
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of September 2024

Commission File Number: 001-34656

H World Group Limited

(Registrant's name)

No. 1299 Fenghua Road

Jiading District

Shanghai

People's Republic of China

(86) 21 6195-2011

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F
Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b) (7):

EXPLANATORY NOTE

This report on Form 6-K, including Exhibit 99.1 hereto, is hereby incorporated by reference into the registrant's Registration Statement on Form F-3, as amended, initially filed with the U.S. Securities and Exchange Commission on July 17, 2024 (Registration No. 333-280844), and shall be a part thereof from the date on which this current report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

EXHIBIT INDEX

| Number | Description of Document |
|---------------|--|
| Exhibit 99.1 | Unaudited Condensed Consolidated Financial Statements for the Six Months Ended June 30, 2023 and 2024 |
| 101.INS | Inline XBRL Taxonomy Instance Document — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

H World Group Limited
(Registrant)

Date: September 27, 2024

By: /s/ Qi Ji
Name: Qi Ji
Title: Executive Chairman of the Board of Directors

H WORLD GROUP LIMITED

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H WORLD GROUP LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(Renminbi in millions, except share and per share data, unless otherwise stated)

| | As of | | |
|--|------------------------------|---------------|---------------|
| | December 31, 2023 | June 30, 2024 | June 30, 2024 |
| | US\$' in million (Note 2) | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 6,946 | 7,801 | 1,073 |
| Restricted cash | 764 | 364 | 50 |
| Short-term investments | 2,189 | 1,112 | 153 |
| Accounts receivable, net of allowance of RMB164 and RMB160 as of December 31, 2023 and June 30, 2024 respectively | 755 | 840 | 116 |
| Loan receivables - current, net of allowance of RMB45 and RMB42 as of December 31, 2023 and June 30, 2024 respectively | 184 | 163 | 23 |
| Amounts due from related parties, net of allowance of RMB64 and RMB63 as of December 31, 2023 and June 30, 2024 respectively | 210 | 258 | 36 |
| Inventories | 59 | 61 | 8 |
| Other current assets, net of allowance of RMB9 and RMB7 as of December 31, 2023 and June 30, 2024 respectively | 949 | 868 | 119 |
| Total current assets | 12,056 | 11,467 | 1,578 |
| Property and equipment, net | 6,097 | 5,882 | 809 |
| Intangible assets, net | 5,280 | 5,174 | 712 |
| Operating lease right-of-use assets | 25,658 | 25,814 | 3,552 |
| Finance lease right-of-use assets | 2,171 | 2,053 | 283 |
| Land use rights, net | 181 | 177 | 24 |
| Long-term investments | 2,564 | 2,499 | 344 |
| Goodwill | 5,318 | 5,261 | 724 |
| Amounts due from related parties, net of RMB0 and RMB0 as of December 31, 2023 and June 30, 2024 respectively | 25 | 21 | 3 |
| Loan receivables, net of RMB4 and RMB4 as of December 31, 2023 and June 30, 2024 respectively | 163 | 158 | 22 |
| Other assets, net of allowance of RMB1 and RMB1 as of December 31, 2023 and June 30, 2024 respectively | 663 | 672 | 93 |
| Deferred income tax assets | 1,043 | 1,035 | 142 |
| Assets held for sale | 2,313 | 2,239 | 308 |
| Total assets | 63,532 | 62,452 | 8,594 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Short-term debt and current portion of long-term debt | 4,049 | 315 | 44 |
| Accounts payable | 1,019 | 865 | 119 |
| Amounts due to related parties | 77 | 119 | 16 |
| Salary and welfare payables | 1,067 | 843 | 116 |
| Deferred revenue | 1,637 | 1,760 | 242 |
| Operating lease liabilities, current | 3,609 | 3,531 | 486 |
| Finance lease liabilities, current | 45 | 45 | 6 |
| Accrued expenses and other current liabilities | 3,261 | 3,599 | 495 |
| Dividends payable | 2,085 | — | — |
| Income tax payable | 562 | 782 | 107 |
| Total current liabilities | 17,411 | 11,859 | 1,631 |
| Long-term debt | 1,265 | 5,220 | 718 |
| Operating lease liabilities, noncurrent | 24,215 | 24,334 | 3,348 |
| Finance lease liabilities, noncurrent | 2,697 | 2,587 | 356 |
| Deferred revenue | 1,072 | 1,182 | 163 |
| Other long-term liabilities | 1,118 | 1,215 | 167 |
| Retirement benefit obligations | 124 | 120 | 17 |
| Deferred income tax liabilities | 845 | 818 | 113 |
| Liabilities held for sale | 2,536 | 2,400 | 330 |
| Total liabilities | 51,283 | 49,735 | 6,843 |
| Commitments and contingencies (Note 19) | | | |
| Equity: | | | |
| Ordinary shares (US\$0.00001 par value per share; 80,000,000,000 shares authorized; 3,210,392,530 and 3,210,392,530 shares issued as of December 31, 2023 and June 30, 2024, 3,159,046,350 and 3,133,344,410 shares outstanding as of December 31, 2023 and June 30, 2024, respectively) | 0 | 0 | 0 |
| Treasury shares (51,346,180 and 77,048,120 shares as of December 31, 2023 and June 30, 2024, respectively) | (906) | (1,569) | (216) |
| Additional paid-in capital | 11,861 | 11,300 | 1,555 |
| Retained earnings | 794 | 2,520 | 347 |
| Accumulated other comprehensive income | 386 | 331 | 46 |
| Total H World Group Limited shareholders' equity | 12,135 | 12,582 | 1,732 |
| Noncontrolling interest | 114 | 135 | 19 |
| Total equity | 12,249 | 12,717 | 1,751 |
| Total liabilities and equity | 63,532 | 62,452 | 8,594 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

