The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this **[REDACTED]**. *It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

[Letterhead of PricewaterhouseCoopers] **[DRAFT]**

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TRIP.COM GROUP LIMITED AND J.P. MORGAN SECURITIES (FAR EAST) LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND GOLDMAN SACHS (ASIA) L.L.C.

Introduction

We report on the historical financial information of Trip.com Group Limited and its subsidiaries (together, the "Company") set out on pages I-3 to I-71, which comprises the consolidated balance sheets as at December 31, 2018, 2019 and 2020, and the consolidated statements of income/(loss) and comprehensive income/(loss), the consolidated statements of shareholders' equity and the consolidated statements of cash flows for each of the years ended December 31, 2018, 2019 and 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-71 forms an integral part of this report, which has been prepared for inclusion in the **[REDACTED]** of the Company dated **[REDACTED]** (the "**[REDACTED]**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the consolidated financial position of the Company as at December 31, 2018, 2019 and 2020 and of its consolidated financial performance and its consolidated cash flows for each of the years ended December 31, 2018, 2019 and 2020 in accordance with the basis of presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page I-3 have been made except for the retrospective adjustments on basic and diluted earnings/(losses) per ordinary share and weighted average ordinary shares outstanding for the years ended December 31, 2018, 2019 and 2020 due to the Share Subdivision that became effective on March 18, 2021 set out in Note 2 and 19 to the Historical Financial Information.

Dividends

We refer to Note 2 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
[REDACTED]

I. HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on the consolidated financial statements of the Company for the years ended December 31, 2018, 2019 and 2020 (collectively referred as "**Historical Financial Statements**"). The consolidated financial statements for the years ended December 31, 2018, 2019 and 2020 were audited by PricewaterhouseCoopers Zhong Tian LLP, PRC, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("**PCAOB**") relating to the financial statements.

The Historical Financial Information is presented in Renminbi. The United States Dollars ("US$") amounts disclosed in the Historical Financial Information are presented solely for the convenience of the readers and are calculated at the rate of US$1.00=RMB6.5250 on December 31, 2020. All values are rounded to the nearest million except when otherwise indicated.

CONSOLIDATED STATEMENTS OF INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)

(In millions, except for share and per share data)

		For the year ended December 31,			
		2018	2019	2020	2020
		RMB	RMB	RMB	US$
Revenues:					
Accommodation reservation		11,580	13,514	7,132	1,093
Transportation ticketing		12,947	13,952	7,146	1,095
Packaged tours		3,772	4,534	1,241	190
Corporate travel		981	1,255	877	135
Others		1,824	2,461	1,931	296
Total revenues		31,104	35,716	18,327	2,809
Less: Sales tax and surcharges		(139)	(50)	(11)	(2)
Net revenues		30,965	35,666	18,316	2,807
Cost of revenues		(6,324)	(7,372)	(4,031)	(618)
Gross profit		24,641	28,294	14,285	2,189
Operating expenses:					
Product development		(9,620)	(10,670)	(7,667)	(1,175)
Sales and marketing		(9,596)	(9,295)	(4,405)	(675)
General and administrative		(2,820)	(3,289)	(3,636)	(557)
Total operating expenses		(22,036)	(23,254)	(15,708)	(2,407)
Income/(loss) from operations		2,605	5,040	(1,423)	(218)
Interest income		1,899	2,094	2,187	335
Interest expense		(1,508)	(1,677)	(1,716)	(263)
Other (expense)/income	2	(1,075)	3,630	(273)	(42)
Income/(loss) before income tax expense and equity in loss of affiliates		1,921	9,087	(1,225)	(188)
Income tax expense	15	(793)	(1,742)	(355)	(54)
Equity in loss of affiliates		(32)	(347)	(1,689)	(259)
Net Income/(loss)		1,096	6,998	(3,269)	(501)
Net loss attributable to non-controlling interests		16	57	62	10
Accretion to redemption value of redeemable non-controlling interests	18	—	(44)	(40)	(6)
Net Income/(loss) attributable to Trip.com Group Limited		1,112	7,011	(3,247)	(497)
Net Income/(loss)		1,096	6,998	(3,269)	(501)
Other comprehensive (loss)/income:					
Foreign currency translation		(1,072)	(289)	75	11
Unrealized securities holding (losses)/gains, net of tax		(696)	266	(178)	(27)
Total comprehensive (loss)/income		(672)	6,975	(3,372)	(517)
Comprehensive loss attributable to non-controlling interests		16	13	22	4
Comprehensive (loss)/income attributable to Trip.com Group Limited		(656)	6,988	(3,350)	(513)

CONSOLIDATED STATEMENTS OF INCOME/(LOSS) AND COMPREHENSIVE INCOME/(LOSS)—continued

(In millions, except for share and per share data)

		For the year ended December 31,			
		2018	2019	2020	2020
		RMB	RMB	RMB	US$
Earnings/(losses) per ordinary share *(Note i)*	19				
—Basic		2.03	12.35	(5.40)	(0.83)
—Diluted		1.96	11.50	(5.40)	(0.83)
Earnings/(losses) per ADS (one ADS equals one ordinary share)					
—Basic		2.03	12.35	(5.40)	(0.83)
—Diluted		1.96	11.50	(5.40)	(0.83)
Weighted average ordinary shares outstanding *(Note i)*					
—Basic shares		547,227,408	567,871,968	600,888,208	600,888,208
—Diluted shares		567,396,984	641,952,112	600,888,208	600,888,208
Share-based compensation included in Operating expense above is as follows:					
Product development		934	919	964	148
Sales and marketing		156	144	159	24
General and administrative		617	651	750	115

Note i: Basic and diluted earnings/(losses) per ordinary share and weighted average ordinary shares outstanding for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision that became effective on March 18, 2021 as detailed in Note 2 and Note 19.

CONSOLIDATED BALANCE SHEETS
(In millions, except for share and per share data)

		December 31,			
		2018	2019	2020	2020
		RMB	RMB	RMB	US$
ASSETS					
Current assets:					
Cash and cash equivalents		21,530	19,923	18,096	2,773
Restricted cash		4,244	1,824	1,319	202
Short-term investments		36,753	23,058	24,820	3,804
Accounts receivable, net (Allowance for credit losses of RMB113 million, RMB186 million and RMB559 million, respectively)	2	5,668	7,661	4,119	631
Due from related parties (Allowance for credit losses of nil, nil and RMB72 million, respectively)	13	1,642	2,779	1,802	276
Prepayments and other current assets (Allowance for credit losses of RMB43 million, RMB70 million and RMB168 million, respectively)	3	9,557	12,710	7,855	1,204
Total current assets		79,394	67,955	58,011	8,890
Long-term deposits and prepayments	4	768	1,000	411	63
Long-term receivables due from related parties	13	229	25	25	4
Land use rights	5	94	91	88	14
Property, equipment and software	6	5,872	6,135	5,780	886
Investments	7,8	26,874	51,278	47,943	7,348
Goodwill	9	58,026	58,308	59,353	9,096
Intangible assets	10	13,723	13,173	13,256	2,032
Right-of-use assets	11	—	1,207	987	151
Deferred tax assets	15	850	976	1,395	214
Other long-term assets		—	21	—	—
Total assets		185,830	200,169	187,249	28,698
LIABILITIES					
Current liabilities:					
Short-term debt and current portion of long-term debt	12	36,011	30,516	33,665	5,159
Accounts payable		11,714	12,294	4,506	691
Due to related parties	13	492	400	241	37
Salary and welfare payable	14	3,694	4,829	3,534	542
Taxes payable	15	1,019	1,449	1,217	186
Advances from customers		9,472	11,675	7,605	1,166
Accrued liability for rewards program		528	478	478	73
Other payables and accruals	16	5,854	7,541	7,123	1,091
Total current liabilities		68,784	69,182	58,369	8,945
Deferred tax liabilities	15	3,838	3,592	3,574	548
Long-term debt	17	24,146	19,537	22,718	3,482
Long-term lease liability	11	—	749	618	95
Other long-term liabilities		329	264	403	62
Total liabilities		97,097	93,324	85,682	13,132
Commitments and contingencies	20				
MEZZANINE EQUITY					
Redeemable non-controlling interests	18	—	1,142	—	—

CONSOLIDATED BALANCE SHEETS—continued
(In millions, except for share and per share data)

	December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US$
SHAREHOLDERS' EQUITY				
Share capital (US$0.00125 par value; 1,400,000,000 shares authorized) *(Note i)*	5	6	6	1
Additional paid-in capital	73,876	83,614	83,960	12,867
Statutory reserves	484	635	637	98
Accumulated other comprehensive loss	(1,482)	(1,505)	(1,608)	(247)
Retained earnings	15,943	22,803	19,470	2,984
Less: Treasury stock	(2,111)	(2,111)	(2,111)	(323)
Total Trip.com Group Limited shareholders' equity	86,715	103,442	100,354	15,380
Non-controlling interests	2,018	2,261	1,213	186
Total shareholders' equity	88,733	105,703	101,567	15,566
Total liabilities, mezzanine equity and shareholders' equity	185,830	200,169	187,249	28,698

Note i: Value per share and the number of shares authorized as of December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision that became effective on March 18, 2021 as detailed in Note 2 and Note 19.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions, except for share and per share data)

	Ordinary shares (US$0.00125 par value)										
	Number of shares outstanding (Note i)	Par value	Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Retained earnings	Number of Treasury stock (Note i)	Treasury stock	Total Trip.com Group Limited shareholders' equity	Non-controlling interests	Total shareholders' equity
		RMB	RMB	RMB	RMB	RMB		RMB	RMB	RMB	RMB
Balance as of December 31, 2017	540,805,232	5	71,341	384	6,379	8,838	(23,433,096)	(2,111)	84,836	1,779	86,615
Cumulative effect of adoption of new accounting standard	—	—	—	—	(6,093)	6,093	—	—	—	—	—
Issuance of ordinary shares for the exercise of stock options	12,177,232	—	653	—	—	—	—	—	653	—	653
Share-based compensation	—	—	1,707	—	—	—	—	—	1,707	—	1,707
Appropriations to statutory reserves	—	—	—	100	—	(100)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(1,072)	—	—	—	(1,072)	—	(1,072)
Unrealized securities holding losses	—	—	—	—	(696)	—	—	—	(696)	—	(696)
Early Termination of Convertible Notes	128	—	—	—	—	—	128	—	—	—	—
Net income / (loss)	—	—	—	—	—	1,112	—	—	1,112	(16)	1,096
Issuance of additional equity stake by subsidiaries	—	—	—	—	—	—	—	—	—	394	394
Disposal of shares in subsidiaries	—	—	4	—	—	—	—	—	4	(34)	(30)
Acquisition of additional shares in subsidiaries	—	—	(224)	—	—	—	—	—	(224)	(378)	(602)
Non-controlling interest in subsidiary disposed of in Business Combination	—	—	395	—	—	—	—	—	395	4	399
Business combination	—	—	—	—	—	—	—	—	—	269	269
Balance as of December 31, 2018	552,982,592	5	73,876	484	(1,482)	15,943	(23,432,968)	(2,111)	86,715	2,018	88,733

Note i: The number of shares outstanding and treasury stock have been retrospectively adjusted for the Share Subdivision that became effective on March 18, 2021 as detailed in Note 2 and Note 19.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—continued
(In millions, except for share and per share data)

	Ordinary shares (US$0.00125 par value)										
	Number of shares outstanding (Note i)	Par value	Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Retained earnings	Number of Treasury stock (Note i)	Treasury stock	Total Trip.com Group Limited shareholders' equity	Non-controlling interests	Total shareholders' equity
		RMB	RMB	RMB	RMB	RMB		RMB	RMB	RMB	RMB
Balance as of December 31, 2018	552,982,592	5	73,876	484	(1,482)	15,943	(23,432,968)	(2,111)	86,715	2,018	88,733
Issuance of ordinary shares for the exercise of stock options	6,837,992	—	467	—	—	—	—	—	467	—	467
Share-based compensation	—	—	1,680	—	—	—	—	—	1,680	34	1,714
Appropriations to statutory reserves	—	—	—	151	—	(151)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	(289)	—	—	—	(289)	—	(289)
Unrealized securities holding gains	—	—	—	—	266	—	—	—	266	—	266
Accretion of redeemable non-controlling interests	—	—	—	—	—	(44)	—	—	(44)	—	(44)
Net income / (loss)	—	—	—	—	—	7,055	—	—	7,055	(57)	6,998
Deconsolidation of shares in subsidiaries	—	—	—	—	—	—	—	—	—	(45)	(45)
Issuance of additional equity stake by subsidiaries	—	—	—	—	—	—	—	—	—	19	19
Disposal of shares in subsidiaries	—	—	2	—	—	—	—	—	2	—	2
Equity transaction in which a non-controlling interest in a subsidiary is exchanged for a non-controlling interest in another subsidiary	—	—	(25)	—	—	—	—	—	(25)	25	—
Business combination	—	—	—	—	—	—	—	—	—	267	267
Share issuance for the investments	32,870,648	1	7,614	—	—	—	—	—	7,615	—	7,615
Balance as of December 31, 2019	592,691,232	6	83,614	635	(1,505)	22,803	(23,432,968)	(2,111)	103,442	2,261	105,703

Note i: The number of shares outstanding and treasury stock have been retrospectively adjusted for the Share Subdivision that become effective on March 18, 2021 as detailed in Note 2 and Note 19.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—continued
(In millions, except for share and per share data)

	Ordinary shares (US$0.00125 par value)										
	Number of shares outstanding (Note i)	Par value	Additional paid-in capital	Statutory reserves	Accumulated other comprehensive income/(loss)	Retained earnings	Number of Treasury stock (Note i)	Treasury stock	Total Trip.com Group Limited shareholders' equity	Non-controlling interests	Total shareholders' equity
		RMB	RMB	RMB	RMB	RMB		RMB	RMB	RMB	RMB
Balance as of December 31, 2019	592,691,232	6	83,614	635	(1,505)	22,803	(23,432,968)	(2,111)	103,442	2,261	105,703
Cumulative effect of adoption of new accounting standard (Note 2)	—	—	—	—	—	(83)	—	—	(83)	—	(83)
Issuance of ordinary shares for the exercise of stock options	6,935,904	—	159	—	—	—	—	—	159	—	159
Share-based compensation	—	—	1,873	—	—	—	—	—	1,873	—	1,873
Appropriations to statutory reserves	—	—	—	3	—	(3)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	75	—	—	—	75	—	75
Unrealized securities holding gains	—	—	—	—	(178)	—	—	—	(178)	—	(178)
Accretion of redeemable non-controlling interests	—	—	—	—	—	(40)	—	—	(40)	—	(40)
Net income / (loss)	—	—	—	—	—	(3,207)	—	—	(3,207)	(62)	(3,269)
Deconsolidation of shares in subsidiaries	—	—	—	—	—	—	—	—	—	176	176
Issuance of additional equity stake by subsidiaries	—	—	—	—	—	—	—	—	—	5	5
Disposal of shares in subsidiaries	—	—	—	(1)	—	—	—	—	(1)	(233)	(234)
Equity transaction in which a non-controlling interest in a subsidiary is exchanged for a non-controlling interest in another subsidiary	—	—	9	—	—	—	—	—	9	(9)	—
Acquisition of additional shares in subsidiaries	—	—	(1,695)	—	—	—	—	—	(1,695)	(925)	(2,620)
Balance as of December 31, 2020	599,627,136	6	83,960	637	(1,608)	19,470	(23,432,968)	(2,111)	100,354	1,213	101,567

