark and domain, supplier relationship, and IT Platform. We recognized deferred tax liability of RMB620 million for the identifiable intangible assets. We also recognized goodwill of RMB9.5 billion in this acquisition.

The goodwill that we recognized from business acquisitions is primarily attributable to the expected synergies from combining operations of the acquire and the acquirer to further build and strengthen the vibrant travel ecosystem of the enlarged group. Such synergies include (1) the expected but unidentifiable business growth from consolidating the fragmented domestic travel market; (2) the strengthened market position and increased market presence through expanding travel offerings; (3) the enhanced relationship with travel ecosystem partners and increased popularity among users; and (4) the more efficient operation with reduced costs through combining redundant processes and facilities. In addition, the goodwill also includes the work force that is not separately recognized in the purchase price allocation.

We operate our business as a single report unit since we adopted a highly integrated strategy for our operations and acquired businesses as there is a high degree of collaboration and interdependency between the acquired businesses and us. The businesses we acquired in the past were related to travel industry and we consolidated their existing relationships with ecosystem partners and travel offerings on our platform after acquisitions to realize economies of scale and offer more comprehensive services to our users. In addition, we also integrated various functions of the acquired businesses such as resources and technological innovations, new travel offering development, and activity coordination in key markets across our Company to achieve the operation efficiency.

Impairment for Goodwill and Other Intangible Assets

For 2018, 2019, and 2020, we did not recognize any impairment charges for goodwill or intangible assets, because we did not conduct quantitative impairment test to these items as we did not find it necessary. For goodwill, in accordance with ASC 350-20-35-3, we first assessed the fair value of our single reporting unit by reference to our market capitalization. As our market capitalization as of December 31, 2020 gave us sufficient headroom over the carrying value of our net assets, we concluded that though the COVID-19 pandemic has significantly impacted our results of operations in 2020, the indicative fair value of our reporting unit is still higher than the carrying value with sufficient headroom, and therefore we did not further performed a quantitative test. For intangible assets with indefinite useful lives, in accordance with ASC 350-30-35-18, we first performed a qualitative assessment to determine whether a quantitative impairment test would be necessary. The intangible assets with indefinite useful lives were primarily derived from business acquisitions for the operation of the acquired businesses which were integrated with our business after the acquisitions. Similar to the qualitative test performed for goodwill, we reviewed the results of operations of our reporting unit and took into consideration of the headroom from qualitative assessment. We then concluded that there were no indicators to devaluate the acquired intangible assets. As a result, no quantitative testing was performed.

WORKING CAPITAL

We had net current assets of RMB10.6 billion as of December 31, 2018, and net current liabilities of RMB1.2 billion, and RMB358 million as of December 31, 2019, and 2020.

The following table sets forth a breakdown of our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of January 31,
	2018	2019	2020	2021
				(unaudited)
	(RMB in millions)			
Current assets:				
Cash, cash equivalents, and restricted cash	25,774	21,747	19,415	23,950
Short-term investments	36,753	23,058	24,820	26,992
Accounts receivable, net	5,668	7,661	4,119	3,751
Prepayments and other current assets	11,199	15,489	9,657	8,246
Total current assets	**79,394**	**67,955**	**58,011**	**62,939**
Current liabilities:				
Short-term debt and current portion of long-term debt	36,011	30,516	33,665	38,874
Accounts payable	11,714	12,294	4,506	3,437
Advances from customers	9,472	11,675	7,605	7,110
Other current liabilities	11,587	14,697	12,593	12,161
Total current liabilities	**68,784**	**69,182**	**58,369**	**61,582**
Net current assets/(liabilities)	**10,610**	**(1,227)**	**(358)**	**1,357**

Our net current assets was RMB1.4 billion as of January 31, 2021, as compared to our net current liabilities of RMB358 million as of December 31, 2020, primarily due to an increase in short-term investment of RMB2.2 billion mainly as a result of the reclassification of long-term held to maturity investments which will be mature within one year and a decrease in accounts payable of RMB1.1 billion, partially offset by the decrease in prepayments and other current assets of RMB1.4 billion, which was as a result of the impact of the COVID-19 pandemic.