H WORLD GROUP LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Renminbi in millions, except share and per share data, unless otherwise stated)

| | Six Months Ended June 30, | | |
|--|---------------------------|---------------|------------------------------|
| | 2023 | 2024 | 2024 |
| | | | US\$* in million (Note 2) |
| Revenues: | | | |
| Leased and owned hotels | 6,466 | 6,780 | 933 |
| Manachised and franchised hotels | 3,410 | 4,397 | 605 |
| Others | 134 | 249 | 34 |
| Total revenues | 10,010 | 11,426 | 1,572 |
| Operating costs and expenses: | | | |
| Hotel operating costs | 6,732 | 7,296 | 1,004 |
| Other operating costs | 17 | 15 | 2 |
| Selling and marketing expenses | 457 | 577 | 79 |
| General and administrative expenses | 902 | 1,111 | 153 |
| Pre-opening expenses | 21 | 27 | 4 |
| Total operating costs and expenses | 8,129 | 9,026 | 1,242 |
| Other operating income, net | 168 | 175 | 24 |
| Income from operations | 2,049 | 2,575 | 354 |
| Interest income | 101 | 107 | 15 |
| Interest expense | 224 | 167 | 23 |
| Other income, net | 546 | 64 | 9 |
| Losses from fair value changes of equity securities, net | (6) | (13) | (2) |
| Foreign exchange gain (loss), net | 99 | (116) | (15) |
| Income before income taxes | 2,565 | 2,450 | 338 |
| Income tax expense | 502 | 702 | 97 |
| (Loss) gain from equity method investments | (27) | 1 | 0 |
| Net income | 2,036 | 1,749 | 241 |
| Less: net income attributable to noncontrolling interest | 31 | 23 | 3 |
| Net income attributable to H World Group Limited | 2,005 | 1,726 | 238 |
| Other comprehensive income (loss) | | | |
| Gain (loss) from fair value changes of debt securities, net of tax of RMB7 and RMB (8) for the six months ended June 30, 2023 and 2024, respectively | 20 | (25) | (3) |
| Foreign currency translation adjustments, net of tax of nil for the six months ended June 30, 2023 and 2024 | 222 | (30) | (4) |
| Comprehensive income | 2,278 | 1,694 | 234 |
| Less: comprehensive income attributable to the noncontrolling interest | 31 | 23 | 3 |
| Comprehensive income attributable to H World Group Limited | 2,247 | 1,671 | 231 |
| Earnings per share: | | | |
| Basic | 0.63 | 0.55 | 0.08 |
| Diluted | 0.62 | 0.54 | 0.07 |
| Weighted average number of shares used in computation: | | | |
| Basic | 3,180,817,047 | 3,138,594,148 | 3,138,594,148 |
| Diluted | 3,349,256,828 | 3,300,316,153 | 3,300,316,153 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