Note i: The number of shares outstanding and treasury stock have been retrospectively adjusted for the Share subdivision that became effective on March 18, 2021 as detailed in Note 2 and Note 19.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	For the year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US$
Cash flows from operating activities:				
Net income/(loss)	1,096	6,998	(3,269)	(501)
Adjustments to reconcile net income/(loss) to cash provided by operating activities:				
Share-based compensation	1,707	1,714	1,873	287
Equity in loss of affiliates	32	347	1,689	259
Loss from disposal of property, equipment and software	41	28	100	15
Gain on deconsolidation of subsidiaries	—	(161)	(1,091)	(167)
(Gain)/loss from disposal of long-term investment	(1,181)	(318)	602	92
Loss/(gain) from disposal of a subsidiary	2	11	(36)	(6)
Impairments of long-term investments	—	205	905	139
Provision/(settlement) of provision and contingent liability balances related to an equity method investments	61	(603)	—	—
Changes in fair value for equity securities investment and exchangeable senior notes	3,064	(2,334)	612	94
Gain from the re-measurement of the previously held equity interest to the fair value in the business acquisition	(249)	(196)	—	—
Gain from foreign currency forwards	—	(105)	(47)	(7)
Allowance for credit losses	69	191	700	107
Depreciation of property, equipment and software	546	656	790	121
Amortization of intangible assets and land use rights	436	440	427	65
Amortization of right of use assets	—	354	349	53
Deferred income tax benefits	(632)	(176)	(493)	(75)
Changes in current assets and liabilities, net of assets acquired and liabilities assumed/disposed of in business combinations/dispositions, net of deconsolidations:				
(Increase)/decrease in accounts receivable	(704)	(2,041)	3,189	489
(Increase)/decrease in due from related parties	(1,280)	(1,054)	821	126
(Increase)/decrease in prepayments and other current assets	(2,039)	(2,245)	3,838	588
(Increase)/decrease in long-term receivables	(41)	146	60	9
Increase/(decrease) in accounts payable	3,687	540	(7,762)	(1,190)
Increase/(decrease) in due to related parties	73	62	(159)	(24)
Increase/(decrease) in salary and welfare payable	220	1,143	(1,318)	(202)
Increase/(decrease) in taxes payable	42	407	(242)	(37)
Increase/(decrease) in advances from customers	1,333	2,211	(4,073)	(624)
Decrease in accrued liability for rewards program	(82)	(50)	—	—
Increase/(decrease) in other payables and accruals	914	1,163	(1,288)	(199)
Net cash provided by/(used in) operating activities	7,115	7,333	(3,823)	(588)
Cash flows from investing activities:				
Purchase of property, equipment and software	(673)	(823)	(532)	(81)
Cash paid for long-term investments	(4,387)	(15,834)	(9,770)	(1,497)
Cash received from/(paid for) business combinations, net of cash acquired	1	(212)	(958)	(147)
Purchase of intangible assets	(35)	(11)	—	—
(Increase)/decrease in short-term investments	(8,811)	15,011	6,909	1,059
Cash received from loans to the users	1,022	2,553	3,992	612
Cash paid for loans to the users	(998)	(2,748)	(3,944)	(604)
Net change in loans to the users with terms of less than three months	(918)	(1,084)	91	14
Cash received from disposal of long-term investments	723	719	708	109
Cash disposed from deconsolidation of subsidiaries	—	(3)	(313)	(48)
Cash (disposed)/received from disposal of subsidiaries	(2)	19	(4)	(1)
Net cash used in investing activities	(14,078)	(2,413)	(3,821)	(584)

CONSOLIDATED STATEMENTS OF CASH FLOWS—continued
(In millions)

	For the year ended December 31,			
	2018	**2019**	**2020**	**2020**
	RMB	**RMB**	**RMB**	**US$**
Cash flows from financing activities:				
Proceeds from/(repayment of) short-term bank loans, net	11,768	(3,079)	4,020	616
Proceeds from long-term bank loans	2,973	5,146	14,189	2,175
Repayment of long-term loans, including current portion	—	(3,147)	(3,589)	(550)
Proceeds from exercise of share options	677	467	159	24
Cash paid for acquisition of additional equity stake in subsidiaries	(1,196)	(220)	(2,089)	(320)
Cash paid for settlement of convertible notes	(3,297)	(10,048)	(9,522)	(1,459)
Proceeds from securitization debt	608	1,074	147	22
Cash paid for settlement of securitization debt	—	(608)	(690)	(106)
Cash received from non-controlling shareholders	393	1,159	5	1
Proceeds from issuance of exchangeable senior notes	—	—	3,395	520
Net cash provided by/(used in) financing activities	11,926	(9,256)	6,025	923
Effect of foreign exchange rate changes on cash and cash equivalents, restricted cash	819	309	(713)	(109)
Net increase/(decrease) in cash and cash equivalents, restricted cash	5,782	(4,027)	(2,332)	(358)
Cash and cash equivalents, restricted cash, beginning of year	19,992	25,774	21,747	3,333
Cash and cash equivalents, restricted cash, end of year	25,774	21,747	19,415	2,975
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	1,315	1,496	1,239	190
Cash paid for interest, net of amounts capitalized	1,444	1,637	1,642	252
Supplemental schedule of non-cash investing and financing activities				
Non-cash consideration paid for business acquisitions, investments and non-controlling interest	(942)	(400)	(50)	(8)
Share issuance as the consideration for equity investment	—	(7,615)	—	—
Accruals related to purchase of property, equipment and software	(22)	(144)	(126)	(19)
Unpaid cash consideration for business acquisitions and acquisition of additional shares of subsidiary	(188)	—	(43)	(7)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

1. ORGANIZATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements include the financial statements of Trip.com Group Limited (the "Company", formerly known as Ctrip.com International, Ltd.), its subsidiaries, variable interest entities (the "VIEs") and VIEs' subsidiaries. In these consolidated financial statements, where appropriate, the term "Company" also refers to its subsidiaries, VIEs and VIEs' subsidiaries as a whole.

The Company is principally engaged in the provision of travel related services including accommodation reservation, transportation ticketing, packaged tours, corporate travel management services, as well as, to a much lesser extent, Internet-related advertising and other related services.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

On March 18, 2021, the Company announced that the following proposed resolution submitted for shareholder approval has been adopted and approved as a special resolution at the Company's extraordinary general meeting of shareholders: Each of the Company's issued and unissued ordinary shares of a nominal or par value of US$0.01 each in the capital of the Company be and is hereby subdivided into eight (8) ordinary shares of a nominal or par value of US$0.00125 each in the capital of the Company, effective from March 18, 2021 ("Share Subdivision"). The Company also announced that, concurrently with the effectiveness of the Share Subdivision, the ratio of ADS to ordinary share will be adjusted from eight (8) ADSs representing one (1) ordinary share to one (1) ADS representing one (1) ordinary share (the "ADS Ratio Change"). The number of ordinary shares as disclosed in these consolidated financial statements are prepared on a basis after taking into account the effects of the Share Subdivision and the ADS Ratio Change and have been retrospectively adjusted accordingly.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIEs and VIEs' subsidiaries. All significant transactions and balances between the Company, its subsidiaries, VIEs and VIEs' subsidiaries have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Consolidation—continued

The Company applies the guidance codified in Accounting Standard Codification 810, Consolidations ("ASC 810") on accounting for VIEs and their respective subsidiaries, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entity in which it has a controlling financial interest. A VIE is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (b) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns, or (c) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity's activities are on behalf of the investor. The accompanying consolidated financial statements include the financial statements of the Company, its subsidiaries, consolidated VIEs and VIEs' subsidiaries:

The following is a summary of the Company's major VIEs and VIEs' subsidiaries:

Name of VIE and VIEs' subsidiaries	Date of establishment/acquisition
Shanghai Ctrip Commerce Co., Ltd. ("Shanghai Ctrip Commerce")	Established on July 18, 2000
Shanghai Huacheng Southwest International Travel Agency Co., Ltd. ("Shanghai Huacheng", formerly known as Shanghai Huacheng Southwest Travel Agency Co., Ltd.)	Established on March 13, 2001
Chengdu Ctrip Travel Agency Co., Ltd. ("Chengdu Ctrip")	Established on January 8, 2007
Beijing Qu Na Information Technology Company Limited ("Qunar Beijing")	Established on March 17, 2006

The Company is considered the primary beneficiary of a VIE or VIEs' subsidiary and consolidated the VIE or VIEs' subsidiary if the Company had variable interests, that will absorb the entity's expected losses, receive the entity's expected residual returns, or both.

Major variable interest entities and their subsidiaries

The Company conducts a part of its operations through a series of agreements with certain VIEs and VIEs' subsidiaries as stated in above. These VIEs and VIEs' subsidiaries are used solely to facilitate the Company's participation in Internet content provision, advertising business, travel agency and air-ticketing services in the People's Republic of China ("PRC") where foreign ownership is restricted. From 2015, the Company restructured its business lines to change some of its VIEs to its wholly owned subsidiaries, which carry out the businesses that are not foreign ownerships restricted.

Shanghai Ctrip Commerce is a domestic company incorporated in Shanghai, the PRC. Shanghai Ctrip Commerce holds value-added telecommunications operation licenses and is primarily engaged in the provision of advertising business on the Internet website. Two senior officers of the Company collectively hold 100% of the equity interest in Shanghai Ctrip Commerce. The registered capital of Shanghai Ctrip Commerce was RMB900,000,000 as of December 31, 2020.

Shanghai Huacheng is a domestic company incorporated in Shanghai, the PRC. Shanghai Huacheng holds a travel agency operation license and mainly provides domestic, inbound and

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Major variable interest entities and their subsidiaries—continued

outbound tour services and air-ticketing services. Shanghai Ctrip Commerce holds 100% of the equity interest in Shanghai Huacheng. The registered capital of Shanghai Huacheng was RMB100,000,000 as of December 31, 2020.

Chengdu Ctrip is a domestic company incorporated in Chengdu, the PRC. Chengdu Ctrip holds a travel agency operation license and is engaged in the provision of air-ticketing service. Two senior officers of the Company hold 100% of the equity interest in Chengdu Ctrip. The registered capital of Chengdu Ctrip was RMB500,000,000 as of December 31, 2020.

Qunar Beijing is a domestic company incorporated in Beijing, the PRC. Qunar Beijing holds various licenses for domestic and cross-border business of Qunar. Two senior officers of the Company hold 100% of the equity interest in Qunar Beijing. The registered capital of Qunar Beijing was RMB11,000,000 as of December 31, 2020.

The capital injected by senior officers or senior officer's family member are funded by the Company and are recorded as long-term business loans to related parties. The Company does not have any ownership interest in these VIEs and VIEs' subsidiaries.

As of December 31, 2020, the Company has various agreements with its consolidated VIEs and VIEs' subsidiaries, including loan agreements, technical consulting and services agreements, equity pledge agreements, exclusive option agreements and other operating agreements.

Details of certain key agreements with the VIEs are as follows:

Powers of Attorney: Each of the shareholders of the Company's consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, signed an irrevocable power of attorney to appoint Ctrip Travel Network or Ctrip Travel Information, as attorney-in-fact to vote, by itself or any other person to be designated at its discretion, on all matters of the applicable consolidated affiliated Chinese entities. Each such power of attorney will remain effective as long as the applicable consolidated affiliated Chinese entity exists, and such shareholders of the applicable consolidated affiliated Chinese entities are not entitled to terminate or amend the terms of the power of attorneys without prior written consent from us.

As of the date of this financial statements, each of the shareholders of Qunar Beijing, Hui Cao and Hui Wang, also signed an irrevocable power of attorney authorizing an appointee, to exercise, in a manner approved by Qunar, on such shareholder's behalf the full shareholder rights pursuant to applicable laws and Qunar Beijing's articles of association, including without limitation full voting rights and the right to sell or transfer any or all of such shareholder's equity interest in Qunar Beijing. Each such power of attorney is effective until such time as such relevant shareholder ceases to hold any equity interest in Qunar Beijing. The terms of the power of attorney with respect to Qunar Beijing are substantially similar to the terms described in the foregoing paragraph.

Technical Consulting and Services Agreements: Ctrip Travel Information and Ctrip Travel Network, each a wholly owned PRC subsidiary of the Company, provide the Company's consolidated

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Details of certain key agreements with the VIEs are as follows—continued:

affiliated Chinese entities, except for Qunar Beijing, with technical consulting and related services and staff training and information services on an exclusive basis. The Company also maintain its network platforms. In consideration for the Company's services, the Company's consolidated affiliated Chinese entities agree to pay the Company service fees as calculated in such manner as determined by the Company from time to time based on the nature of service, which may be adjusted periodically. Although the service fees are typically determined based on the number of transportation tickets sold, given the fact that the nominee shareholders of such consolidated affiliated Chinese entities have irrevocably appointed the employees of the Company's subsidiaries to vote on their behalf on all matters they are entitled to vote on, the Company has the right to determine the level of service fees paid and therefore receive substantially all of the economic benefits of the Company's consolidated affiliated Chinese entities in the form of service fees. Ctrip Travel Information or Ctrip Travel Network, as appropriate, will exclusively own any intellectual property rights arising from the performance of this agreement. The initial term of these agreements is 10 years and may be renewed automatically in 10-year terms unless the Company disapprove the extension. The Company retains the exclusive right to terminate the agreements at any time by delivering a 30-day advance written notice to the applicable consolidated affiliate Chinese entity.

As of the date of this financial statements, pursuant to the restated exclusive technical consulting and services agreement between Qunar Beijing and Qunar Software, Qunar Software provides Qunar Beijing with technical, marketing and management consulting services on an exclusive basis in exchange for service fee paid by Qunar Beijing based on a set formula defined in the agreement subject to adjustment by Qunar Software at its sole discretion. This agreement will remain in effect until terminated unilaterally by Qunar Software or mutually. The terms of this agreement are otherwise substantially similar to the terms described in the foregoing paragraph.

Share Pledge Agreements: The shareholders of the Company's consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, have pledged their respective equity interests in the applicable consolidated affiliated Chinese entities as a guarantee for the performance of all the obligations under the other contractual arrangements, including payment by such consolidated affiliated Chinese entities of the technical and consulting services fees to us under the technical consulting and services agreements, repayment of the business loan under the loan agreements and performance of obligations under the exclusive option agreements, each agreement as described herein. In the event any of such consolidated affiliated Chinese entity breaches any of its obligations or any shareholder of such consolidated affiliated Chinese entities breaches his or her obligations, as the case may be, under these agreements, the Company is entitled to enforce the equity pledge right and sell or otherwise dispose of the pledged equity interests after the pledge is registered with the relevant local branch of Statement Administration for Market Regulation ("SAMR") and retain the proceeds from such sale or require any of them to transfer his or her equity interest without consideration to the PRC citizen(s) designated by us. These share pledge agreements are effective until two years after the pledgor and the applicable consolidated affiliated Chinese entities no longer undertake any obligations under the above-referenced agreements.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Details of certain key agreements with the VIEs are as follows—continued:

As of the date of this financial statements, pursuant to the equity interest pledge agreement among Qunar Software, Hui Cao and Hui Wang, Hui Cao and Hui Wang have pledged their equity interests in Qunar Beijing along with all rights, titles and interests to Qunar Software as guarantee for the performance of all obligations under the relevant contractual arrangements mentioned herein. After the pledge is registered with the relevant local branch of SAMR, Qunar Software may enforce this pledge upon the occurrence of a settlement event or as required by the PRC law. The pledge, along with this agreement, will be effective upon registration with the local branch of the SAMR, and will expire when all obligations under the relevant contractual arrangements have been satisfied or when each of Hui Cao and Hui Wang completes a transfer of equity interest and ceases to hold any equity interest in Qunar Beijing. In enforcing the pledge, Qunar Software is entitled to dispose of the pledge and have priority in receiving payment from proceeds from the auction or sale of all or part of the pledge until the obligations are settled. The terms of this agreement are otherwise substantially similar to the terms described in the foregoing paragraph.

Loan Agreements: Under the loan agreements the Company entered into with the shareholders of the Company's consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, the Company extended long-term business loans to these shareholders of the Company's consolidated affiliated Chinese entities with the sole purpose of providing funds necessary for the capitalization or acquisition of such consolidated affiliated Chinese entities. These business loan amounts were injected into the applicable consolidated affiliated Chinese entities as capital and cannot be accessed for any personal uses. The loan agreements shall remain effective until the parties have fully performed their respective obligations under the agreement, and the shareholders of such consolidated affiliated Chinese entities have no right to unilaterally terminate these agreements. In the event that the PRC government lifts its substantial restrictions on foreign ownership of the travel agency, or value-added telecommunications business in China, as applicable, the Company will exercise its exclusive option to purchase all of the outstanding equity interests of the Company's consolidated affiliated Chinese entities, as described in the following paragraph, and the loan agreements will be canceled in connection with such purchase. However, it is uncertain when, if at all, the PRC government will lift any or all of these restrictions.