Our net current liabilities was RMB358 million as of December 31, 2020, as compared to RMB1.2 billion as of December 31, 2019, primarily due to a decrease in accounts payable of RMB7.8 billion and accounts receivable of RMB3.5 billion, which was as a result of the impact of the COVID-19 pandemic, partially offset by an increase in short-term debt and current portion of long-term debt of RMB3.1 billion, mainly due to the loan facility we obtained in 2020.

Our net current liabilities was RMB1.2 billion as of December 31, 2019, as compared to our net current assets of RMB10.6 billion as of December 31, 2018, primarily due to the decrease in short-term investments from RMB36.8 billion as of December 31, 2018 to RMB23.1 billion as of December 31, 2019, which was mainly because we strategically applied a portion of the cash previously invested in short-term financial products to invest in long-term products in 2019 to achieve an optimized rate of investment return.

For a detailed discussion on our cash position as well as material changes in the various working capital items, see "—Liquidity and Capital Resources."

Taking into account cash and cash equivalents on hand, our operating cash flows, the available bank facilities, and the estimated **[REDACTED]** available to us from the **[REDACTED]**, our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this **[REDACTED]**.

OFF-BALANCE SHEET ARRANGEMENTS

In connection with our air ticketing business, we are required by the China Air Transport Association and International Air Transport Association to enter into guarantee arrangements and to pay deposits. The unused deposits are repaid at the end of the guaranteed period on an annual basis. As of December 31, 2020, the total quota of the air tickets that we were entitled to issue was up to RMB1.1 billion. The total amount of the deposit we paid was RMB146 million.

Based on the guarantee arrangements and historical experience, the maximum amount of the future payments is RMB943 million, which is the guaranteed amount of the air tickets that we could issue rather than a financial guarantee. We will be liable to pay only when we issue the air tickets to our users and such payable is included in the accounts payable. Therefore, we believe that the guarantee arrangements do not constitute any contractual and constructive obligation of us and has not recorded any liability beyond the amount of the tickets that have already been issued.

MATERIAL RELATED PARTY TRANSACTIONS

For details of our related party transactions, see "Related Party Transactions" and Note 13 to the Accountant's Report in Appendix I to this **[REDACTED]**. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by bank deposit and short term investment, as well as interest expenses associated with floating rate based bank borrowings and syndicated loans. For information about these notes and bank borrowings, see "Contractual Obligations." We have used interest swap contracts to hedge our exposure to interest rate risk. Based on our cash balance as of December 31, 2020, a one basis point decrease in interest rates would result in a RMB5 million decrease in our interest income on an annual basis. Our future interest income may fluctuate in line with changes in interest rates. However, the risk associated with fluctuating interest rates is principally confined to our interest-bearing cash deposits, and, therefore, our exposure to interest rate risk is limited.

Foreign Exchange Risk

The majority of our revenues are denominated in Renminbi. While a portion of our financial assets, financial liabilities and dividend payments are denominated in U.S. dollars, we may use foreign exchange spot, forwards, or other contracts to hedge our exposure to foreign currency risk where we deem necessary. Any significant revaluation of Renminbi against U.S. dollar may adversely affect our cash flow, earnings, and financial position, and the value of, and any dividends payable on, our Shares and ADSs. In 2020, foreign exchange losses accounted for 1% of our net loss. As of December 31, 2020, a 1% strengthening or weakening of Renminbi against U.S. dollars would have increased or decreased our net loss by 0.5%. See "Risk Factors—Risks Relating to Doing Business in China—Future movements in exchange rates between U.S. dollars and Renminbi may adversely affect the value of our Shares or ADSs."

Investment Risk

As of December 31, 2020, our equity method investments totaled US$2.9 billion. We periodically review our investments for impairment. Unrealized gains on transactions between the affiliated entity and us are eliminated to the extent of our interest in the affiliated entity; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. We are unable to control these factors and an impairment charge recognized by us will impact our operating results and financial position.