H WORLD GROUP LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Renminbi in millions, except share data, unless otherwise stated)

| | Ordinary Shares | | Treasury Shares | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Noncontrolling Interest | Total Equity |
|---|-----------------------|--------|-----------------|---------|-------------------------------|-------------------|--|----------------------------|--------------|
| | Outstanding shares | Amount | Shares | Amount | | | | | |
| Balance at January 1, 2023 | 3,112,413,730 | 0 | 153,019,860 | (441) | 10,138 | (1,200) | 232 | 74 | 8,803 |
| Issuance of ordinary shares upon exercise of options and vesting of restricted stocks | 4,141,540 | 0 | — | — | 0 | — | — | — | 0 |
| Share-based compensation | — | — | — | — | 61 | — | — | — | 61 |
| Net income | — | — | — | — | — | 2,005 | — | 31 | 2,036 |
| Dividends paid to noncontrolling interest holders | — | — | — | — | — | — | — | (1) | (1) |
| Issuance of ordinary shares ¹ | 71,185,000 | 0 | — | — | 1,963 | — | — | — | 1,963 |
| Acquisition of noncontrolling interest | — | — | — | — | 1 | — | — | (3) | (2) |
| Gain from fair value changes of debt securities, net of tax | — | — | — | — | — | — | 20 | — | 20 |
| Foreign currency translation adjustments | — | — | — | — | — | — | 222 | — | 222 |
| Balance at June 30, 2023 | 3,187,740,270 | 0 | 153,019,860 | (441) | 12,163 | 805 | 474 | 101 | 13,102 |
| Balance at January 1, 2024 | 3,159,046,350 | 0 | 51,346,180 | (906) | 11,861 | 794 | 386 | 114 | 12,249 |
| Vesting of restricted stock in Treasury Shares | 3,775,370 | — | (3,775,370) | 13 | (13) | — | — | — | — |
| Share-based compensation | — | — | — | — | 170 | — | — | — | 170 |
| Net income | — | — | — | — | — | 1,726 | — | 23 | 1,749 |
| Dividends paid to noncontrolling interest holders | — | — | — | — | — | — | — | (1) | (1) |
| Acquisition of noncontrolling interest | — | — | — | — | (8) | — | — | (1) | (9) |
| Losses from fair value changes of debt securities, net of tax | — | — | — | — | — | — | (25) | — | (25) |
| Foreign currency translation adjustments | — | — | — | — | — | — | (30) | — | (30) |
| Repurchase of ordinary shares | (29,477,310) | — | 29,477,310 | (676) | — | — | — | — | (676) |
| Purchase of prepaid put option | — | — | — | — | (710) | — | — | — | (710) |
| Balance at June 30, 2024 | 3,133,344,410 | 0 | 77,048,120 | (1,569) | 11,300 | 2,520 | 331 | 135 | 12,717 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

¹ In January 2023, the Group successfully completed a follow-on public offering of 7,118,500 ADSs with net proceeds of RMB1,963.

H WORLD GROUP LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Renminbi in millions, unless otherwise stated)