As of the date of this financial statements, pursuant to the loan agreement among Qunar Software, Hui Cao and Hui Wang, the loans extended by Qunar Software to each of Hui Cao and Hui Wang are only repayable by a transfer of such borrower's equity interest in Qunar Beijing to Qunar Software or its designated party, in proportion to the amount of the loan to be repaid. This loan agreement will continue in effect indefinitely until such time when (i) the borrowers receive a repayment notice from Qunar Software and fully repay the loans, or (ii) an event of default (as defined therein) occurs unless Qunar Software sends a notice indicating otherwise within 15 calendar days after it is aware of such event. The terms of this loan agreement are otherwise substantially similar to the terms described in the foregoing paragraphs.

Exclusive Option Agreements: As consideration for the Company's entering into the loan agreements described above, each of the shareholders of the Company's consolidated affiliated Chinese entities, except for Hui Cao and Hui Wang, has granted us an exclusive, irrevocable option to

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Details of certain key agreements with the VIEs are as follows—continued:

purchase, or designate one or more person(s) at the Company's discretion to purchase, all of its equity interests in the applicable consolidated affiliated Chinese entities at any time the Company desires, subject to compliance with the applicable PRC laws and regulations. The Company may exercise the option by issuing a written notice to the shareholder of relevant consolidated affiliated Chinese entity. The purchase price shall be equal to the contribution actually made by the shareholder for the relevant equity interest. Therefore, if the Company exercises these options, the Company may choose to cancel the outstanding loans the Company extended to the shareholders of such consolidated affiliated Chinese entities pursuant to the loan agreements as the loans were used solely for equity contribution purposes. The initial term of these agreements is 10 years and may be renewed automatically in 10-year terms unless the Company disapproves the extension. The Company retains the exclusive right to terminate the agreements at any time by delivering a written notice to the shareholder of applicable consolidated affiliate Chinese entity.

Hui Cao and Hui Wang also entered into an equity option agreement with Qunar, Qunar Software and Qunar Beijing. This equity option agreement contains arrangements that are similar to that as described in the foregoing paragraph. This agreement will remain effective with respect to each of Qunar Beijing's shareholders until all of the equity interest has been transferred or Qunar and Qunar Software terminates the agreement unilaterally with 30 days' prior written notice.

The Company's consolidated affiliated Chinese entities and their shareholders agree not to enter into any transaction that would affect the assets, obligations, rights or operations of the Company's consolidated affiliated Chinese entities without the Company's prior written consent. They also agree to accept the Company's guidance with respect to day-to-day operations, financial management systems and the appointment and dismissal of key employees.

Risks in relation to contractual arrangements between the Company's PRC subsidiaries and its affiliated Chinese entities:

The Company has been advised by Commerce & Finance Law Offices, its PRC legal counsel, that its contractual arrangements with its consolidated VIEs as described in the Company's annual report are valid, binding and enforceable under the current laws and regulations of China. Based on such legal opinion and the management's knowledge and experience, the Company believes that its contractual arrangements with its consolidated VIEs are in compliance with current PRC laws and legally enforceable. However, there may be in the event that the affiliated Chinese entities and their respective shareholders fail to perform their contractual obligations, the Company may have to rely on the PRC legal system to enforce its rights. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the foreign investments in China. However, since the PRC legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit remedies available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Due to the uncertainties with respect to the PRC legal system, the PRC government authorities may ultimately take a view contrary

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Risks in relation to contractual arrangements between the Company's PRC subsidiaries and its affiliated Chinese entities—continued:

to the opinion of its PRC legal counsel with respect to the enforceability of the contractual arrangements.

There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Accordingly, the Company cannot be assured that the PRC government authorities will not ultimately take a view that is contrary to the Company's belief and the opinion of its PRC legal counsel. In March 2019, the draft Foreign Investment Law was submitted to the National People's Congress for review and was approved on March 15, 2019, which came into effect from January 1, 2020. The new Foreign Investment Law of the PRC repealed simultaneously the Wholly Foreign-owned Enterprise Law of the PRC, Sino-foreign Equity Joint Venture Law of the PRC and Sino-foreign Cooperative Joint Ventures Law of the PRC. Therefore, the general regulations for companies' set up and operation in the PRC including the foreign-invested companies shall comply with the Company Law of the PRC unless provided in the PRC Foreign Investment Laws. In December 2019, the Implementing Regulation of the Foreign Investment Law has been promulgated by the State Council which has come into force as of January 1, 2020. The Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. Since the Foreign Investment Law is new, there are substantial uncertainties exist with respect to its implementation and interpretation and it is also possible that the VIE entities will be deemed as foreign invested enterprises and be subject to restrictions in the future. Such restrictions may cause interruptions to the Company's operations, products and services and may incur additional compliance cost, which may in turn materially and adversely affect the Company's business, financial condition and results of operations.

Summary financial information of the Company's VIEs in the consolidated financial statements

Pursuant to the contractual arrangements with the VIEs, the Company has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Company considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIE, except for registered capital and PRC statutory reserves of the VIEs amounting to a total of RMB2.0 billion as of December 31, 2020. As all the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company for any of the liabilities of the consolidated VIEs.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Summary financial information of the Company's VIEs in the consolidated financial statements—continued

Summary financial information of the VIEs, which represents aggregated financial information of the VIEs and their respective subsidiaries included in the accompanying consolidated financial statements, is as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
		RMB (in millions)	
Total assets	26,574	33,394	32,084
Less: Inter-company receivables	(5,228)	(8,235)	(8,690)
Total assets excluding inter-company receivables	21,346	25,159	23,394
Total liabilities	23,405	29,594	28,560
Less: Inter-company payables	(14,117)	(18,689)	(18,555)
Total liabilities excluding inter-company payables	9,288	10,905	10,005

As of December 31, 2018, 2019 and 2020, the VIEs' assets mainly consisted of cash and cash equivalents (December 31, 2018: RMB7.2 billion, December 31, 2019: RMB6.9 billion, December 31, 2020: RMB7.0 billion), short-term investments (December 31, 2018: RMB4.3 billion, December 31, 2019: RMB4.0 billion, December 31, 2020: RMB2.5 billion), accounts receivable (December 31, 2018: RMB2.9 billion, December 31, 2019: RMB4.3 billion, December 31, 2020: RMB2.7 billion), prepayments and other current assets (December 31, 2018: RMB3.6 billion, December 31, 2019: RMB5.1 billion, December 31, 2020: RMB3.5 billion) and investments (non-current) (December 31, 2018: RMB2.3 billion, December 31, 2019: RMB3.7 billion, December 31, 2020: RMB5.9 billion). The inter-company receivables of RMB5.2 billion, RMB8.2 billion and RMB8.7 billion as of December 31, 2018, 2019 and 2020 mainly represented the receivables by VIEs from the Company's wholly-owned subsidiaries for treasury cash management purpose.

As of December 31, 2018, 2019 and 2020, the VIEs' liabilities mainly consisted of accounts payable (December 31, 2018: RMB3.4 billion, December 31, 2019: RMB3.7 billion, December 31, 2020: RMB1.8 billion), other payables and accruals (December 31, 2018: RMB1.7 billion, December 31, 2019: RMB1.7 billion, December 31, 2020: RMB1.9 billion), advances from customers (December 31, 2018: RMB2.3 billion, December 31, 2019: RMB3.2 billion, December 31, 2020: RMB1.7 billion) and short-term debt (December 31, 2018: RMB1.2 billion, December 31, 2019: RMB365 million, December 31, 2020: RMB3.7 billion). The inter-company payables of RMB14.1 billion, RMB18.7 billion and RMB18.6 billion as of December 31, 2018, 2019 and 2020 mainly represented payables by VIEs to the Company's wholly-owned subsidiaries for treasury cash management purpose and the service fees payable to the WFOEs (Ctrip Travel Information, Ctrip Travel Network, and Qunar Software each a wholly owned PRC subsidiary of the Company's, "WFOEs") under the technical consulting and services agreements, which are operational in nature from the VIEs and their subsidiaries' perspectives and have been settled after each year end, respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Summary financial information of the Company's VIEs in the consolidated financial statements—continued

The following table set forth the summary of results of operations of the VIEs and their subsidiaries of the Company (RMB in millions):

	For the year ended December 31,		
	2018	2019	2020
Net revenues	8,357	9,572	6,513
Cost of revenues	2,983	3,627	2,471
Net income/(loss)	170	89	(254)

As aforementioned, the VIEs mainly conduct transportation ticketing, advertising and financial service businesses. Net revenues from VIEs accounted for around 36% of the Company's net revenues for the year ended December 31, 2020.

The VIEs' net income before the deduction of the inter-company service fee charges were RMB1.5 billion, RMB1.7 billion and RMB1.5 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

The WFOEs are the sole and exclusive provider of technical consulting and related services and information services for the VIEs. Pursuant to the Exclusive Technical Consulting and Service Agreements, the VIEs pay service fees to the WFOEs based on the VIEs' actual operating results. The WFOEs are entitled to receive substantially all of the net income and transfer a majority of the economic benefits in the form of service fees from the VIEs and VIEs' subsidiaries to the WFOEs.

The amount of service fees paid by all the VIEs as a percentage of the VIEs' total net income were 89%, 95% and 117% for the years ended December 31, 2018, 2019 and 2020, respectively.

The following tables set forth the summary of cash flow activities of the VIEs and their subsidiaries of the Company (RMB in millions):

	For the year ended December 31,		
	2018	2019	2020
Net cash provided by/ (used in) operating activities	591	(517)	(597)
Net cash used in investing activities	—	—	—
Net cash provided by financing activities	—	—	—

Currently there is no contractual arrangement that could require the Company to provide additional financial support to the consolidated VIEs. As the Company is conducting certain business in the PRC mainly through the VIEs, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Foreign currencies

The Company's reporting currency is RMB. The Company's functional currency is US$. The Company's operations are conducted through the subsidiaries and VIEs where the local currency is the functional currency and the financial statements of those subsidiaries are translated from their respective functional currencies into RMB.

Transactions denominated in currencies other than functional currencies are remeasured at the exchange rates quoted by the People's Bank of China (the "PBOC") and the Hong Kong Association of Banks (the "HKAB"), prevailing or averaged at the dates of the transaction for PRC and Hong Kong subsidiaries respectively. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of income/(loss) and comprehensive income/(loss). Monetary assets and liabilities denominated in foreign currencies are remeasured using the applicable exchange rates quoted by the PBOC and HKAB at the balance sheet dates. All such exchange gains and losses are included in the consolidated statements of income/(loss).

Assets and liabilities of the group companies are translated from their respective functional currencies to the reporting currency at the exchange rates at the balance sheet dates, equity accounts are translated at historical exchange rates and revenues and expenses are translated at the average exchange rates in effect during the reporting periods. The exchange differences for the translation of group companies with non-RMB functional currency into the RMB are included in foreign currency translation adjustments, which is a separate component of shareholders' equity on the consolidated financial statements. The foreign currency translation adjustments are not subject to tax.

Translations of amounts from RMB into US$ are solely for the convenience of the reader and were calculated at the rate of US$1.00 = RMB6.525 on December 31, 2020, representing the certificated exchange rate published by the Federal Reserve Board. No representation is intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2020, or at any other rate.

Cash and cash equivalents

Cash includes currency on hand and deposits held by financial institutions that can be added to or withdrawn without limitation. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of generally three months or less.

Restricted cash

Restricted cash represents cash that cannot be withdrawn without the permission of third parties. The Company's restricted cash is substantially cash balance on deposit required by its business partners and commercial banks.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Short-term investments

Short-term investments represent i) held-to-maturity investments which are due in one year and stated at amortized cost; ii) the investments issued by commercial banks or other financial institutions with a variable interest rate indexed to the performance of underlying assets within one year, and iii) foreign currency forward contracts which are short-term. These investments are stated at fair value. Changes in the fair value are reflected in the consolidated statements of income/(loss) and comprehensive income/(loss).

Derivative Instruments

Derivative instruments are carried at fair value. The fair values of the derivative financial instruments generally represent the estimated amounts expect to receive or pay upon termination of the contracts as of the reporting date.

As of December 31, 2019, the Company's derivative instruments primarily consisted of foreign currency forward contracts which are used to economically hedge certain foreign denominated liabilities and reduce, to the extent practicable, the potential exposure to the changes that exchange rates might have on the Company's earnings, cash flows and financial position. As the derivative instruments do not qualify for hedge accounting treatment, changes in the fair value are reflected in Other income/(expense) of the consolidated statements of income/(loss) and comprehensive income/(loss).

In 2020, the Company entered into interest rate swap contracts to swap floating interest payments related to certain borrowings for fixed interest payments to hedge the interest rate risk associated with certain forecasted payments and obligations. As the abovementioned interest rate derivatives are designated as cash flow hedges and the hedge is highly effective, all changes in the fair value of the derivative hedging instruments, amounted to RMB11 million, are recorded in other comprehensive income/(loss)("OCI") as unrealized securities holding losses.

As of December 31, 2018, 2019 and 2020, and for the years ended December 31, 2018, 2019 and 2020, the balance of the derivative instruments and the total amount of fair value changes are not material.

Installment credit and nonrecourse securitization debt

The Company provides installment credit solutions to users with the terms generally below one year. Such amounts are recorded at the outstanding principal amount less allowance for credit losses, and include accrued interest receivable and presented in receivable related to financial services in Note 3.

Since 2018, the Company entered into asset backed securitization arrangements with third-party financial institutions and set up a securitization vehicle as servicer to issue the revolving debt securities to third party investors, which are collateralized by the transferred assets. The Company consolidated the servicer of the securitized debt since economic interests are retained in the form of subordinated interests and it acts as the servicer of securitization vehicle. The proceeds from the issuance of debt securities are reported as securitization debt. The securities are repaid as collections on the underlying

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Installment credit and nonrecourse securitization debt—continued

collateralized assets occur and the amounts are included in "short-term debt and current portion of long-term debt" (Note 12) or "long-term debt" (Note 17) according to the contractual maturities of the debt securities.

As of December 31, 2018, 2019 and 2020, the collateralized receivable related to financial services were RMB0.7 billion, RMB1.2 billion and RMB0.7 billion, respectively, and the non-collateralized receivable related to financial services were RMB0.8 billion, RMB1.6 billion and RMB1.9 billion, respectively.

As of December 31, 2018, 2019 and 2020, the balance of allowance for expected credit losses for the receivable related to financial services amounted to RMB43 million, RMB69 million and RMB112 million, respectively. The Company recognized the interest income from the receivable related to financial services in Revenue—Others. The interest expenses in relation to the nonrecourse securitization debt were recognized in the cost of revenue. For the years ended December 31, 2018, 2019 and 2020, the interest incomes and the interest expenses were not material.

The gross amount of the credits provided to users is presented in the investing section of the cash flow statement unless the term of the receivables is three month or less, in which case it is presented on a net basis by deducting the repayment from the users.

Land use rights

Land use rights represent the prepayments for usage of the parcels of land where the office buildings are located, are recorded at cost, and are amortized over their respective lease periods (usually over 40 to 50 years).

Property, equipment and software

Property, equipment and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives, taking into account any estimated residual value:

Building	30-40 years
Leasehold improvements	Lesser of the term of the lease or the estimated useful lives of the assets
Website-related equipment	3-5 years
Computer equipment	3-5 years
Furniture and fixtures	3-5 years
Software	3-5 years

The Company recognizes the disposal of Property, equipment and software in general and administrative expenses.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Investments

The Company's 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.

The Company applies equity method in accounting for its investments in entities in which the Company has the ability to exercise significant influence but does not have control and the investments are in either common stock or in-substance common stock. Unrealized gains on transactions between the Company and an affiliated entity are eliminated to the extent of the Company's 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.

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.

On January 1, 2018, the Company adopted financial instruments accounting standard ASU No. 2016-01, which requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The standard also required the Company to reclassify the accumulated unrealized gain or loss of the equity investments measured at fair value that were previously recognized in other comprehensive income to retained earnings on the date of the adoption. Upon the adoption, the Company reclassified approximately RMB6.1 billion of accumulated other comprehensive income, reflective of the net unrealized gain for the equity securities with readily determinable fair values that existed as of January 1, 2018, into retained earnings.