Inflation

Inflation in China has not materially impacted our results of operations. According to NBS, the year-over-year percent changes in the consumer price index for December 2018, 2019, and 2020 were increases of 1.9%, 4.5%, and 0.2%, respectively. Inflation in recent years has been associated with food and other consumption items and minimum wages in China. Consumption items do not represent major direct cost items for our business. While personnel costs represent a material part of our total operating costs and expenses, inflation in minimum wages in China primarily affects certain categories of our non-managerial staff costs while increases in total personnel costs of our business remain manageable. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities on the date of the balance sheet and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that are believed to be reasonable under the circumstances, which together form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management's judgment.

Revenue Recognition

We describe our revenue recognition policies in our consolidated financial statements. We present substantially all of our revenues on a net basis as the travel supplier is primarily responsible for providing the underlying travel services and we do not control the service provided by the travel supplier to the traveler. Revenues are recognized on a gross basis where we undertake substantive inventory risks by pre-purchasing inventories.

On January 1, 2018, we adopted new revenue guidance ASC Topic 606, "Revenue from Contracts with Customers" ("ASC 606"). The new standard did not change the presentation of our revenues, which continues to be substantially reported on a net basis. However, the timing of revenue recognition for certain revenue streams is changed under the new standard. In particular, revenue for accommodation reservation services, which used to be recognized after end-users completed their stays, is now recognized when the reservation becomes non-cancellable. Revenue for packaged-tour services, which used to be recognized when packaged tours were completed, is now recognized on the departure date of the tours.

Business Combination

We apply ASC 805 "Business Combination," which requires that all business combinations not involving entities or business under common control be accounted for under the acquisition method. The cost of an acquisition is measured as the aggregate of fair values at the date of exchange of assets given, liabilities incurred and equity instruments issued. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of cost of acquisition, fair value of non-controlling interests and acquisition date fair value of any previously held equity interest in an acquiree over (ii) the fair value of identifiable net assets of an acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of a subsidiary acquired, the difference is recognized directly in the consolidated statements of comprehensive income.

Fair value of available-for-sale debt investments

We had available-for-sale debt investments during the Track Record Period as set out in note 8 to the Accountant's Report in Appendix I. We report available-for-sale debt investments at fair value at each balance sheet date and changes in fair value are reflected in the statements of income and comprehensive income. Management determined the fair value of these Level 3 investments based on income approach using various unobservable inputs. Valuation techniques are certified by an independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on our own specific data. However, it should be noted that some inputs, such as revenue growth rate and lack of marketability discounts, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of available-for-sale debt investments. The fair values of the available-for-sale debt investments are set out in note 7 to the Accountant's Report in Appendix I.

In relation to the valuation of the available-for-sale debt investments, our Directors, based on the professional advice received, adopted the following procedures: (i) obtained and reviewed the capability statements and credentials provided by Avista and Duff&Phelps. Based on which, we believe that both Avista and Duff&Phelps have significant experience and adequate expertise in valuation services and are therefore qualified to perform our roles; (ii) provided the independent valuers with necessary financial and non-financial information as required so as to enable the valuers to perform the pertinent valuation assessment. For the forecast of operation results and cash flow performances, we take a prudently reasonable approach as to determine the significant estimates, including the revenue growth rate, and makes necessary adjustments on periodical basis to reflect the actual development of the underlying business; (iii) keep frequent discussion with valuers and review their valuation work papers and reports. During which, we carefully understand and evaluate the appropriateness and reasonableness of the overall valuation methodologies, computation basis, significant assumptions and estimates therein, including weighted average cost of capital, lack of marketability discounts, expected volatilities and probabilities in equity allocation; and (iv) review the results of the fair value assessments to understand the reasonableness of the changes of the fair values of the investments. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of available-for-sale debt investments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 8 of the Accountant's Report in Appendix I to this **[REDACTED]**. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-1 to I-3 of Appendix I to this **[REDACTED]**.