| | Six Months Ended June 30, | | |
|---|-------------------------------|----------------|--------------|
| | 2023 | 2024 | 2024 |
| | US\$* in millions (Note 2) | | |
| Operating activities: | | | |
| Net income | 2,036 | 1,749 | 241 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Share-based compensation | 61 | 170 | 23 |
| Depreciation and amortization and other | 744 | 682 | 94 |
| Impairment loss | 80 | 36 | 5 |
| Loss from equity method investments, net of dividends | 83 | 41 | 6 |
| Investment income | (564) | (52) | (7) |
| Foreign currency exchange (gain) loss | (76) | 122 | 17 |
| Noncash lease expense | 1,117 | 1,183 | 163 |
| Changes in operating assets and liabilities | 542 | (827) | (114) |
| Others | 59 | 17 | 2 |
| Net cash provided by operating activities | <u>4,082</u> | <u>3,121</u> | <u>430</u> |
| Investing activities: | | | |
| Capital expenditures | (393) | (484) | (67) |
| Purchases of investments | (962) | (886) | (122) |
| Proceeds from maturity/sale and return of investments | 2,202 | 1,981 | 272 |
| Loan advances | (75) | (64) | (9) |
| Loan collections | 72 | 91 | 13 |
| Others | 5 | 56 | 8 |
| Net cash provided by investing activities | <u>849</u> | <u>694</u> | <u>95</u> |
| Financing activities: | | | |
| Net proceeds from issuance of ordinary shares | 1,973 | — | — |
| Payment of share repurchase | — | (676) | (93) |
| Proceeds from debt | 728 | 589 | 81 |
| Repayment of debt | (4,992) | (429) | (59) |
| Dividend paid | — | (2,091) | (288) |
| Purchase of prepaid put option | — | (710) | (98) |
| Others | (71) | (46) | (6) |
| Net cash used in financing activities | <u>(2,362)</u> | <u>(3,363)</u> | <u>(463)</u> |
| Effect of exchange rate changes on cash and cash equivalents, and restricted cash | 181 | (7) | (1) |
| Net increase in cash and cash equivalents, and restricted cash, including cash classified within current assets held for sale | 2,750 | 445 | 61 |
| Less: net decrease in cash and cash equivalents classified within assets held for sale | — | (10) | (1) |
| Cash, cash equivalents and restricted cash at the beginning of the period | 5,086 | 7,710 | 1,061 |
| Cash, cash equivalents and restricted cash at the end of the period | <u>7,836</u> | <u>8,165</u> | <u>1,123</u> |
| Cash and cash equivalents | 7,316 | 7,801 | 1,073 |
| Restricted cash | 520 | 364 | 50 |
| Total cash, cash equivalents and restricted cash shown in the statements of cash flows | <u>7,836</u> | <u>8,165</u> | <u>1,123</u> |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | 151 | 87 | 12 |
| Income taxes paid | 396 | 467 | 64 |
| Supplemental schedule of non-cash investing and financing activities: | | | |
| Purchases of property and equipment included in payables | 500 | 410 | 56 |
| Consideration payable for business acquisition | 1 | — | — |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

H WORLD GROUP LIMITED
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30 2023 and 2024
(Renminbi in millions, except share and per share data, unless otherwise stated)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

H World Group Limited (the “Company”) was incorporated in the Cayman Islands under the laws of the Cayman Islands on January 4, 2007. The principal business activities of the Company and its subsidiaries and consolidated variable interest entities (the “Group”) are to develop leased and owned, manachised and franchised hotels mainly in the People’s Republic of China (“PRC”) and Europe.

On January 2, 2020, the Group completed the acquisition of 100% equity interest of Steigenberger Hotels Aktiengesellschaft Germany (“Deutsche Hospitality” or “DH”) which was renamed as Steigenberger Hotels GmbH. Deutsche Hospitality was engaged in the business of leasing, franchising, operating and managing hotels under five brands in the midscale and upscale market in Europe, the Middle East and Africa. After the acquisition, “legacy DH” refers to Deutsche Hospitality and its subsidiaries and “legacy Huazhu” refers to the Group excluding Deutsche Hospitality.

Leased and owned hotels

The Group leases hotel properties from property owners or purchases properties directly and is responsible for all aspects of hotel operations and management, including hiring, training and supervising the managers and employees required to operate the hotels. In addition, the Group is responsible for hotel development and customization to conform to the standards of the Group brands at the beginning of the lease or the construction, as well as repairs and maintenance, operating expenses and management of properties over the term of the lease or the land and building certificate.

As of December 31, 2023 and June 30, 2024 the Group had 691 and 679 leased and owned hotels in operation, respectively.

Manachised and franchised hotels

The Group enters into franchise and management arrangements with franchisees for which the Group is responsible for providing branding, quality assurance, training, reservation, hiring and appointing of the hotel general manager and various other support services relating to hotel renovation and operations. Those hotels are classified as manachised hotels. Under the typical franchise and management agreements, the franchisee is required to pay an initial franchise fee and ongoing franchise and management service fees, which typically equal to a certain percentage of the revenues of the hotel. The franchisee is responsible for the costs of hotel development, renovation and the costs of its operations. The franchise and management agreements typically range from eight to ten years under legacy Huazhu, and 15 to 20 years for manachised hotels and 10 to 15 years for franchised hotels under legacy DH. These agreements are renewable upon mutual agreement between the Group and the franchisee. There are also some franchised hotels for which the Group does not provide a hotel general manager. As of December 31, 2023 and June 30, 2024, the Group had 8,526 and 9,444 manachised hotels in operation and 177 and 163 franchised hotels in operation, respectively.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its majority-owned subsidiaries and consolidated variable interest entities (the “VIEs”). All intercompany transactions and balances are eliminated on consolidation.