Debt securities that the company has positive intent and ability to hold to maturity are classified as held to maturity debt securities and are stated at amortized cost.

The Company has classified its 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 (Note 7) 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 the Company has the intention to sell the security or it is more likely than not that the Company 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 the Company does not have the intention to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of the amortized cost basis and the Company 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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Investments—continued

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 the Company's best estimate of the present value of cash flows expected to be collected.

The Company monitors its 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.

Fair value measurement of financial instruments

Financial assets and liabilities of the Company primarily comprise of cash and cash equivalents, restricted cash, time deposits, financial products, derivative instruments, accounts receivable, due from related parties, available-for-sale debt investments, equity securities, accounts payable, due to related parties, advances from end users, short-term bank borrowings, other short-term liabilities and long-term debts. As of December 31, 2018, 2019 and 2020, except for derivative instruments, long-term debt, equity securities and available-for-sale debt investments, carrying values of these financial instruments approximated their fair values because of their generally short maturities. The Company reports derivative instruments, equity securities and 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. The Company disclosed the fair value of its long-term debts based on Level 2 inputs in Note 17.

The Company measures its financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets that the management has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect the management's assumptions about the assumptions that market participants would use in pricing the asset. The management develops these inputs based on the best information available, including the own data.

Business combination

U.S. GAAP requires that all business combinations not involving entities or businesses under common control be accounted for under the acquisition method. The Company applies ASC 805, "Business combinations", the cost of an acquisition is measured as the aggregate of the fair values at

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Business combination—continued

the date of exchange of the 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 the (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statements of income/(loss) and comprehensive income/(loss).

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Any changes to provisional amounts identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined.

Acquisitions

During the periods presented, the Company completed several transactions to acquire controlling shares to enrich its products and to expand business. The Company makes estimates and judgments in determining the fair value of the acquired assets and liabilities, based in part on independent appraisal reports as well as its experience with purchasing similar assets and liabilities in similar industries. Major assumptions used in determining the fair value of these acquired assets include future growth rates and weighted average cost of capital. The amount excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. The major acquisitions during the periods presented are as follows:

In April 2020, the Company consummated the acquisition of 100% equity interest of an online travel agency with the total cash consideration of EUR100 million (RMB772 million). The net liability assumed based on their fair values was RMB304 million, including cash acquired with amount of RMB41 million. The newly identifiable intangible assets were RMB72 million which primarily consist of tradename and supplier relationship. The tradename is assessed to be indefinite-lived intangible assets. The fair values of the supplier relationship with amount of RMB28 million is amortized over 10 years on a straight-line basis. The deferred tax liability of RMB16 million as recognized in associated with the identifiable intangible assets. The goodwill recognized for the acquisition was RMB1.0 billion which primarily made up of the expected synergies from combining operations of the acquiree and the acquirer, which do not qualify for separate recognition.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Acquisitions—continued

In September 2020, the Company consummated the acquisition of 100% equity interest of an online payment agency with the total cash consideration of RMB 423 million. The net assets acquired based on their fair values was RMB61 million, including cash acquired with amount of RMB113 million. The newly identifiable intangible asset was RMB324 million which primarily consist of a payment business license which is amortized over fifteen years on a straight-line basis. The deferred tax liability of RMB81 million as recognized in associated with the identifiable intangible assets. The goodwill recognized for the acquisition was RMB119 million which is primarily attributable to the expected synergies from the online payment processing services that will complement the Company's existing services offered through its online platforms.

In November 2019, the Company obtained control of an online travel agency company in which the Company previously had held 51% equity interest with substantive participating rights being held by the non-controlling shareholder. The Company obtained control of the acquiree when the non-controlling shareholder agreed to remove these substantive participating rights. The deemed consideration was the previous held 51% equity interest with the fair value of RMB259 million. The net assets assumed based on their fair values was RMB115 million, including cash acquired with amount of RMB11 million. The fair value of non-controlling interest was measured as RMB249 million, taking into account a non-controlling discount. The goodwill recognized for the acquisition was RMB393 million which is primarily reflects the expected synergies. The Company also recognized a gain from the re-measurement of its previously held equity interest to the fair value with amount of RMB196 million and reported in other income/(expense) (Note 2).

In May 2018, the Company consummated a step acquisition by acquiring substantially all the remaining equity interest of an offline travel agency company in which the Company previously held approximately 48% equity interest. The total purchase consideration was RMB1.1 billion which included the cash consideration of RMB198 million, the fair value of the previously held equity interest of RMB543 million and equity interest representing a 1.9% non-controlling interest of one of the Company's subsidiaries with the fair value of RMB399 million which is determined on Level 3 measures. The Company recognized a gain from the re-measurement of its previously held equity interest to the fair value with amount of RMB249 million and reported in other income/(expense) (Note 2). The Company recognized the non-controlling interest of the equity interest disposed at the book value of the proportionate shares of the net assets of the subsidiary with amount of RMB4 million and the difference between the fair value of the non-controlling interest with the book value of RMB395 million recorded as additional paid-in capital.

The net liability assumed based on their fair values was RMB212 million, including cash acquired with amount of RMB482 million. The fair value of non-controlling interest amounting to RMB15 million was measured based on the purchase price, taking into account a discount reflective of the non-controlling nature of the interest. The newly identifiable intangible assets were RMB269 million which primarily consist of brand name which is amortized over 10 years on a straight-line basis. The deferred tax liability of RMB67 million as recognized in associated with the identifiable intangible assets. The goodwill recognized for the acquisition was RMB1.2 billion which is

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Acquisitions—continued

primarily made up of the expected synergies from combining operations of the acquiree and the acquirer, which do not qualify for separate recognition.

Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated income statements for the years ended December 31, 2018, 2019 and 2020, either individually or in aggregate. Other immaterial acquisitions in 2018, 2019 and 2020 with total consideration of RMB553 million, RMB17 million and nil respectively resulted in goodwill increase of RMB621 million, nil and nil respectively, and intangible assets increase of RMB118 million, nil and nil respectively.

Goodwill and other intangible assets

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Company's acquisitions of interests in its subsidiaries and consolidated VIEs.

Goodwill was not amortized but is reviewed at least annually for impairment or earlier, if an indication of impairment exists. Recoverability of goodwill was evaluated using a two-step process. In the first step, the fair value of a reporting unit was compared to its carrying value. If the fair value of a reporting unit exceeded the carrying value of the net assets assigned to a reporting unit, goodwill was considered not impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeded the fair value of a reporting unit, the second step of the impairment test was performed in order to determine the implied fair value of a reporting unit's goodwill. Determining the implied fair value of goodwill required 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 exceeded its implied fair value, goodwill was deemed impaired and was written down to the extent of the difference. The Company estimated total fair value of the reporting unit using discounted cash flow analysis, and made 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.

Starting in 2020, the Company adopted the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. It is more likely that, by adopting simplified measurement which eliminates the Step 2 from goodwill impairment test, an entity with the triggering event for goodwill impairment will recognize more goodwill impairment than it would do under the old model.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Goodwill and other intangible assets—continued

As of December 31, 2020, there was no event or any circumstance that the Company identified, which indicated that the fair value of the Company's reporting unit was substantially lower than the respective carrying value. There was no impairment of goodwill during the years ended December 31, 2018, 2019 and 2020. Each quarter the Company reviews the events and circumstances to determine if goodwill impairment may be indicated.

Separately identifiable intangible assets that have determinable lives continue to be amortized and consist primarily of non-compete agreements, customer list, supplier relationship, technology, business relationship and payment business license as of December 31, 2018, 2019 and 2020. The Company amortizes intangible assets on a straight-line basis over their estimated useful lives, which is three to fifteen 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. The Company evaluates 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. The Company estimates 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.

The Company reviews intangible assets with indefinite lives annually for impairment or earlier, if an indication of impairment exists.

No impairment on other intangible assets was recognized for the years ended December 31, 2018, 2019 and 2020, respectively.

Impairment of long-lived assets

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, the Company recognizes impairment of long-lived assets to the extent the carrying amount of such assets exceeds the fair value.

Accrued liability for rewards program

The Company's end users participate in a loyalty points program. The points awarded from services can be redeemed for cash or used to purchase gifts on the Company's 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 it can be redeemed to gifts or

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Accrued liability for rewards program—continued

redeemed for 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, the Company's accrued liability for its rewards program amounted to RMB528 million, RMB478 million and RMB478 million, respectively, based on the estimated liabilities under the rewards program. In 2018, 2019 and 2020, the expenses recognized for the rewards program were immaterial.

Deferred revenue

The Company has a coupon program, through which the Company provides coupons for end users who book selected hotels online through website. The end users who use the coupons receive credits in their virtual cash accounts upon check-out from the hotels and reviews for hotels submitted. The end users may redeem the amount of credits in their virtual cash account in cash or voucher for their future bookings on the Company's website and mobile platforms. The Company accounts for the estimated cost of future usage of coupons as reduction of the revenue.

Revenue recognition

On January 1, 2018, the Company adopted revenue guidance ASC Topic 606, "Revenue from Contracts with Customers" ("ASC 606"). The standard did not change the presentation of the Company's revenues, which continues to be substantially reported on a net basis as the travel supplier is primarily responsible for providing the underlying travel services and the Company does not control the service provided by the travel supplier to the traveler. Revenues are recognized at gross amounts for merchant business where the Company undertakes substantive inventory risks by pre-purchasing inventories. However, the timing of revenue recognition for certain revenue streams is changed under the standard.

Revenue from accommodation reservation services, transportation ticketing services, packaged tours, and corporate travel are substantially recognized at a point of time when the performance obligations that are satisfied. Revenue from other businesses comprise primarily of online advertising services and financial services, which are recognized ratably over the time.

Accommodation reservation services

The Company receives commissions from travel suppliers for hotel room reservations through the Company's transaction and service platform. Commissions from hotel reservation services rendered are recognized when the reservation becomes non-cancellable which is the point considered when the Company completes its performance obligation in accommodation reservation services which include reservation and various post-booking services. Contracts with certain travel suppliers contain incentive commissions typically subject to achieving specific performance targets. The incentive commissions are considered as variable consideration and are estimated and recognized to the extent that the Company is entitled to such incentive commissions. The Company generally receives incentive commissions from monthly arrangements with hotels based on the number of hotel room reservations

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Revenue recognition—continued

Accommodation reservation services—continued

where end users have completed their stay. The Company presents revenues from such transactions on a net basis in the statements of income and comprehensive income as the Company, generally, does not control the service provided by the travel supplier to the traveler and has no obligations for cancelled hotel reservations. The amount of accommodation reservation services revenues recognized at gross basis were immaterial during the years ended December 31, 2018, 2019 and 2020, respectively.

Transportation ticketing services

Transportation ticketing services revenues mainly represent revenues from tickets reservations and other related services. The Company receives commissions from travel suppliers for ticketing services through the Company's transaction and service platform under various services agreements. Commissions from ticketing services rendered are recognized after tickets are issued as this is when the Company's performance obligation is satisfied. The Company presents revenues from such transactions on a net basis in the statements of income as the Company, generally, does not control the service provided by the travel supplier to the traveler and has no obligations for cancelled airline ticket reservations. Loss due to obligations for cancelled ticket reservations is minimal in the past. The amount of transportation ticketing services revenues recognized at gross basis were immaterial during the years ended December 31, 2018, 2019 and 2020, respectively.

As a result of the COVID-19 pandemic, the Company received a significant volume of the requests for ticketing order cancellations and refunds from its users due to the extended travel restrictions. For the orders of which the commissions were previously recognized in 2019, the Company reversed the commission revenue upon the cancellation in 2020. For the year ended December 31, 2020, the amount of the reversal of commission revenue previously recognized in 2019 is not material.

Packaged tours

The Company receives referral fees from travel product providers for packaged-tour products and services through the Company's transaction and service platform. Referral fees are recognized on the departure date of the tours as this is when the Company's performance obligation is satisfied. The Company presents revenues from such transactions on a net basis in the statements of income when the Company does not control the service provided by the travel supplier to the traveler and has no obligations for cancelled packaged-tour products reservations. The Company presents majority of its packaged-tour products and services revenues recognized on a net basis during the years ended December 31, 2018, 2019 and 2020, respectively.

Corporate travel

Corporate travel management revenues primarily include commissions from air ticket booking, hotel reservation and packaged-tour services rendered to corporate clients. The Company contracts with corporate clients based on service fee model. Travel reservations are made via on-line and off-line

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Revenue recognition—continued

Corporate travel—continued

services for air tickets, hotel and package-tour. Revenue is recognized on a net basis after the services are rendered and collections are reasonably assured.

Other businesses

Other businesses comprise primarily of online advertising services and financial services.

The Company receives advertising revenues, which principally represent the sale of banners or sponsorship on the website and mobile from customers. Advertising revenues are recognized ratably over the fixed term of the agreement as services are provided. The Company recognizes the revenue from the financial services ratably over the service period.

Allowance for expected credit losses

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

The Company's 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. The Company has identified the relevant risk characteristics of its customers and the related receivables and prepayments, which include size, type of the reservation services the Company provides 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, the Company considers 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 the Company's receivables. Additionally, external data and macroeconomic factors are also considered. This is assessed at each quarter based on the Company's specific facts and circumstances.

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 the Company's ability to collect the receivable or recover the prepayment. For the year ended December 31, 2020, the Company facilitated and processed significant volume of the reservation cancellation requests from the end users due to the COVID-19 pandemic, causing significant increase of the accounts receivables due from the customers (i.e. the travel suppliers) due to the fact that the Company paid the refunds to the end users on behalf of

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Allowance for expected credit losses—continued

its customers and expected to be reimbursed by its customers. Given the business disruptions and financial challenges faced by the Company's customers as driven by the COVID-19 pandemic, the Company has further analyzed the credit risks of related customers with the considerations including the recent credit losses, repayment pattern and business conditions. Such analysis was performed at individual customer's level or a group of customer's level, depending on the amount and extent of overdue as well as the risk characteristics of the different customers. As a result of such analysis, the company has increased its allowance for expected credit losses on both balances of the receivables from and prepayments to its customers.

The following table summarized the details of the Company's allowance for expected credit losses (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Balance at beginning of year	129	156	256
Cumulative effect of adoption of new accounting standard	—	—	83
Deconsolidation of subsidiaries	—	—	(27)
Allowance for credit losses	69	191	700
Write-offs	(42)	(91)	(213)
Balance at end of year	156	256	799

Cost of revenues

Cost of revenues consists primarily of payroll compensation of customer service center personnel, credit card service fee, payments to travel suppliers, telecommunication expenses, direct cost of principal travel tour services, depreciation, rentals and related expenses incurred by the Company's transaction and service platform which are directly attributable to the rendering of the Company's travel related services and other businesses.

Product development

Product development expenses include expenses incurred by the Company to develop the Company's travel supplier networks as well as to maintain, monitor and manage the Company's transaction and service platform. The Company recognizes website, software and mobile applications development costs in accordance with ASC 350-50 "Website development costs" and ASC 350-40 "Software—internal use software" respectively, which are not material. The Company expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites and mobile applications or the development of software or mobile applications for internal use and websites content.

Sales and marketing

Sales and marketing expenses consist primarily of costs of payroll and related compensation for the Company's sales and marketing personnel, advertising expenses, and other related marketing and

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Sales and marketing—continued

promotion expenses. Advertising expenses, amounting to approximately RMB6.0 billion, RMB5.5 billion and RMB1.9 billion for the years ended December 31, 2018, 2019 and 2020 respectively, are charged to the statements of income as incurred.

Share-based compensation

Under ASC 718, the Company 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 the Company's historical dividend payout rate and future business plan. The Company estimates expected volatility at the date of grant based on historical volatilities. The Company recognizes 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, the Company 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, the Company calculates 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, the Company would recognize incremental compensation cost in the period the modification occurs and for unvested options, the Company 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.

According to ASC 718, the Company classifies certain options or similar instruments as liabilities if the entity can be required under any circumstances to settle the option or similar instrument by transferring cash or other assets and such cash settlement is probable. The percentage of the fair value that is accrued as compensation cost at the end of each period shall equal the percentage of the requisite service that has been rendered at that date. Changes in fair value of the liability classified award that occur during the requisite service period shall be recognized as compensation cost over that period. Changes in fair value that occur after the end of the requisite service period are compensation cost of the period in which the changes occur. Any difference between the amount for which a liability award is settled and its fair value at the settlement date as estimated is an adjustment of compensation cost in the period of settlement.