In relation to the valuation of the available-for-sale debt investments, the Joint Sponsors have conducted relevant due diligence work, including but not limited to (i) review of relevant notes in the Accountant's Report set forth in Appendix I to this document; (ii) discussed with the Company to understand (a) the procedures performed for such valuation; (b) the key factors, valuation methodologies and key assumptions taken into account by the Company as advised by the independent valuer; and (c) the internal control process undertaken by the Company for reviewing the relevant valuation; (iii) review of the professional qualification and previous experience of the independent valuer engaged by the Company through desktop search; and (iv) discussed with PricewaterhouseCoopers, the reporting accountant of the Company, on its work performed in this regard. Having considered the work done by the Directors and PricewaterhouseCoopers and the relevant due diligence done as stated above, nothing has come to the attention of the Joint Sponsors that would reasonably cause them to disagree with the views of the Directors and PricewaterhouseCoopers in respect of the valuation of the available-for-sale debt investments.

Investment

Our investments include equity method investments, equity securities without readily determinable fair values, equity securities with readily determinable fair values, held to maturity debt securities, and available-for-sale debt securities. We apply equity method in accounting for the investments in entities in which we have the ability to exercise significant influence but do not have control and the investments are in either common stock or in-substance common stock. Unrealized gains on transactions between an affiliated entity and us are eliminated to the extent of our interest in the affiliated entity; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity securities without readily determinable fair values are measured and recorded using a measurement alternative that measures the securities at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Prior to the fiscal year of 2018, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment. Equity securities with readily determinable fair values are measured and recorded at fair value on a recurring basis with changes in fair value, whether realized or unrealized, recorded through the income statement. Prior to 2018, these securities were classified as available-for-sale securities and measured and recorded at fair value with unrealized changes in fair value recorded through other comprehensive income. Debt securities that we have positive intent and ability to hold to maturity are classified as held-to-maturity debt securities and are stated at amortized cost.

We have classified our investments in debt securities, other than the held to maturity debt securities, as available-for-sale securities. Available-for-sale debt securities are reported at estimated fair value with the aggregate unrealized gains and losses, net of tax, reflected in "Accumulated other comprehensive loss" in the consolidated balance sheets. If the amortized cost basis of an available-for-sale security exceeds its fair value and if we have the intention to sell the security or it is more likely than not that our will be required to sell the security before recovery of the amortized cost basis, an impairment is recognized in the consolidated statements of operations. If we do not have the intention to sell the security and it is not more likely than not that we will be required to sell the security before recovery of the amortized cost basis and we determines that the decline in fair value below the amortized cost basis of an available-for-sale security is entirely or partially due to credit-related factors, the credit loss is measured and recognized as an allowance for credit losses along with the operating expense in the consolidated statements of operations. The allowance is measured as the amount by which the debt security's amortized cost basis exceeds our best estimate of the present value of cash flows expected to be collected.

We monitor our investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information. In light of the global spread of the COVID-19 pandemic and potentially prolonged decline of share prices of publicly traded companies in which we have invested, which is considered one of the indicators of impairment on our investments that are not measured at fair values, we may need to recognize significant downward adjustments or impairment to our investments.

Goodwill, Intangible Assets, and Long-Lived Assets

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in its subsidiaries and consolidated affiliated Chinese entities. Goodwill is not amortized but is reviewed at least annually for impairment or earlier, if an indication of impairment exists. Recoverability of goodwill is evaluated using a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the fair value of a reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is considered not impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeds the fair value of a reporting unit, the second step of the impairment test is performed in order to determine the implied fair value of a reporting unit's goodwill. Determining the implied fair value of goodwill requires valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference. We estimate total fair value of the reporting unit using discounted cash flow analysis, and makes assumptions regarding future revenue, gross margins, working capital levels, investments in new products, capital spending, tax, cash flows, and the terminal value of the reporting unit. Separately identifiable intangible assets that have determinable lives continue to be amortized and consist primarily of non-compete agreements, customer list, supplier relationship, technology and business relationship. We amortize intangible assets on a straight-line basis over their estimated useful lives, which is 3 to 15 years. The estimated life of amortized intangibles is reassessed if circumstances occur that indicate the life has changed. Other intangible assets that have indefinite useful life primarily include trademark and domain names. We evaluate indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment. We estimate total fair value of the reporting unit using discounted cash flow analysis, and makes assumptions regarding future revenue, gross margins, working capital levels, investments in new products, capital spending, tax, cash flows, and the terminal value of the reporting unit. Long-lived assets (including intangible with definite lives) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Reviews are performed to determine whether the carrying value of asset group is impaired, based on comparison to undiscounted expected future cash flows. If this comparison indicates that there is impairment, we recognize impairment of long-lived assets to the extent the carrying amount of such assets exceeds the fair value. In 2018, 2019, and 2020, we did not recognize any impairment charges for goodwill or intangible assets. If different judgments or estimates had been utilized, however, material differences could have resulted in the amount and timing of the impairment charge. We may potentially incur significant impairment charges if the recoverability of these assets become substantially reduced in the future. Any such impairment charges would adversely affect our financial condition and results of operations. In addition, in the case that the trading prices of our Shares and ADSs decline as a result of the potentially prolonged impacts from the COVID-19 pandemic or other factors, and the amount by which the share price exceeded the carrying value of the reporting unit becomes minimal, it may be considered an indicator for us to perform goodwill impairment test and we may need to recognize impairment on goodwill or other long lived assets.