Variable Interest Entities

The Group evaluates the need to consolidate certain variable interest entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support.

As of December 31, 2023 and June 30, 2024, the impact of the consolidated VIEs are immaterial to the Group's consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's consolidated financial statements include the useful lives and impairment of property and equipment, right-of-use assets and intangible assets with definite lives, valuation allowance of deferred tax assets, impairment of investment, goodwill and intangible assets without definite lives and incremental borrowing rate used to measure lease liabilities.

Intangible assets, net

Intangible assets with finite useful lives are amortized using the straight-line method over their respective estimated useful lives over which the assets are expected to contribute directly or indirectly to the future cash flows of the Group. These estimated useful lives are generally as follows:

| | |
|--|--|
| Franchise or manachise agreements | Remaining contract terms from 10 to 20 years |
| Purchased software | 3 - 10 years based on the estimated usage period |
| Other intangible assets including trademark, licenses and other rights | 2 - 15 years based on the contractual term, the length of license agreements and the effective terms of other legal rights |

Almost all the brand names and master brand agreement acquired by the Group are considered to have indefinite useful lives since there are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of these brands and these brands can be renewed at nominal cost. The Group evaluates the brand name and master brand agreement each reporting period to determine whether events and circumstances continue to support an indefinite useful life. Impairment is tested annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Impairment of long-lived assets

The Group evaluates its long-lived assets including property and equipment, net, right-of-use assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the difference between the carrying amount and fair value of these assets.

The Group performed a recoverability test of its long-lived assets associated with certain hotels due to the continued underperformance relative to the projected operating results, of which the carrying amount of the long-lived assets exceeded the future undiscounted net cash flows, and recognized an impairment loss of RMB 78 and RMB 36 during the six months ended June 30, 2023 and 2024 respectively.

Fair value of the long-lived assets was determined by the Group based on the income approach using the discounted cash flow associated with the underlying assets, which incorporated certain assumptions including projected hotels' revenue, growth rates and projected operating costs based on current economic condition, expectation of management and projected trends of current operating results.

Leases

The Group determines if an arrangement is a lease or contains a lease at the inception of the contract. A lease arrangement is being evaluated for classification as operating or financing upon lease commencement. Lease liabilities, which represent the Group's obligation to make lease payments arising from the lease, and corresponding right of-use assets, which represent the Group's right to use an underlying asset for the lease term, are recognized at the commencement date of the lease based on the present value of fixed future payments and variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date) over the lease term, calculated using the discount rate implicit in the lease, if available, or the Group's incremental borrowing rate. For operating leases, lease expense relating to fixed payments is recognized on a straight-line basis over the lease term and lease expense relating to variable payments is expensed as incurred. For finance leases, the amortization of the asset is recognized over the shorter of the lease term or useful life of the underlying asset.

Most leases have initial terms ranging from 10 to 20 years for legacy Huazhu, and from 20 to 25 years for legacy DH. The lease term includes lessee options to extend the lease and periods occurring after a lessee early termination option, only to the extent it is reasonably certain that the Group will exercise such extension options and not exercise such early termination options, respectively. The Group's lease agreements may include nonlease components, mainly common area maintenance, which are combined with the lease components as the Group elects to account for these components as a single lease component, as permitted. The Group elected the practical expedient of not to separate land components outside PRC from leases of specified property and equipment at the ASC842 transition date. Besides, the Group's lease payments are generally fixed and certain agreements contain variable lease payments based on the operating performance of the leased property and the changes in the index of consumer pricing index ("CPI"). Almost all the lease agreements with variable lease payments based on the changes in CPI are held by legacy DH.

For operating leases, the Group recognizes lease expense on a straight-line basis over the lease term and variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date, otherwise variable lease payments are recognized in the period in which the obligation for those payments is incurred. The operating lease expense is recognized as hotel operating costs, general and administrative expenses and pre-opening expenses in the consolidated statements of comprehensive income. For finance lease, lease expense is generally front-loaded as the finance lease ROU asset is depreciated on a straight-line basis over the shorter of the lease term or useful life of the underlying asset within hotel operating costs in the consolidated statements of comprehensive income, but interest expense on the lease liability is recognized in interest expense in the consolidated statements of comprehensive income using the effective interest method which results in more expense during the early years of the lease. Additionally, the Group elected not to recognize leases with lease terms of 12 months or less at the commencement date. Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term, not included in lease liabilities. The Group's lease agreements do not contain any significant residual value guarantees or restricted covenants.