Share incentive plans

In October 2007, the Company adopted a 2007 Share Incentive Plan ("2007 Incentive Plan"). As of December 31, 2018, 2019 and 2020, 27,201,848, 19,505,520 and 17,067,456 options (previously 3,400,231, 2,438,190 and 2,133,432 options before the Share Subdivision as detailed in Note 2), and

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Share-based compensation—continued

Share incentive plans—continued

4,555,976, 3,434,832 and 23,192 RSUs (previously 569,497, 429,354 and 2,899 RSUs before the Share Subdivision as detailed in Note 2), were outstanding under the 2007 Incentive Plan.

In June 2017, the Company adopted a Global Share Incentive Plan ("Global Incentive Plan"). The Company granted 26,294,048, 13,520,720 and 8,921,248 new share options (previously 3,286,756, 1,690,090 and 1,115,156 new share options before the Share Subdivision as detailed in Note 2), and 699,720, 150,000 and 550,888 new RSUs (previously 87,465, 18,750 and 68,861 new RSUs before the Share Subdivision as detailed in Note 2), to employees with 4 year requisite service period for year ended December 31, 2018, 2019 and 2020, respectively. As of December 31, 2018, 2019 and 2020, 26,470,216, 34,863,376 and 40,516,400 options (previously 3,308,777, 4,357,922 and 5,064,550 options before the Share Subdivision as detailed in Note 2), and 541,672, 573,936 and 911,320 RSUs (previously 67,709, 71,742 and 113,915 RSUs before the Share Subdivision as detailed in Note 2), were outstanding under the Global Incentive Plan.

In December 2019, the Company completed a one-time modification of share options (the "Modification"), pursuant to which eligible employees were able to exchange every four of the share options that were granted under the 2007 Incentive Plan and the Global Incentive Plan, with the exercise price exceeding US$40 (after Share Subdivision) per ordinary share, for one new option entitling each eligible grantee to purchase one ordinary share at the exercise price of US$0.00125 with the original vesting schedules remaining unchanged. As a result of the Modification, 6,686,792 options (previously 835,849 options before the Share Subdivision as detailed in Note 2) were exchanged for 1,672,208 new options (previously 209,026 options before the Share Subdivision as detailed in Note 2). The incremental compensation cost of the Modification was immaterial.

Following the Share Subdivision that became effective on March 18, 2021 as detailed in Note 2, each ordinary share was subdivided into eight ordinary shares and each ADS represents one ordinary share. Prior and subsequent to March 18, 2021, one ordinary share was and will be issuable upon the vesting of one outstanding restricted share or the exercise of one outstanding share option, respectively. Therefore, following the Share Subdivision, each share option and restricted share is subdivided into eight share options and eight restricted shares, the weighted average grant date fair value per restricted share and the weighted average exercise price per share option is diluted by eight times. The number of restricted shares and share options, the weighted average grant date fair value per restricted share and the weighted average exercise price per share option has been retrospectively adjusted for the Share Subdivision in the following tables.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Share-based compensation—continued

Share incentive plans—continued

The following table summarized the Company's share option activity under all the option plans (in US$, except shares):

	Number of Shares (Note i)	Weighted Average Exercise Price (Note i)	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2017	37,686,064	21.10	4.72	867
Granted	26,294,048	25.58		
Exercised	(8,403,056)	11.57		
Forfeited	(1,904,992)	21.45		
Outstanding at December 31, 2018	53,672,064	24.77	5.62	366
Granted	13,520,720	19.87		
Exercised	(5,883,328)	11.39		
Forfeited	(1,925,976)	20.93		
Modified	(6,686,792)	42.36		
Converted from modification	1,672,208	0.00		
Outstanding at December 31, 2019	54,368,896	22.21	5.63	679
Granted	8,921,248	15.88		
Exercised	(3,495,960)	6.96		
Forfeited	(2,210,328)	12.00		
Outstanding at December 31, 2020	57,583,856	22.55	5.16	704
Vested and expect to vest at December 31, 2020	55,019,024	22.66	5.09	667
Exercisable at December 31, 2020	25,523,448	25.46	3.41	250

Note i: The number of shares and weighted average exercise price have been retrospectively adjusted for the Share Subdivision that became effective on March 18, 2021 as detailed in Note 2 and Note 19.

The Company's current practice is to issue new shares to satisfy share option exercises.

The expected-to-vest options are the result of applying the pre-vesting forfeiture rate assumptions of 8% to total unvested options.

The aggregate intrinsic value in the table above represents the total intrinsic value (the aggregate difference between the Company's closing stock price of US$33.73 (after Share Subdivision) (US$33.73 per ADS) as of December 31, 2020 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2020.

The total intrinsic value of options exercised during the years ended December 31, 2018, 2019 and 2020 were US$356 million US$162 million and US$159 million, respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Share-based compensation—continued

Share incentive plans—continued

The weighted average fair value of options granted during the years ended December 31, 2018, 2019 and 2020 was US$18.80 (after Share Subdivision), US$19.47 (after Share Subdivision) and US$15.67 (after Share Subdivision) per share, respectively.

As of December 31, 2020, there was US$441 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share options which are expected to be recognized over a weighted average period of 2.6 year. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. Total cash received from the exercise of share options amounted to RMB677 million, RMB467 million and RMB159 million for the years ended December 31, 2018, 2019 and 2020, respectively. The transfer agent was engaged by the Company to collect the exercise proceeds and remitted on a regular basis and these amounts were included in "prepayments and other current assets".

The Company calculated the estimated fair value of share options on the date of grant using the Black-Scholes pricing model with the following assumptions:

	December 31, 2018	December 31, 2019	December 31, 2020
Risk-free interest rate	2.52%-3.09%	1.40%-2.44%	0.21%-1.32%
Expected life (years)	5	5	4-5
Expected dividend yield	0%	0%	0%
Volatility	42%-44%	42%-43%	40%-43%
Fair value of options at grant date per share	from US$11.06 to US$43.84	from US$11.37 to US$32.38	from US$8.12 to US$31.99

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Share-based compensation—continued

Share incentive plans—continued

The following table summarized the Company's RSUs activities under all incentive plans (in US$, except shares):

	Number of Shares (Note i)	Weighted average grant date fair value(US$) (Note i)
Restricted shares		
Unvested at December 31, 2017	8,765,776	35.24
Granted	699,720	41.46
Vested	(3,774,184)	32.69
Forfeited	(593,664)	36.76
Unvested at December 31, 2018	5,097,648	37.81
Granted	150,000	37.33
Vested	(954,672)	36.89
Forfeited	(284,208)	38.72
Unvested at December 31, 2019	4,008,768	37.94
Granted	550,888	28.49
Vested	(3,439,944)	37.53
Forfeited	(185,200)	38.42
Unvested at December 31, 2020	934,512	33.79

Note i: The number of restricted shares and weighted average grant date fair value have been retrospectively adjusted for the Share Subdivision that became effective on March 18, 2021 as detailed in Note 2 and Note 19.

As of December 31, 2020, there was US$21 million unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted shares, which are to be recognized over a weighted average vesting period of 1.7 years. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. The Company determined the fair value of RSUs based on its stock price on the date of grant.

Leases

The Company applied ASC 842, Leases, on January 1, 2019 on a modified retrospective basis and has elected not to recast comparative periods. The Company determines if an arrangement is a lease at inception. Operating leases are primarily for office and operation space and are included in right-of-use ("ROU") assets, other payables and accruals and long-term lease liabilities on its consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its 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 the Company's leases do not provide an implicit rate, the Company uses its 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

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Leases—continued

lease payments made and excludes lease incentives. The Company's 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 the Company 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, the Company has elected not to recognize a lease liability or ROU asset on its consolidated balance sheet. Instead, it recognizes the lease payments as expense on a straight-line basis over the lease term. Short-term lease costs are immaterial to its consolidated statements of operations and cash flows. The Company has 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.

Upon the adoption of the new lease standard, on January 1, 2019, the Company recognized operating lease assets of RMB1.0 billion and total operating lease liabilities of RMB980 million (including a current liability of RMB322 million) in the consolidated balance. There was no impact to retained earnings at adoption.

Taxation

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are provided using the balance sheet liability method. Under this method, deferred income taxes are recognized for the tax consequences of significant temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in income in the period enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered unlikely that some portion of, or all of, the deferred tax assets will not be realized.

The Company applies ASC 740, "Income Taxes". It clarifies the accounting for uncertainty in income taxes recognized in the Company's consolidated financial statements and prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

Other income/(expense)

Other income/(expense) consists of financial subsidies and investment income/(loss). Financial subsidies primarily relate to the non-recurring grants by central and local governments of China. The

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Other income/(expense)—continued

Company recognizes the income when the grants are received and no further conditions need to be met. Components of other income/(expense) were as follows (RMB in millions):

	For the year ended December 31,		
	2018	2019	2020
Gain on deconsolidation of subsidiaries (Note 18)	—	161	1,091
Subsidy income	469	589	601
(Provision)/settlement of provision and contingent liability balances related to an equity method investment (a)	(61)	603	—
Gain from the re-measurement of the previously held equity interest to the fair value in the business acquisition (Note 2)	249	196	—
Foreign exchange losses	(17)	(378)	(40)
Gain/(loss) on disposal of long-term investments (Note 7)	1,181	318	(602)
Fair value changes of equity securities investments and Exchangeable Senior Notes	(3,064)	2,334	(612)
Impairments of long-term investments	—	(205)	(905)
Others	168	12	194
Total	(1,075)	3,630	(273)

(a) In 2017, based on the impairment assessment by considering the operating results, market condition and business updates, a provision of RMB536 million for the loan and receivable balance due from Skysea Holding International Ltd (**"Skysea"**) was provided and a liability of RMB367 million for the contingent payable was recorded in "Other payables and accruals" which reflected the then best estimates of the liability to be assumed by the Company and offset by the proceeds from the net realisable value of Skysea in the event of winding down of its business. In 2019, Skysea completed its winding down of the business and the Company entered into the final settlement with Skysea. According to the final settlement, the Company collected the amount due from Skysea and settled the provision and contingent liability of RMB603 million (recognized as other income), which includes RMB236 million previously made for loan receivable and RMB367 million previously made for contingent payables.

Statutory reserves

The Company's PRC subsidiaries and the VIEs are required to allocate at least 10% of their after-tax profit to the general reserve in accordance with the PRC accounting standards and regulations. The allocation to the general reserve will cease if such reserve has reached to 50% of the registered capital of respective company. Appropriations to discretionary surplus reserve are at the discretion of the board of directors of the VIEs. These reserves can only be used for specific purposes and are not transferable to the Company in form of loans, advances, or cash dividends. There is no such regulation of providing statutory reserve in Hong Kong.

Dividends

Dividends are recognized when declared.

PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. The Company's PRC subsidiaries can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves. Additionally, as the Company does not have any direct ownership in the VIEs, the VIEs cannot directly distribute dividends to the Company. The PRC government imposes control

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Dividends—continued

over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. As the majority of the Company's revenues are in RMB, any restrictions on currency exchange may limit the Company's ability to use revenue generated in RMB to fund the Company's business activities outside China or to make dividend payments in U.S. dollars. However, the Company believes the restrictions on currency exchange imposed by the PRC foreign exchange regulations and enforced by SAFE do not constitute the "restrictions" under Rule 4-08(e)(3) under Regulation S-X, because such restrictions in substance do not prohibit the Company's subsidiaries or VIEs from transferring net assets to the Company in the combined forms of loans, advances and cash dividends without the consent of SAFE, provided that certain procedural formalities should be complied with. As of December 31, 2020, the restricted net assets of the Company's PRC subsidiaries and VIEs not distributable in the form of dividends to the parent as a result of the aforesaid PRC regulations and other restrictions were RMB7.8 billion.

As a result of the aforementioned PRC regulation and the Company's organizational structure, accumulated profits of the subsidiaries in PRC distributable in the form of dividends to the parent as of December 31, 2018, 2019 and 2020 were RMB15.8 billion, RMB21.9 billion and RMB25.8 billion, respectively. The Company's PRC subsidiaries and VIEs are able to enter into royalty and trademark license agreements or certain other contractual arrangements at the sole discretion of the Company, for which the compensatory element of the arrangement is deducted from the accumulated profits.

Effective January 1, 2008, current EIT Law imposes a 10% withholding income tax for dividends distributed by foreign invested enterprises to their immediate holding companies outside mainland China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Distributions to holding companies in Hong Kong that satisfy certain requirements specified by PRC tax authorities, for example, will be subject to a 5% withholding tax rate. Furthermore, pursuant to the applicable circular and interpretations of the current EIT Law, dividends from earnings created prior to 2008 but distributed after 2008 are not subject to withholding income tax.

No dividends have been paid or declared by the Company during the years ended December 31, 2018, 2019 and 2020.

Earnings/(losses) per share

In accordance with *"Computation of Earnings Per Share"*, basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing net income attributable to common shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Dilutive ordinary equivalent shares consist of ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method). Vested but unexercised stock options with exercise prices that represent little or no consideration are included in the weighted average shares outstanding in the basic earnings per share calculation.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Earnings/(losses) per share—continued

If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before the financial statements are issued or are available to be issued, the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares.

Effective March 18, 2021, each ordinary share was subdivided into eight ordinary shares and each ADS represents one ordinary share. The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share/ADS for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted.

Treasury stock

The share-repurchase programs do not require the Company to acquire a specific number of shares and may be suspended or discontinued at any time.

Segment reporting

The Company operates and manages its business as a single segment. Resources are allocated and performance is assessed by the CEO, who is determined to be the Chief Operating Decision Maker (CODM). Since the Company operates in one reportable segment, all financial and product information required can be found in the consolidated financial statements.

The Company primarily generates its revenues from the Greater China Area, for geographical information, please refer to Note 21.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU provides an exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. This update also (1) requires an entity to recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (2) requires an entity to evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which goodwill was originally recognized for accounting purposes and when it should be considered a separate transaction, and (3) requires that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The standard is effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Recent Accounting Pronouncements—continued

In January 2020, the FASB issued Accounting Standards Update No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarified that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarified that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The standard is effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting", which provides optional expedients and exceptions for applying U.S. GAAP on contract modifications and hedge accounting to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. These optional expedients and exceptions provided in ASU 2020-04 are effective for the Company as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact.

In August 2020, the FASB issued a new accounting update relating to convertible instruments and contracts in an entity's own equity. For convertible instruments, the accounting update reduces the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models results in fewer embedded conversion features being separately recognized from the host contract as compared with current U.S. GAAP. The accounting update amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. The accounting update also simplifies the diluted earnings per share calculation in certain areas. For public business entities, the update is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. Entities are allowed to apply this update on either a full or modified retrospective basis. The Company is in the process of evaluating the impact of the Update on its consolidated financial statements.

Certain risks and concentration

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments,

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES—continued

Certain risks and concentration—continued

accounts receivable, amounts due from related parties, prepayments and other current assets. As of December 31, 2018, 2019 and 2020, substantially all of the Company's cash and cash equivalents, restricted cash and short-term investments were held in major financial institutions located in the PRC and in Hong Kong, which management considers to be of high credit quality based on their credit ratings. Accounts receivable are generally unsecured and denominated in RMB, and are derived from revenues earned from operations arising primarily in the PRC.

No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2018, 2019 and 2020. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2018, 2019 and 2020.

Impact of COVID-19

As discussed in Note 2, the Company's businesses, results of operation, financial positions and cash flows are materially and adversely affected by the COVID-19 pandemic, including but not limited to the material adverse impact on the Company's revenues as result of the travel restrictions as well as significant incremental costs and expenses incurred when facilitating the end users in their cancellations and refund requests. The impacts of COVID-19 may also include slower collection of receivables and additional credit losses and significant downward adjustments or impairment to the Company's long-term investments and goodwill if the impacts become other than temporary.

Because of the significant uncertainties surrounding the COVID-19 which is still evolving, the extent of the business disruption, including the duration and the related financial impact on subsequent periods cannot be reasonably estimated at this time.