Rewards Program

We offer a rewards program that allows our users to participate in a loyalty points program. The points awarded from services can be redeemed for cash or used to purchase gifts on our website and mobile platforms. The estimated incremental costs of the loyalty points program are recognized as sales and marketing expense, or as reduction of the revenue, depending on whether they can be redeemed to gifts or used as cash, and accrued for as a current liability. As members redeem awards or their entitlements expire, the accrued liability is reduced correspondingly. As of December 31, 2018, 2019, and 2020, our accrued liability for rewards program were approximately RMB528 million, RMB478 million, and RMB478 million, respectively, based on the estimated liabilities under the rewards program.

Share-Based Compensation

We follow ASC 718 "Stock Compensation," using the modified prospective approach. Under the fair value recognition provisions of ASC 718, we recognize share-based compensation net of an estimated forfeiture rate and therefore only recognize compensation cost for those shares expected to vest over the service period of the award. Under ASC 718, we applied the Black-Scholes valuation model in determining the fair value of options granted. Risk-free interest rates are based on US Treasury yield for the terms consistent with the expected life of award at the time of grant. Expected life is based on historical exercise patterns. Expected dividend yield is determined in view of our historical dividend payout rate and future business plan. We estimate expected volatility at the date of grant based on historical volatilities. We recognize compensation expense on all share-based awards on a straight-line basis over the requisite service period. Forfeiture rate is estimated based on historical forfeiture patterns and adjusted to reflect future change in circumstances and facts, if any. If actual forfeitures differ from those estimates, we may need to revise those estimates used in subsequent periods. According to ASC 718, a change in any of the terms or conditions of stock options shall be accounted for as a modification of the plan. Therefore, we calculate incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, we would recognize incremental compensation cost in the period the modification occurs and for unvested options, we would recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

On November 23, 2007, our board of directors declared a dividend of one ordinary share purchase right for each of our ordinary shares outstanding at the close of business on December 3, 2007. The shareholder rights agreement is placed to discourage unfriendly or unauthorized takeover attempts, and is considered as a dividend from accounting perspective. The exercisable condition of the ordinary share purchase right is the accumulation of a significant percentage of our total outstanding shares by certain shareholders. Upon the occurrence of exercisable condition, the issuance of rights to eligible shareholders on a pro rata basis will be accounted for as a dividend with the offsetting entry recorded to additional paid in capital. As of December 31, 2020, the exercisable condition of the shareholder rights had not been met.

Leases

We began to apply ASC 842, "Leases," on January 1, 2019 on a modified retrospective basis and has elected not to recast comparative periods. We determine if an arrangement is a lease at inception. Operating leases are primarily for office and operation space and are included in ROU assets, other payables and accruals, and long-term lease liabilities on our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. The operating lease ROU assets and liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease. Renewal options are considered within the ROU assets and lease liability when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For operating leases with a term of one year or less, we have elected to not recognize a lease liability or ROU asset on our consolidated balance sheet. Instead, we recognize the lease payments as expense on a straight-line basis over the lease term. Short-term lease costs are immaterial to our consolidated statements of operations and cash flows. We have operating lease agreements with insignificant non-lease components and have elected the practical expedient to combine and account for lease and non-lease components as a single lease component.