The Group reassesses of a contract is or contains a leasing arrangement and re-measures ROU assets and liabilities upon modification of the contract. The Group will derecognize ROU assets and liabilities, with difference recognized in the consolidated statements of comprehensive income on the contract termination.

Income taxes

Current income taxes are provided for in accordance with the relevant statutory tax laws and regulations.

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Net operating losses are carried forward and credited by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of the Group, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. For a particular tax-paying component of an entity and within a particular tax jurisdiction, all deferred tax liabilities and assets, as well as any related valuation allowance, shall be offset and presented as a single noncurrent amount. However, an entity shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions.

According to ASC 740-270 Interim Reporting, an estimated annual effective tax rate (AETR) on full year estimated ordinary income should first be determined by the Company and the estimated AETR is then applied to year-to-date ordinary income to compute the interim tax provision on ordinary income.

Foreign currency translation

The reporting currency of the Group is the Renminbi (“RMB”). The functional currency of the Company is the United States dollar (“US\$”). Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured in functional currency at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing on the day transactions occurred. Transaction gains and losses are recognized in the statements of comprehensive income.

Assets and liabilities are translated into RMB at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of comprehensive income.

The financial records of the Group’s subsidiaries are maintained in local currencies, which are the functional currencies.

Fair value

The established fair value hierarchy by U.S. GAAP has three levels based on the reliability of the inputs used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Group’s financial instruments include cash and cash equivalent, restricted cash, loan receivables, receivables, payables, finance lease liabilities, short-term debts and long-term debts. The carrying amounts of the short-term financial instruments approximates their fair value due to their short-term nature. The long-term debts and long-term loan receivables approximate their fair values, because the bearing interest rates approximate market interest rate, and market interest rates have not fluctuated significantly since the commencement of loan contracts signed.

The following table presents our assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

| Description | Fair Value Measurements at Reporting Date Using | | |
|--|--|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| As of December 31, 2023 | | | |
| Equity securities with readily determinable fair value | 231 | — | — |
| Available-for-sale debt securities | — | — | 281 |
| Employee benefit plan assets | 17 | — | — |
| As of June 30, 2024 | | | |
| Equity securities with readily determinable fair value | 219 | — | — |
| Available-for-sale debt securities | — | — | 248 |
| Employee benefit plan assets | 17 | — | — |

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Equity securities with readily determinable fair value and employee benefit plan assets are valued using a market approach based on the quoted market prices or broker/dealer quotes of identical or comparable instruments.

Level 3 fair value of available-for-sale debt securities is determined 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.

Certain assets are measured at a non-recurring basis. The following table presents the asset classification, the fair value and the non-recurring losses recognized for the year ended December 31, 2023 and for the six months ended June 30, 2024 due to impairment of the related assets.

| As of December 31, 2023 | | Fair Value Measurements at Reporting Date Using | | |
|-------------------------------------|-----|---|---|-------------------------|
| | | Fair Value | Significant Unobservable Inputs (Level 3) | Total Loss for the Year |
| Description | | | | |
| Property and equipment | 70 | 70 | 52 | |
| Operating lease right-of-use assets | 309 | 309 | 228 | |
| Intangible assets | 236 | 236 | 166 | |
| Long-term investment | 113 | 113 | 66 | |
| Goodwill | — | — | 4 | |

| As of June 30, 2024 | | Fair Value Measurements at Reporting Date Using | | |
|-------------------------------------|----|---|---|-------------------------------------|
| | | Fair Value | Significant Unobservable Inputs (Level 3) | Total Loss for the Six Months Ended |
| Description | | | | |
| Property and equipment | 13 | 13 | 22 | |
| Operating lease right-of-use assets | 10 | 10 | 14 | |

Share-based compensation

The Group recognizes share-based compensation in the consolidated statements of comprehensive income based on the fair value and expected forfeiture rate of equity awards on the date of the grant, with compensation expenses recognized over the period in which the grantee is required to provide service to the Group in exchange for the equity award. Vesting of certain equity awards are based on the performance conditions for a period of time following the grant date. Share-based compensation expense is recognized according to the Group's judgement of likely future performance and will be adjusted in future periods based on the actual performance.