3. PREPAYMENTS AND OTHER CURRENT ASSETS

Components of prepayments and other current assets as of December 31, 2018, 2019 and 2020 were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Prepayments and other deposits	6,877	8,395	3,765
Receivable related to financial services (Note 2)	1,551	2,777	2,462
Prepaid expenses	401	406	454
Receivables from financial institutions	151	200	516
Others	577	932	658
Total	9,557	12,710	7,855

4. LONG-TERM DEPOSITS AND PREPAYMENTS

The Company's subsidiaries and VIEs are required to pay certain amounts of deposit to airline companies and hotel suppliers. The subsidiaries and VIEs are also required to pay deposit to local travel bureau as pledge for insurance of traveler's safety.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

4. LONG-TERM DEPOSITS AND PREPAYMENTS—continued

Components of long-term deposits and prepayments as of December 31, 2018, 2019 and 2020 were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Deposits paid to airline suppliers	243	209	221
Deposits paid to advertising suppliers	164	88	54
Deposits paid to hotel suppliers	70	36	13
Prepayments for purchase of long lived assets	127	517	3
Others	164	150	120
Total	768	1,000	411

5. LAND USE RIGHTS

Land use rights are amortized under straight-line method through the respective period of land rights, which are from 40-50 years. Amortization expense for the years ended December 31, 2018, 2019 and 2020 was approximately RMB3 million, RMB3 million and RMB3 million, respectively. As of December 31, 2018, 2019 and 2020, the net book value was RMB94 million, RMB91 million and RMB88 million respectively.

6. PROPERTY, EQUIPMENT AND SOFTWARE

Property, equipment and software and its related accumulated depreciation and amortization as of December 31, 2018, 2019 and 2020 were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Buildings	5,418	5,423	5,424
Computer equipment	1,145	1,217	1,065
Website-related equipment	771	1,187	1,402
Furniture and fixtures	292	383	283
Software	215	313	665
Leasehold improvements	146	188	169
Construction in progress	9	11	1
Less: accumulated depreciation and amortization	(2,124)	(2,587)	(3,229)
Total net book value	5,872	6,135	5,780

Depreciation expense for the years ended December 31, 2018, 2019 and 2020 was RMB546 million, RMB656 million and RMB790 million, respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

7. INVESTMENTS

The Company's long-term investments are consisted of the following (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Debt investments	5,107	17,604	18,213
Equity investments	21,767	33,674	29,730
Total	26,874	51,278	47,943

Debt investments

Held to maturity debt securities

Held to maturity investments were time deposits and financial products in commercial banks with maturities of more than one year with the carrying amount of RMB2.4 billion, RMB15.1 billion and RMB15.4 billion as of December 31, 2018, 2019 and 2020 respectively. As of December 31, 2018, 2019 and 2020, the weighted average maturities periods are 1.5 years, 1.5 years and 1.8 years, respectively.

Available-for-sale debt investments

The following table summarizes the Company's available-for-sale debt investments (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Cost, after adjusted with other-than-temporary impairment	2,633	2,693	3,134
Gross Unrealized Gains, including foreign exchange adjustment	236	257	173
Gross Unrealized Losses, including foreign exchange adjustment	(152)	(402)	(451)
Fair Value	2,717	2,548	2,856

For the years ended December 31, 2018, 2019 and 2020, the unrealized securities holding gain/(loss), net of tax of RMB(16) million, RMB5 million and RMB(21) million, respectively, was reported in other comprehensive income/(loss).

At December 31, 2020, the Company did not have the intent or a requirement to sell its available-for-sale debt investments. The Company believes that the decline in fair value of the investment is largely due to changes in market and economic conditions related to the COVID-19 pandemic. The Company also reviewed other available information and at December 31, 2020, expects recovery of the amortized cost basis of the investment.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

7. INVESTMENTS—continued

Equity investments

Equity securities with readily determinable fair values

The following table summarizes the Company's equity securities with readily determinable fair values (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Cost, after adjusted with other-than-temporary impairment	5,520	4,406	4,765
Gross Unrealized Gains, including foreign exchange adjustment	4,320	6,052	6,309
Gross Unrealized Losses, including foreign exchange adjustment	(845)	(421)	(839)
Fair Value	8,995	10,037	10,235

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.

Equity securities without readily determinable fair values

Equity securities without readily determinable fair values and over which the Company has neither significant influence nor control through investments in common stock or in-substance common stock, 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. The carrying value of equity securities without readily determinable fair values was RMB584 million, RMB596 million and RMB588 million as of December 31, 2018, 2019 and 2020 respectively. There is no fair value changes related to these investments for the years ended December 31, 2018, 2019 and 2020. None of the investments individually is considered as material to the Company's financial position.

For the years ended December 31, 2018, 2019 and 2020, the Company disposed certain equity securities without readily determinable fair values for total consideration of RMB261 million, RMB0 million and RMB30 million, respectively, which results a gain/(loss) of RMB122 million, RMB(1) million and RMB1 million as reported in other income/(expense), respectively. In 2018, the Company also paid certain equity securities without readily determinable fair values with amount of RMB294 million for business acquisition.

For the years ended December 31, 2018, 2019 and 2020, the Company made investments in equity investments without readily determinable fair values with amount of RMB92 million, RMB89 million and RMB94 million, respectively.

Equity method investments

In December 2016, in connection of share exchange transaction with BTG Hotels Company ("BTG") and Homeinns Hotel Company ("Homeinns"), the Company exchanged its previously held

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

7. INVESTMENTS—continued

Equity investments—continued

Equity method investments—continued

equity interest in Homeinns for 22% equity interest of BTG. The Company applied equity method to account for the investment in BTG on one quarter lag basis. As of December 31, 2018, 2019 and 2020, the carrying value of its investment in BTG were RMB2.7 billion, RMB2.8 billion and RMB2.7 billion respectively, the change of which primarily relates to the equity income or loss recognized.

Tujia used to be a subsidiary of the Company. In 2015, after a private placement of Tujia, the Company lost the control in Tujia. In 2017, Tujia completed a restructure and its offline business was assumed by a newly established company and the Company converted part of its preferred shares investment in Tujia to common shares of Tujia and the newly established company. The Company applies equity method for its common shares investments on Tujia and the newly established company on one quarter lag basis. The preferred shares investment in Tujia was continued to be accounted for as available-for-sale debt security. The Company concluded it does not have control over Tujia whilst it has majority ownership of Tujia since the Company does not have control of the board of directors of Tujia, which makes all the significant decisions of Tujia. As of December 31, 2018 and 2019, the carrying value of the equity method investments were RMB1.2 billion and RMB1.0 billion respectively, the change of which primarily relates to the equity loss recognized. In 2020, Tujia Offline consummated an external financing, together with the new investors, the Company obtained certain preferential rights, including the redemption rights and liquidation preference to its investment which is therefore not considered as in substance of common stock. The investment in Tujia Offline was then accounted for as available-for-sale debt security and initially measured at its fair value of RMB 0.5 billion. The previously held equity method investment of RMB1.0 billion in Tujia Offline was then derecognized with a deemed disposal loss of RMB0.4 billion recognized in other loss. The decrease in the fair value of Tujia was mainly due to the adverse changes in market and economic conditions related to the COVID-19 pandemic. As of December 31, 2018, 2019 and 2020, fair value of the preferred shares were RMB1.6 billion, RMB1.5 billion and RMB1.9 billion, respectively.

In May 2015, the Company acquired approximately 38% share capital of eLong, Inc. ("eLong") and applied equity method on one quarter lag basis. In May 2016, eLong completed its "going-private" transaction and merger with E-dragon Holdings Limited ("E-dragon") ("Reorganization"). After the Reorganization, the Company applies equity method for its ordinary shares investment in E-dragon's on one quarter lag basis and the preferred shares of E-dragon are classified as available-for-sale debt security. In March 2018, E-dragon consummated a merger with Tongcheng Network Technology Co., Ltd. ("LY.com") with share swap transaction. The Company received an equity method investment in the enlarged group with previously held equity investment and preferred shares of E-dragon be exchanged. The Company recognized the gain of RMB847 million as reported in other income on receipts the shares in the enlarged group in 2018, and recognized the gain of RMB267 million as reported in other income when certain accrued tax related indemnification liability for the other shareholders of LY.com was reversed based on the final settlement in 2019. During the year ended December 31, 2018, the Company acquired additional equity interest with total consideration of RMB1.4 billion. After these transactions, the Company has 27% equity interest in the enlarged group and applied equity method for this investment. As of December 31, 2018, 2019 and 2020, the carrying

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

7. INVESTMENTS—continued

Equity investments—continued

Equity method investments—continued

value of its equity investment was RMB5.3 billion, RMB5.5 billion and RMB5.5 billion respectively, the change of which primarily relates to the equity income recognized.

The shares of MakeMyTrip Limited ("MakeMyTrip") are listed in Nasdaq Stock Exchange. The Company used to hold approximately 10% equity interest in MakeMyTrip and accounted for the investment as equity securities with readily determinable fair values. In August 2019, the Company consummated a share exchange transaction with Naspers Limited ("Naspers"), a shareholder of MakeMyTrip, pursuant to which Naspers exchanged certain ordinary shares and Class B convertible ordinary shares of MakeMyTrip for the Company's newly issued 32,870,648 (after Share Subdivision) ordinary shares. Concurrent with the share exchange, the Company made the investment in a third-party investment entity by contributing certain ordinary shares and Class B shares of MakeMyTrip held by the Company and recorded the investment using equity method. After these transactions, the Company owns ordinary shares and Class B shares of MakeMyTrip, representing approximately 49% of MakeMyTrip's total voting power with the total consideration of approximately US$1.2 billion (RMB8.7 billion), which included US$1.0 billion (RMB6.9 billion) newly issued ordinary shares of the Company and US$0.2 billion (RMB1.8 billion) of its previously held equity investment. The Company applied equity method to account for the investment in MakeMyTrip on one quarter lag basis. In 2020, as result of adverse impact on the business of MakeMyTrip from the COVID-19 pandemic which is considered as other-than-temporary, the Company provided impairment on its investment on MakeMyTrip with amount of RMB0.7 billion according to its market price. As of December 31, 2019 and 2020, the carrying value of its investment was RMB8.5 billion and RMB5.7 billion.

As of December 31, 2020, equity method investments that are publicly traded with an aggregate carrying amount of RMB14.1 billion have increased in value and the total market value of these investments amounted to RMB20.2 billion.

The Company made some investments in several third party investment funds and accounted for the investments under equity methods on one quarter lag basis. As of December 31, 2018, 2019 and 2020, the carrying value of these investments were RMB1.2 billion, RMB2.5 billion and RMB2.5 billion respectively.

As of December 31, 2018, 2019 and 2020, the carrying value of the rest equity method investments were RMB1.8 billion, RMB2.8 billion and RMB2.4 billion, respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

7. INVESTMENTS—continued

Equity investments—continued

Equity method investments—continued

The Company summarizes the condensed financial information of the Company's equity method investments as a group below in compliance with Rule 4-08 of Regulation S-X (RMB in millions).

	For the year ended December 31,			
	2018	2019	2020	
	equity investments	equity investments	MakeMyTrip	others equity investments
Operating data:				
Revenue	17,429	28,423	1,883	19,704
Gross profit	11,513	17,608	1,377	8,670
Income/(loss) from operations	294	2,590	(991)	(805)
Net income/(loss)	990	970	(2,864)	(1,631)
Net loss attributable to equity method investments	(81)	(440)	(1,459)	(389)
Add: Equity dilution impact	7	93	92	68
Add: Gain from disposal of equity method investments	42	—	—	—
Equity in loss of affiliates	(32)	(347)	(1,367)	(322)

	December 31, 2018	December 31, 2019	December 31, 2020	
	equity investments	equity investments	MakeMyTrip	other equity investments
Balance sheet data:				
Current assets	26,612	41,940	1,682	35,004
Long-term assets	37,435	45,968	5,121	37,028
Current liabilities	20,404	31,769	1,100	27,914
Long-term liabilities	12,011	10,677	221	9,054
Non-controlling interests	232	342	24	167

For the years ended December 31, 2018, 2019 and 2020, the total cash paid for equity method investments was RMB1.7 billion, RMB1.4 billion and RMB351 million, respectively.

Impairments

The Company performs impairment assessment of its investments by considering factors including, but not limited to, current economic and market conditions with the considerations of COVID-19 impacts, as well as the operating performance of the investees. For the years ended December 31, 2018, 2019 and 2020, impairment charges in connection with the available-for-sale debt investment of nil, RMB150 million and nil were recorded. Impairment charges in connection with the equity securities with readily determinable fair value of nil, nil and RMB28 million were recorded. Impairment charges in connection with the equity securities without readily determinable fair value of nil, RMB55 million and RMB37 million were recorded. Impairment charges in connection with the equity method investments of RMB61 million, nil and RMB840 million were recorded. The impairment was recorded in "Other income/(expense)" (Note 2).

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

8. FAIR VALUE MEASUREMENT

In accordance with ASC 820-10, the Company measures financial products, time deposits, derivative instruments, available-for-sale debt investments and equity securities with readily determinable fair value at fair value on a recurring basis. Equity securities classified within Level 1 are valued using quoted market prices that currently available on a securities exchange registered with the Securities and Exchange Commission (SEC), Shanghai Stock Exchange (SSE) or Hong Kong Stock Exchange (HKEX). Financial products, time deposits and derivative instruments classified within Level 2 are valued using directly or indirectly observable inputs in the market place. The available-for-sale debt investments classified within Level 3 are valued based on a model utilizing unobservable inputs which require significant management judgment and estimation.

The equity securities without readily determinable fair value, equity method investments and certain non-financial assets are recorded at fair value only if an impairment or observable price adjustment is recognized in the current period. If an impairment or observable price adjustment is recognized on the equity securities during the period, the Company classify these assets as Level 3 within the fair value hierarchy based on the nature of the fair value inputs.