Deferred Tax Valuation Allowances

We provide a valuation allowance on our deferred tax assets to the extent we consider it to be more likely than not that we will be unable to realize all or part of such assets. Our future realization of our deferred tax assets depends on many factors, including our ability to generate taxable income within the period during which temporary differences reverse or before our tax loss carry-forwards expire, the outlook for the Chinese economy and overall outlook for our industry. We consider these factors at each balance sheet date and determine whether valuation allowances are necessary. As of December 31, 2018, 2019, and 2020, we recorded deferred tax assets of RMB850 million, RMB976 million, and RMB1.4 billion, respectively. If, however, unexpected events occur in the future that would prevent us from realizing all or a portion of our net deferred tax assets, an adjustment would result in a charge to income in the period in which such determination was made. As of December 31, 2018, 2019, and 2020, it is more likely than not that the deferred tax assets resulting from the net operating losses of certain subsidiaries will not be realized. Hence, we recorded valuation allowance against our gross deferred tax assets in order to reduce the deferred tax assets to the amount that is more likely than not to be realized. Also, we have elected to early adopt a new accounting guidance issued by the FASB to simplify the presentation of deferred income taxes on the Balance Sheet Classification. Starting December 31, 2015 and prospectively, deferred tax assets and liabilities, along with related valuation allowances are classified as noncurrent on the balance sheet.

Allowance for Expected Credit Losses

On January 1, 2020, we adopted the accounting standards update on the measurement of credit losses, which requires us to estimate lifetime expected credit losses upon recognition of the financial assets. We adopted the accounting standards update using a modified retrospective approach. Upon adoption of the new standard on January 1, 2020, we recorded a net decrease to our retained earnings of RMB83 million, net of tax.

Our accounts receivable, prepayments and other current assets (including the receivables of financial services), due from related parties, long-term deposits and prepayments and long-term receivables due from related parties are within the scope of ASC Topic 326. We have identified the relevant risk characteristics of our customers and the related receivables and prepayments, which include size, type of the reservation services we provide or geographic location of the customer, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, we consider the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include customer demographics, payment terms offered in the normal course of business to customers, and industry-specific factors that could impact our receivables. Additionally, external data and macroeconomic factors are also considered. This is assessed at each quarter based on our specific facts and circumstances.

In 2020, we facilitated and processed significant volume of the reservation cancelation requests from the end users due to the COVID-19 pandemic which resulted in the significant increase of the accounts receivables due from the customers (i.e. the travel suppliers) as a result of the refunds we paid the end users on behalf of our customers and will collect from our customers. Given the business disruptions and financial challenges faced by our customers as driven by the COVID-19 pandemic, we have further analyzed the credit risks of our customers with the considerations including the recent credit losses, repayment pattern and business conditions and has increased our allowance for expected credit losses on receivables from and prepayments to our customers. Such analysis was performed based on individual customer's level or a group of customers level depends on the amount and extent of overdue as well as the risk characteristics of the different customers. Up to February 28, 2021, we have settled RMB3.2 billion of our accounts receivables outstanding as of December 31, 2020. As of the Latest Practicable Date, we have not encountered any material dispute or disagreements with our travel partners in respect of the amount of refunds to be reimbursed by such travel partners.

Significant judgments and assumptions are required to estimate the allowance for expected credit losses on receivables from and prepayments to customers and such assumptions may change in future periods, particularly the assumptions related to the impact of the COVID-19 pandemic on the business prospects and financial condition of customers and our ability to collect the receivable or recover the prepayment. As of December 31, 2018, 2019 and 2020, the allowance for expected credit losses was RMB156 million, RMB256 million, and RMB799 million, respectively. The increase of allowance for expected credit losses in 2020 was primarily attributable to the increased receivables mainly due to the refunds for reservation cancelations that we paid on behalf of our ecosystem partners that are subject to the increased credit risks as a result of the COVID-19 pandemic.

RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recently issued accounting pronouncements, see Note 2 to the Accountant's Report in Appendix I to this **[REDACTED]**.