Assets measured at fair value on a recurring basis are summarized below (in millions):

	Fair Value Measurement at December 31, 2018 Using			Fair Value at December 31, 2018	
	Level 1 RMB	Level 2 RMB	Level 3 RMB	RMB	US$
Assets					
Financial products	—	33,185	—	33,185	4,827
Time deposits	—	5,958	—	5,958	866
Equity securities	8,995	—	—	8,995	1,308
Available-for-sale debt investments	—	—	2,717	2,717	395
Total Assets	8,995	39,143	2,717	50,855	7,396

	Fair Value Measurement at December 31, 2019 Using			Fair Value at December 31, 2019	
	Level 1 RMB	Level 2 RMB	Level 3 RMB	RMB	US$
Assets					
Financial products	—	25,679	—	25,679	3,689
Time deposits	—	12,319	—	12,319	1,769
Derivative:					
Foreign currency forward contracts	—	116	—	116	17
Equity securities	10,037	—	—	10,037	1,442
Available-for-sale debt investments	—	—	2,548	2,548	366
Total Assets	10,037	38,114	2,548	50,699	7,283
Liabilities					
Derivative:					
Foreign currency forward contracts	—	9	—	9	1
Total Liabilities	—	9	—	9	1

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

8. FAIR VALUE MEASUREMENT—continued

	Fair Value Measurement at December 31, 2020 Using			Fair Value at December 31, 2020	
	Level 1 RMB	Level 2 RMB	Level 3 RMB	RMB	US$
Assets					
Financial products	—	22,752	—	22,752	3,487
Time deposits	—	17,373	—	17,373	2,663
Derivative:					
Foreign currency forward contracts	—	51	—	51	8
Equity securities	10,235	—	—	10,235	1,569
Available-for-sale debt investments	—	—	2,856	2,856	438
Total Assets	10,235	40,176	2,856	53,267	8,165
Liabilities					
Derivative:					
Foreign currency forward contracts	—	46	—	46	7
Interest rate swap contract	—	11	—	11	2
Total Liabilities	—	57	—	57	9

The roll forward of major Level 3 investments are as follows (RMB in millions):

	Total
Fair value of Level 3 investments as at December 31, 2018	2,717
Transfer into Level 3	55
New addition	153
Disposal of investments	(93)
Effect of exchange rate change	25
Other than temporary impairment	(205)
The change in fair value of the investments	(104)
Fair value of Level 3 investments as at December 31, 2019	2,548
Transfer into Level 3	563
New addition	54
Disposal of investments	(25)
Effect of exchange rate change	(131)
The change in fair value of the investments	(153)
Fair value of Level 3 investments as at December 31, 2020	2,856

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

8. FAIR VALUE MEASUREMENT—continued

Management determined the fair value of these Level 3 investments based on income approach using various unobservable inputs. The determination of the fair value required significant judgement by management with respect to the assumptions and estimates for the revenue growth rate, weighted average cost of capital, lack of marketability discounts, expected volatility and probability in equity allocation. The significant unobservable inputs adopted in the valuation as of December 31, 2020 are as follows:

Unobservable Input	
Revenue growth rate	3%-140%
Weighted average cost of capital	15%-17%
Lack of marketability discount	15%~20%
Expected volatility	40%~53%
Probability	Liquidation scenario: 30%~70% Redemption scenario: 30% IPO scenario: 30%~40%

9. GOODWILL

Goodwill, which is not tax deductible, represents the synergy effects of the business combinations. The changes in the carrying amount of goodwill for the years ended December 31, 2018, 2019 and 2020 were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Balance at beginning of year	56,246	58,026	58,308
Acquisition	1,786	393	1,138
Disposals and immaterial others	(6)	(111)	(93)
Balance at end of year	58,026	58,308	59,353

Goodwill resulting from the business combinations has been allocated to the single reporting unit of the Company. For the years ended December 31, 2018, 2019 and 2020, the Company performed a qualitative assessment by evaluating relevant events and circumstances that would affect the Company's single reporting unit and did not note any indicator that it is more likely than not the fair value of the Company's reporting unit is less than its carrying amount, and therefore the Company's goodwill was not impaired. As of December 31, 2020, there had not been any accumulated goodwill impairment provided.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

10. INTANGIBLE ASSETS

Intangible assets were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Intangible assets to be amortized			
Business Relationship (Representing the relationship with the travel service providers and other business partners)	1,858	1,844	1,872
Technology	751	633	610
Others	518	518	799
Intangible assets not subject to amortization			
Trade mark	11,613	11,613	11,776
Others	163	159	158
	14,903	14,767	15,215
Less: accumulated amortization			
Intangible assets to be amortized			
Business Relationship	(671)	(923)	(1,176)
Technology	(353)	(450)	(541)
Others	(156)	(221)	(242)
	(1,180)	(1,594)	(1,959)
Net book value			
Intangible assets to be amortized			
Business Relationship	1,187	921	696
Technology	398	183	69
Others	362	297	557
Intangible assets not subject to amortization			
Trade mark	11,613	11,613	11,776
Others	163	159	158
	13,723	13,173	13,256

Indefinite-lived intangible assets are not subject to legal, regulatory, contractual, competitive, economic or other limitation on their useful lives. The Company evaluates to determine whether events and circumstances continue to support an indefinite useful life in each reporting period.

Finite-lived intangible assets are tested for impairment if impairment indicators arise. The Company amortizes its finite-lived intangible assets over their estimated economic useful lives using the straight-line method:

Business Relationship	5-10 years
Technology	5-10 years
Others	3-15 years

Amortization expense for the years ended December 31, 2018, 2019 and 2020 was approximately RMB433 million, RMB437 million and RMB424 million respectively.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

10. INTANGIBLE ASSETS—continued

The annual estimated amortization expense for intangible assets subject to amortization for the five succeeding years is as follows (RMB in millions):

	Amortization expense
2021	278
2022	240
2023	186
2024	181
2025	155
	1,040

11. LEASES

The Company has operating leases primarily for office and operation space. The Company's operating lease arrangements have remaining lease terms of one to eight years.

Operating lease costs were RMB405 million and RMB416 million for the years ended December 31, 2019 and 2020, respectively.

Supplemental cash flow information related to leases were as follows (RMB in millions):

	For the year ended December 31, 2019	For the year ended December 31, 2020
Cash paid for amounts included in the measurement of lease liabilities	403	415
Right-of-use assets obtained in exchange for operating lease liabilities	497	589

As of December 31, 2019 and 2020, supplemental consolidated balance sheet information related to leases were as follows (RMB in millions):

	December 31, 2019	December 31, 2020
Right-of-use assets	1,207	987
Current lease liabilities included within Other payables and accruals	438	409
Long-term lease liabilities	749	618
Total lease liabilities	1,187	1,027
Weighted average remaining lease term	4 years	3 years
Weighted average discount rate	4.2%	4.3%

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

11. LEASES—continued

Maturities of lease liabilities are as follows (RMB in millions):

	As of December 31, 2020
2021	463
2022	347
2023	197
2024	58
2025	17
Thereafter	38
Total operating lease payments	1,120
Less: imputed interest	(93)
Total	1,027

As of December 31, 2019 and 2020, the operating lease arrangements of the Company, primarily for offices premises, that have not yet commenced is immaterial. For the years ended December 31, 2019 and 2020, the variable lease costs, short-term lease costs and sub-lease income are immaterial.

For the year ended December 31, 2018, the Company recognized lease expense of RMB502 million under ASC 840.

12. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	December 31, 2018	December 31, 2019	December 31, 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 (Note 17)	—	4,873	—
2022 Notes (Note 17)	6,703	—	—
2025 Notes (Note 17)	—	2,785	—
2019 Booking Notes (Note 17)	3,438	—	—
2020 Booking Notes (Note 17)	—	1,740	—
2022 Booking Notes (Note 17)	172	—	—
2025 Booking and Hillhouse Notes (Note 17)	—	—	6,525
Total	36,011	30,516	33,665

As of December 31, 2020, the Company obtained short-term bank borrowings RMB26.8 billion (US$4.1 billion) in aggregate, of which RMB7.0 billion (US$1.1 billion) were collateralized by short-term and long-term investments of RMB7.0 billion (US$1.1 billion). The weighted average interest rate for the outstanding borrowings was approximately 2.89%.

The short-term borrowings contain covenants including, among others, limitation on liens, consolidation, merger and sale of the Company's assets. The Company is in compliance with all of the loan covenants as of December 31, 2018, 2019 and 2020.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

12. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT—continued

As of December 31, 2020, securitization debt represents the revolving debt securities which are collateralized by the receivable related to financial services. The revolving debt securities have the term of less than one year with the annual interest rate from 3.85% to 6.90%.

As of December 31, 2020, RMB6.5 billion of 2025 Booking and Hillhouse Notes are reclassified as short-term debt because the 2025 Booking and Hillhouse Notes holders had a non-contingent option to require the Company to repurchase for cash all or any portion of their 2025 Booking and Hillhouse Notes on December 11, 2021.

13. RELATED PARTY TRANSACTIONS AND BALANCES

Significant related party transactions were as follows (RMB in millions):

	For the year ended December 31,		
	2018	**2019**	**2020**
Commissions from Tongcheng-eLong (a)	190	217	151
Commissions from eLong (a)	63	—	—
Commissions from Huazhu (a)	61	72	78
Commissions from BTG (a)	93	91	49
Commissions to Tongcheng-eLong (b)	516	579	324
Commissions to eLong (b)	66	—	—
Commissions to LY.com (b)	6	—	—
Loan provided to and interest income from Tujia (c)	—	—	347

(a) BTG, Huazhu and eLong, have entered into agreements with the Company, respectively, to provide hotel rooms for our end users. In 2018, eLong completed a merger with LY.com and the enlarged group Tongcheng-eLong supersedes eLong to provide hotel rooms for our end users. The transactions above represent the commissions earned from these related parties.

(b) The Company entered into agreements with eLong and LY.com, upon which these related parties promote the Company's hotel rooms on their platforms. In 2018, eLong completed a merger with LY.com and the enlarged group Tongcheng-eLong supersedes eLong and LY.com to promote the Company's hotel rooms on their platforms.

(c) In 2020, the Company provided loans of RMB340 million to Tujia. The loans bore interests of RMB7 million with repayment terms of 15~18 months.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

13. RELATED PARTY TRANSACTIONS AND BALANCES—continued

	December 31, 2018	December 31, 2019	December 31, 2020
Due from related parties, current:			
Trade related			
Due from Tongcheng-eLong	1,278	2,149	1,084
Due from others	281	462	371
Non-trade related			
Due from Tujia	—	—	347
Due from others	83	168	—
	1,642	2,779	1,802
Due from related parties, non-current:			
Non-trade related			
Due from Skysea	207	—	—
Due from others	22	25	25
	229	25	25
Due to related parties, current:			
Trade related			
Due to Tongcheng-eLong	263	181	127
Due to others	229	219	114
	492	400	241

14. EMPLOYEE BENEFITS

The Company's employee benefit primarily related to the full-time employees of the PRC subsidiaries and the VIEs, including medical care, welfare subsidies, housing fund, unemployment insurance and pension benefits. The PRC subsidiaries and VIEs are required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant PRC regulations and make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees. The total expenses recorded for such employee benefits amounted to RMB1.7 billion, RMB2.0 billion and RMB1.4 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

15. TAXATION

Cayman Islands

Under the current laws of Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. The applicable tax rate is 16.5% in Hong Kong.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

15. TAXATION—continued

The PRC

The Company's subsidiaries and VIEs registered in the PRC are subject to PRC Enterprise Income Tax ("EIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant PRC income tax laws.

The PRC EIT laws apply a general enterprise income tax rate of 25% to both foreign-invested enterprises and domestic enterprises. Preferential tax treatments are granted to enterprises, which conduct business in certain encouraged sectors and to enterprises otherwise classified as a High and New Technology Enterprise ("HNTE"). 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 a preferential income tax rate of 15% from 2018 to 2020 and are applying for renewal of their qualifications.

In 2001, the PRC State Taxation Administration ("**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 PRC National Development and Reform Commission ("**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.

Pursuant to the PRC EIT Law, all foreign invested enterprises in the PRC are subject to the withholding tax for their earnings generated after January 1, 2008. The Company expects to indefinitely reinvest undistributed earnings generated after January 1, 2008 in the onshore PRC entities. As a result, no deferred tax liability was provided on the outside basis difference from undistributed earnings after January 1, 2008.

Income/(loss) from domestic and foreign components before income tax expenses and equity in loss of affiliates (RMB in millions):

	For the year ended December 31,		
	2018	**2019**	**2020**
Domestic	4,663	8,983	4,230
Foreign	(2,742)	104	(5,455)
Total	1,921	9,087	(1,225)

The income/(loss) from foreign components mainly includes the gain/(loss) from the equity securities investments and exchangeable senior notes measured at fair value, impairments for

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

15. TAXATION—continued

The PRC—continued

investments, share-based compensation charges, foreign exchange gain/(loss) and interest income/(loss) incurred in its overseas companies.

The income tax expenses from domestic components for the years ended December 31, 2018, 2019 and 2020 was RMB642 million, RMB1,652 million and RMB528 million, respectively. The income tax expenses/(benefit) from foreign components for the years ended December 31, 2018 and 2019 and 2020 was RMB151 million, RMB90 million and RMB(173) million, respectively.

Composition of income tax expense

The current and deferred portion of income tax expense were as follows (RMB in millions):

	For the year ended December 31,		
	2018	2019	2020
Current income tax expense	1,425	1,918	848
Deferred tax benefit	(632)	(176)	(493)
Income tax expense	793	1,742	355

Reconciliation of the differences between statutory tax rate and the effective tax rate

The reconciliation between 25% which is the PRC statutory tax rate and the Company's effective tax rate were as follows:

	For the year ended December 31,		
	2018	2019	2020
Statutory tax rate	25%	25%	25%
Non-deductible expenses and non-taxable income incurred			
- Share-based compensation expenses	22%	5%	(38%)
- Change in fair value of equity securities investments and exchangeable senior notes	19%	(5%)	0%
- Gain on deconsolidation of a subsidiary	—	—	15%
- Others	(4%)	1%	3%
Effect of tax holiday	(27%)	(8%)	27%
Difference in tax rates of subsidiaries outside PRC	4%	(1%)	(37%)
Change in valuation allowance	2%	2%	(24%)
Effective EIT rate	41%	19%	(29%)

The change in the Company's effective tax rates from year over year is primarily attributable to the tax differential from certain subsidiaries with preferential tax rates, the non-deductible expenses and tax effects from investing activities.

The provisions for income taxes for the years ended December 31, 2018, 2019 and 2020 differ from the amounts computed by applying the EIT primarily due to tax holiday enjoyed by certain

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

15. TAXATION—continued

Reconciliation of the differences between statutory tax rate and the effective tax rate—continued

subsidiaries and VIEs of the Company. The following table sets forth the effect of tax holiday on China operations:

	For the year ended December 31,		
	2018	2019	2020
	RMB (in millions, except per share data)		
Tax holiday effect	520	762	370
Basic net income per ADS effect	0.95	1.34	0.62
Diluted net income per ADS effect	0.92	1.19	0.62

The impacts on effective tax rates from the Company's subsidiaries with different tax rates of subsidiaries outside PRC and tax holiday are as follows:

		For the year ended December 31,		
		2018	2019	2020
Ctrip Computer Technology	15%	(5.5%)	(2.4%)	15.4%
Ctrip Travel Information	15%	(4.0%)	(1.0%)	(0.7%)
Ctrip Travel Network	15%	(5.7%)	(1.9%)	14.1%
Chengdu Information	15%	(3.2%)	(0.8%)	6.8%
The Company and its subsidiaries in Hong Kong and Cayman Islands	16.5%,0%	1.7%	(0.9%)	(41.7%)
Qunar and subsidiaries	15%	(5.0%)	(1.5%)	(2.5%)
Others	various	(1.3%)	(0.5%)	(1.4%)
Total		(23.0%)	(9.0%)	(10.0%)

Significant components of deferred tax assets and liabilities were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Deferred tax assets to:			
Accrued expenses	532	673	708
Loss carry forward	191	372	862
Accrued liability for rewards programs	57	68	85
Accrued staff salary	65	138	8
Others	243	207	321
Less: Valuation allowance of deferred tax assets	(238)	(482)	(589)
	850	**976**	**1,395**
Deferred tax liabilities:			
Recognition of intangible assets arise from business combinations and unrealized holding gain	(3,838)	(3,592)	(3,574)
Net deferred tax liabilities	(2,988)	(2,616)	(2,179)

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

15. TAXATION—continued

Movement of valuation allowances were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Balance at beginning of year	197	238	482
Changes in current year	41	244	107
Balance at end of year	238	482	589

As of December 31, 2018, 2019 and 2020, valuation allowance of RMB238 million, RMB482 million and RMB589 million was mainly provided for operating loss that could be carried forwards related to certain subsidiaries based on then assessment where it is more likely than not that such deferred tax assets will not be realized. If events were to occur in the future that would allow the Company to realize more of its deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred.

As of December 31, 2020, the Company had net operating tax loss carry forwards amounted to RMB4.1 billion.

As of December 31, 2020, the unrecognized tax benefit and accrual is nil.

16. OTHER PAYABLES AND ACCRUALS

Components of other payables and accruals were as follows (RMB in millions):

	December 31, 2018	December 31, 2019	December 31, 2020
Accrued operating expenses	3,735	4,975	4,527
Deposits received from travel suppliers and packaged tours users	836	1,044	945
Current lease liabilities	—	438	409
Payable related to acquisition and investments	226	76	346
Accruals for property and equipment	22	144	126
Provision related to an equity method investment	367	—	—
Others	668	864	770
Total	5,854	7,541	7,123

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

17. LONG-TERM DEBT

	December 31, 2018	December 31, 2019	December 31, 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

As of December 31, 2020, the fair value of the Company's long-term debt, based on Level 2 inputs, was RMB22.7 billion.

Description of 2020 Convertible Senior Notes

On June 18, 2015, the Company issued US$700 million of 1.00% Convertible Senior Notes due 2020 (the "2020 Notes"). The 2020 Notes may be converted at an initial conversion rate of 9.1942 ADSs per US$1,000 principal amount of the 2020 Notes (which represents an initial conversion price of US$108.76 per ADS) at any time prior to the close of business on the second business day immediately preceding the maturity date of July 1, 2020. Debt issuance costs were US$11.3 million and are being amortized to interest expense to the put date of the 2020 Notes (July 1, 2018).

Absent a fundamental change (as defined in the indenture for the 2020 Notes), each holder of the 2020 Notes had a right at such holder's option to require the Company to repurchase for cash all or any portion of such holder's 2020 Notes on July 1, 2018. The Company believed that the likelihood of occurrence of events considered a fundamental change is remote. The 2020 Notes were not redeemable prior to the maturity date of July 1, 2020.

Concurrently with the issuance of the 2020 Notes, the Company purchased a call option ("2015 Purchased Call Option") and sold warrants ("2015 Sold Warrants") where the counterparty agreed to sell to the Company up to approximately 6.4 million of the Company's ADSs upon the Company's exercise of the 2015 Purchased Call Option and the Company received US$84.4 million from the same counterparty for the sale of warrants to purchase up to approximately 6.4 million of the Company's ADSs.

In 2020, the 2020 Notes with principal amount of US$700 million (RMB4.9 billion) were all redeemed for cash.

Description of 2025 Convertible Senior Notes

On June 18, 2015, the Company issued US$400 million of 1.99% Convertible Senior Notes due 2025 (the "2025 Notes"). The 2025 Notes may be converted, at an initial conversion rate of 9.3555

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

17. LONG-TERM DEBT—continued

Description of 2025 Convertible Senior Notes—continued

ADSs per US$1,000 principal amount of the 2025 Notes (which represents an initial conversion price of US$106.89 per ADS), 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. Debt issuance costs were US$6.8 million and are being amortized to interest expense to the put date of the 2025 Notes (July 1, 2020).

Absent a fundamental change (as defined in the indenture for the 2025 Notes), each holder of the 2025 Notes has a right at such holder's option to require the Company to repurchase for cash all or any portion of such holder's 2025 Notes on July 1, 2020, as a result the 2025 Notes were reclassified from long-term to short-term as of December 31, 2019. If a fundamental change (as defined in the indenture for the 2025 Notes) occurs at any time, each holder has a right at such holder's option to require the Company to repurchase for cash all or any portion of such holder's 2025 Notes on the date notified in writing by the Company in accordance with the indenture for the 2025 Notes. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote. The 2025 Notes are generally not redeemable prior to the maturity date of July 1, 2025, except that the Company may, at its option, redeem all but not part of the 2025 Notes in accordance with the indenture for the 2025 Notes if the Company has or will become obligated to pay holders additional amount due to certain changes in tax law of the relevant jurisdiction.

In 2020, the Company notified holders of the 2025 Notes of their rights under the relating indenture to require the Company to purchase all of or portion of such notes on July 1, 2020, which we refer to as the Put Right. As a result of exercise of aforementioned early redemption right, the Company redeemed US$395 million (RMB2.8 billion) aggregate principal amount of the 2025 Notes as requested by the holders. The remaining RMB31 million were reclassified as long-term debt as of December 31, 2020 as it may not be redeemed or mature within one year.

Description of 2022 Convertible Senior Notes

On September 12, 2016 and September 19, 2016, the Company issued US$975 million of 1.25% Convertible Senior Notes due 2022 (the "2022 Notes"). The 2022 Notes may be converted, at an initial conversion rate of 15.2688 ADSs per US$1,000 principal amount of the 2022 Notes (which represents an initial conversion price of US$65.49 per ADS) 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. Debt issuance costs were US$19 million and are being amortized to interest expense to the put date of the 2022 Notes (September 15, 2019).

Absent a fundamental change (as defined in the indenture for the 2022 Notes), each holder of the 2022 Notes has a right at such holder's option to require the Company to repurchase for cash all or any portion of such holder's 2022 Notes on September 15, 2019, as a result the 2022 Notes were reclassified from long-term to short-term as of December 31, 2018. If a fundamental change (as defined in the indenture for the 2022 Notes) occurs at any time, each holder has a right at such holder's option to require the Company to repurchase for cash all or any portion of such holder's 2022 Notes on

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

17. LONG-TERM DEBT—continued

Description of 2022 Convertible Senior Notes—continued

the date notified in writing by the Company in accordance with the indenture for the 2022 Notes. The Company believes that the likelihood of occurrence of events considered a fundamental change is remote. The 2022 Notes are generally not redeemable prior to the maturity date of September 15, 2022, except that the Company may, at its option, redeem all but not part of the 2022 Notes in accordance with the indenture for the 2022 Notes if the Company has or will become obligated to pay holders additional amount due to certain changes in tax law of the relevant jurisdiction.

In August 2019, the Company notified holders of the 2022 Notes of their rights under the relating indenture to require the Company to purchase all of or portion of such notes on September 15, 2019, which we refer to as the Put Right. In September 2019, as a result of exercise of aforementioned early redemption right, the Company redeemed US$924 million (RMB6.6 billion) aggregate principal amount of the 2022 Notes as requested by the holders. The remaining 2022 Notes were reclassified as long-term debt as of December 31, 2019 and 2020 as it may not be redeemed or mature within one year.

The Company assessed the 2020 Notes, 2025 Notes and 2022 Notes (collectively as "Notes"), the 2015 Purchased Call Option (the "Purchased Call Options") and the 2015 Sold Warrants (the "Sold Warrants") under ASC 815 and concluded that:

- The Notes, the Purchased Call Options and the Sold Warrants (1) do not entail the same risks; and (2) have a valid business purpose and economic need for structuring the transactions separately. Therefore, the offering of the Notes, the Purchased Call Options and Sold Warrants transactions should be accounted separately;
- The repurchase option is considered clearly and closely related to its debt host and does not meet the requirement for bifurcation;
- Since the conversion option is considered indexed to the Company's own stock, bifurcation of conversion option from the Notes is not required as the scope exception prescribed in ASC 815-10-15-74 is met;
- There was no BCF attributable to the Notes as the set conversion prices for the Notes were greater than the respective fair values of the ordinary share price at date of issuances;

Therefore, the Company has accounted for the respective Notes as a single instrument as a long-term debt. The debt issuance cost was recorded as reduction to the long-term debts and are amortised as interest expenses using the effective interest method. The value of the Notes are measured by the cash received. The Purchased Call Options and Sold Warrants are accounted for within stockholders' equity.

Description of Booking and Hillhouse Notes

On August 7, 2014, the Company issued Convertible Senior Note (the "2019 Booking Note") at an aggregate principal amount of US$500 million to an indirect subsidiary of the Booking Company. The Booking 2019 Note was due on August 7, 2019 and bears interest of 1% per annum, which will be

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued
(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

17. LONG-TERM DEBT—continued

Description of Booking and Hillhouse Notes—continued

paid semi-annually beginning on February 7, 2015. The Booking 2019 Note was convertible into the Company's ADSs with an initial conversion price of approximately US$81.36 per ADS. In 2019, the 2019 Booking Notes with principal amount of US$500 million (RMB3.4 billion) were all redeemed for cash.

On May 26, 2015, the Company issued Convertible Senior Note (the "2020 Booking Note") at an aggregate principal amount of US$250 million to an indirect subsidiary of the Booking Company. The Booking 2020 Note was due on May 29, 2020 and bears interest of 1% per annum, which was paid semi-annually beginning on November 29, 2016. The Booking 2020 Note will be convertible into the Company's ADSs with an initial conversion price of approximately US$104.27 per ADS. In 2020, the 2020 Booking Notes with principal amount of US$250 million (RMB1.8 billion) were redeemed for cash.

On December 10, 2015, the Company issued Convertible Senior Notes at an aggregate principal amount of US$1.0 billion to an indirect subsidiary of the Booking Company and two affiliates of Hillhouse (the "2025 Booking and Hillhouse Notes"). The 2025 Booking and Hillhouse Notes are due on December 11, 2025 and bear interest of 2% per annum, which would be paid semi-annually beginning on June 11, 2016. The 2025 Booking and Hillhouse Notes will be convertible into the Company's ADSs with an initial conversion price of approximately US$68.46 per ADS.

Absent a fundamental change (as defined in the indenture for the 2025 Booking and Hillhouse Notes), each holder of the 2025 Booking and Hillhouse Notes has a right at such holder's option to require the Company to repurchase for cash all or any portion of such holder's 2025 Booking and Hillhouse Notes beginning on December 11, 2021, as a result the 2025 Booking and Hillhouse Notes were reclassified from long-term to short-term as of December 31, 2020.

On September 12, 2016, the Company issued US$25 million Convertible Senior Note to an indirect subsidiary of the Booking Company (the "2022 Booking Note"). The 2022 Booking Note is due on September 15, 2022 and bears interest of 1.25% per annum, which will be paid semi-annually beginning on March 15, 2017. The 2022 Booking Note will be convertible into the Company's ADSs with an initial conversion price of approximately US$65.49 per ADS.

The Company has accounted for the above notes as a single instrument. The value of the above notes is measured by the cash received. The Company recorded the interest expenses according to its annual interest rate. There was no BCF attributable to the above notes as the set conversion price for the above notes was greater than the fair value of the ADS price at date of issuance.

Description of Exchangeable Senior Notes

On July 13, 2020, the Company issued exchangeable senior notes due 2027 (the "Exchangeable Senior Notes") at an aggregate principal amount of US$500 million. The Exchangeable Senior Notes are due on July 1, 2027 and bears interest of 1.5% per annum, which will be paid semi-annually beginning on January 1, 2021. The Exchangeable Senior Notes may be converted, at an initial

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

17. LONG-TERM DEBT—continued

Description of Exchangeable Senior Notes—continued

conversion rate of 24.78 Huazhu ADSs per US$1,000 principal amount of the Notes (which represents an initial conversion price of US$40.36 per Huazhu ADS) at each holder's option. The Company accounts for and measures the Exchangeable Senior Notes in its entirety at fair value. As of December 31, 2020, the fair value of the Exchangeable Senior Notes amounted to RMB4.2 billion (US$651 million). For the year ended December 31, 2020, the change of its fair value was RMB1.0 billion (US$151 million) which was recorded in "Other income/ (expense)".

Long-term Loans from Commercial Banks

As of December 31, 2020, the Company obtained long-term bank borrowings of RMB17.8 billion (US$2.7 billion) in aggregate, of which RMB1.3 billion (US$193 million) 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%. The Company was in compliance with the applicable financial covenants under those lines of credit as of December 31, 2020.

Securitization Debt

As of December 31, 2020, securitization debt represents the revolving debt securities which are collateralized by the receivable related to financial services. The revolving debt securities have the terms ranged from one year to two year with the annual interest rate from 4.50% to 5.00%.

18. REDEEMABLE NON-CONTROLLING INTERESTS

One of the Company's subsidiaries issued redeemable preferred shares amounting to RMB1.1 billion to certain third party investors in 2019. The preferred shares are redeemable at holder's option if the subsidiary fails to complete a qualified IPO in a pre-agreed period of time since its issuance with a redemption price measured by 10% interest per year. The preferred shares are therefore accounted for as redeemable non-controlling interests in mezzanine equity and are accreted to the redemption value over the period starting from the issuance date. In 2020, the Company lost the control in the subsidiary and the financial position and results of operations of the subsidiary was deconsolidated. A gain of RMB1.1 billion (approximately US$161 million) was recognized in the Other income/(expense) (Note 2) in connection with the deconsolidation.

For the years ended December 31, 2019 and 2020, the Company recognized accretion of RMB44 million and RMB40 million to the respective redemption value of the preferred shares over the period starting from issuance date with a corresponding reduction to the retained earnings.

19. EARNINGS/(LOSSES) PER SHARE

Following the Share Subdivision as detailed in Note 2, each ordinary share was subdivided into eight ordinary shares and each ADS represents one ordinary share. The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share/ADS for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

19. EARNINGS/(LOSSES) PER SHARE—continued

Basic earnings/(losses) per share and diluted earnings per share were calculated as follows (RMB in millions, except for share and per share data):

	For the year ended December 31,		
	2018	2019	2020
Numerator:			
Net income/(loss) attributable to Trip's shareholders	1,112	7,011	(3,247)
Eliminate the dilutive effect of interest expense of convertible notes	—	373	—
Numerator for diluted earnings per share	1,112	7,384	(3,247)
Denominator:			
Denominator for basic earnings per ordinary share - weighted average ordinary shares outstanding *(Note i)*	547,227,408	567,871,968	600,888,208
Dilutive effect of share options *(Note i)*	20,169,576	15,815,672	—
Dilutive effect of convertible notes *(Note i)*	—	58,264,472	—
Denominator for diluted earnings per ordinary share *(Note i)*	567,396,984	641,952,112	600,888,208
Basic earnings/(losses) per ordinary share *(Note i)*	2.03	12.35	(5.40)
Diluted earnings/(losses) per ordinary share *(Note i)*	1.96	11.50	(5.40)
Basic earnings/(losses) per ADS	2.03	12.35	(5.40)
Diluted earnings/(losses) per ADS	1.96	11.50	(5.40)

Note i: Basic and diluted earnings/(losses) per ordinary share, weighted average ordinary shares outstanding. dilutive earnings per ordinary share, the dilutive effect of share options and convertible notes have been retrospectively adjusted for the Share Subdivision and the Ratio Change that were effective on March 18, 2021 as detailed in Note 2.

All the convertible senior notes had anti-dilutive impact and were excluded in the computation of diluted EPS in 2020. All the convertible senior notes were included in the computation of diluted EPS in 2019. All the convertible senior notes had antidilutive impact and were excluded in the computation of diluted EPS in 2018.

For the years ended December 31, 2018, 2019 and 2020, the Company had securities which could potentially dilute basic earnings per share in the future, which were excluded from the computation of diluted earnings/(losses) per share as their effects would have been anti-dilutive. Such weighted average numbers of ordinary shares outstanding are as following:

	For the year ended December 31,		
	2018	2019	2020
Convertible Notes	9,604,548	—	3,487,017
Outstanding weighted average stock options	2,521,197	1,976,959	1,554,182
	12,125,745	1,976,959	5,041,199

20. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of December 31, 2020, the Company had outstanding capital commitments totaling RMB13 million, which consisted of capital expenditures of property, equipment and software.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

20. COMMITMENTS AND CONTINGENCIES—continued

Deposit under guarantee arrangement

In connection with its air ticketing business, the Company is required by an affiliate of Civil Aviation Administration of China ("CAAC") and International Air Transport Association ("IATA") 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 the Company was entitled to issue was up to RMB1.1 billion. The total amount of the deposit the Company paid was RMB146 million.

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

Contingencies

The Company is not currently a party to any pending material litigation or other legal proceeding or claims.

The Company is incorporated in the Cayman Islands and is considered as a foreign entity under PRC laws. Due to the restrictions on foreign ownership of the air-ticketing, travel agency, advertising and internet content provision businesses, the Company conducts these businesses partly through various VIEs. These VIEs hold the licenses and approvals that are essential for the Company's business operations. In the opinion of the Company's PRC legal counsel, the current ownership structures and the contractual arrangements with these VIEs and their shareholders as well as the operations of these VIEs are in compliance with all existing PRC laws, rules and regulations. However, there may be changes and other developments in PRC laws and regulations. Accordingly, the Company cannot be assured that PRC government authorities will not take a view in the future contrary to the opinion of the Company's PRC legal counsel. If the current ownership structures of the Company and its contractual arrangements with VIEs were found to be in violation of any existing or future PRC laws or regulations, the Company may be required to restructure its ownership structure and operations in China to comply with changing and new PRC laws and regulations.

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—continued

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

21. GEOGRAPHIC INFORMATION

The following table presents revenue by geographic area, the Greater China and all other countries, based on the geographic location of its websites for the year ended December 31, 2018, 2019 and 2020. No revenue result from an individual country other than the Greater China accounted for more than 10% of revenue for the presented years.

	For the year ended December 31,		
	2018	2019	2020
	RMB (in millions)		
Total Revenue			
The Greater China	28,064	31,256	17,019
Others	3,040	4,460	1,308
	31,104	35,716	18,327

22. SUBSEQUENT EVENTS

Share Subdivision and the ADS Ratio Change

As detailed in Note 2, the Share Subdivision and the ADS Ratio Change were effective on March 18, 2021. The number of ordinary shares as disclosed in these consolidated financial statements are prepared on a basis after taking into account the effects of the Share Subdivision and the ADS Ratio Change and have been retrospectively adjusted accordingly.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to December 31, 2020 and up to the date of this report. No dividend on distribution has been declared or made by the Company in respect of any period subsequent to December 31, 2020.