DIVIDEND POLICY

We have not distributed dividends to our shareholders of record during the Track Record Period, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law, namely, we may only pay dividends out of profits or our share premium account, and provided further that a dividend may not be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency, and amount of our dividends will depend upon our future operations and earnings, capital requirements and surplus, financial condition, contractual restrictions, and other factors that our board of directors may deem relevant. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work that our Directors consider appropriate and after due and careful consideration, our Directors confirm that except as disclosed in "—Impact of the COVID-19 pandemic on Our Operations," up to the date of this **[REDACTED]**, there has been no material adverse change in our financial or trading position or prospects since December 31, 2020, being the end date of the periods reported on in the Accountant's Report included in Appendix I to this **[REDACTED]**, and there is no event since December 31, 2020 that would materially affect the information as set forth in the Accountant's Report included in Appendix I to this **[REDACTED]**.

LISTING EXPENSE

We expect to incur listing expenses of up to approximately RMB**[REDACTED]** (assuming that the **[REDACTED]** is conducted at the indicative **[REDACTED]** per **[REDACTED]** of HK$**[REDACTED]** for both **[REDACTED]** and **[REDACTED]** and the **[REDACTED]** is not exercised). We expect to recognize RMB**[REDACTED]** as general and administrative expenses in the year ending December 31, 2021 and RMB**[REDACTED]** as a deduction in equity directly.

PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is our illustrative pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules. It is for illustrative purposes only, and is set forth below to illustrate the effect of the **[REDACTED]** on our consolidated net tangible assets attributable to the owners of the Company as of December 31, 2020 as if the **[REDACTED]** had taken place on December 31, 2020.

The pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the **[REDACTED]** been completed as of December 31, 2020 or any future date. It is prepared based on our consolidated net tangible assets attributable to the owners of the Company as of December 31, 2020 as derived from the Accountant's Report, set forth in Appendix I to this **[REDACTED]** and adjusted as described below.

	Consolidated Net Tangible Assets Attributable to Ordinary Shareholders of Our Company as of December 31, 2020	Estimated [REDACTED] from the [REDACTED]	Pro Forma Adjusted Net Tangible Assets Attributable to Ordinary Shareholders of Our Company as of December 31, 2020	Pro Forma Adjusted Net Tangible Assets per Share	Pro Forma Adjusted Net Tangible Assets per ADS	Pro Forma Adjusted Net Tangible Assets per Share	Pro Forma Adjusted Net Tangible Assets per ADS
	(in millions of RMB) (Note 1)	(in millions of RMB) (Note 2)	(in millions of RMB)	RMB (Note 3)	RMB (Note 4)	HK$ (Note 5)	HK$ (Note 5)
Based on **[REDACTED]** of HK$**[REDACTED]** per Share	27,745	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

(1) The consolidated net tangible assets attributable to ordinary shareholders of our Company as of December 31, 2020 is derived from the historical financial information contained in the Accountant's Report set forth in Appendix I to this **[REDACTED]**, which is based on the consolidated net assets attributable to ordinary shareholders of our Company as of December 31, 2020 of RMB100.4 billion with an adjustment for the intangible assets and goodwill attributable to the ordinary shareholders of our Company of RMB13.3 billion and RMB59.4 billion, respectively.

(2) **[REDACTED]**

(3) The pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that **[REDACTED]** Shares were in issue assuming that the **[REDACTED]** had been completed on December 31, 2020 and which the Share Subdivision that became effective on March 18, 2021 has been taken into account. It does not take into account any **[REDACTED]** of Shares upon exercise of the **[REDACTED]**, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of RSUs or other awards that have been or may be granted from time to time, and any issuance or repurchase and cancelation of Shares and/or ADSs by our Company after the Latest Practicable Date.

(4) The pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents one Share.

(5) For the purpose of this pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.8416 to HK$1.00, as set out in "Information about this Document and the **[REDACTED]**". No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to the pro forma adjusted net tangible assets of our Company to reflect any trading results or other transactions of our Company entered into subsequent to December 31, 2020 except for taking the Share Subdivision that became effective on March 18, 2021 into account.