Earnings per share

Basic earnings per share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares, which consist of the ordinary shares issuable upon the conversion of the convertible senior notes (using the if-converted method) and ordinary shares issuable upon the exercise of stock options and vest of nonvested restricted stocks (using the treasury stock method).

Translation into United States Dollars

The financial statements of the Group are stated in RMB. Translations of amounts from RMB into United States dollars are solely for the convenience of the reader and were calculated at the rate of US\$1 = RMB7.2672, on June 28, 2024, as set forth in H.10 statistical release of the Federal Reserve Board. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into United States dollars at that rate on June 28, 2024, or at any other rate.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenues

The following tables present the Group's revenues disaggregated by the nature of the product or service:

| | Six Months Ended June 30, | |
|--|------------------------------|---------------|
| | 2023 | 2024 |
| Room revenues | 5,507 | 5,741 |
| Food and beverage revenues | 635 | 656 |
| Others | 324 | 383 |
| Leased and owned hotels revenue | 6,466 | 6,780 |
| Initial one-time license/franchise fee | 54 | 64 |
| On-going management and service/royalty fees | 1,232 | 1,536 |
| Central reservation system usage fees, other system maintenance and support fees | 1,152 | 1,522 |
| Reimbursements for hotel manager fees | 600 | 817 |
| Other fees | 372 | 458 |
| Manachised and franchised hotels revenues | 3,410 | 4,397 |
| Other revenues | 134 | 249 |
| Total revenues | 10,010 | 11,426 |

Contract Balances

The Group's contract assets are insignificant at December 31, 2023 and June 30, 2024.

| | As of | |
|-----------------------------------|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| Current contract liabilities | 1,637 | 1,760 |
| Long-term contract liabilities | 1,072 | 1,182 |
| Total contract liabilities | 2,709 | 2,942 |

The contract liabilities balances above are classified as deferred revenue on the consolidated balance sheet, as of December 31, 2023 and June 30, 2024. The Group recognized revenues that were previously deferred as contract liabilities of RMB403 and RMB495 during the six months ended June 30, 2023 and 2024, respectively.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

| | As of | |
|-----------------------------------|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| Cost: | | |
| Buildings | 791 | 791 |
| Leasehold improvements | 11,053 | 11,073 |
| Furniture, fixtures and equipment | 2,448 | 2,301 |
| Motor vehicles | 2 | 2 |
| | <u>14,294</u> | <u>14,167</u> |
| Less: Accumulated depreciation | 8,456 | 8,551 |
| | <u>5,838</u> | <u>5,616</u> |
| Construction in progress | 259 | 266 |
| Property and equipment, net | <u>6,097</u> | <u>5,882</u> |

Depreciation expense was RMB653 and RMB610 for the six months ended June 30, 2023 and 2024, respectively.

5. INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

| | As of | |
|---|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| <i>Intangible assets with indefinite lives:</i> | | |
| Brand names | 5,327 | 5,229 |
| Master brand agreement | 192 | 192 |
| <i>Intangible assets with finite lives:</i> | | |
| Franchise or manachise agreements | 281 | 274 |
| Purchased software | 135 | 135 |
| Other intangible assets | 75 | 74 |
| Total | <u>6,010</u> | <u>5,904</u> |
| Less: Accumulated amortization | 204 | 217 |
| Less: Accumulated impairment loss | 526 | 513 |
| Total | <u>5,280</u> | <u>5,174</u> |

Amortization expense of intangible assets for the six months ended June 30, 2023 and 2024 amounted to RMB23 and RMB20, respectively.

No impairment was recorded for the six months ended June 2023 and 2024.

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The annual estimated amortization expense for the above intangible assets excluding brand names and master brand agreement for the following years is as follows:

| | Amortization for Intangible Assets |
|-------------------|---------------------------------------|
| Remainder of 2024 | 19 |
| 2025 | 31 |
| 2026 | 28 |
| 2027 | 23 |
| 2028 | 22 |
| Thereafter | 128 |
| Total | 251 |

6. INVESTMENTS

The investments as of December 31, 2023 and June 30, 2024 were as follows:

| | As of | |
|--|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| Short-term investments | | |
| <i>Equity securities with readily determinable fair values:</i> | | |
| Marketable securities | 231 | 219 |
| <i>Held to maturity investments</i> | | |
| Bank time deposits and financial products | 1,958 | 893 |
| Total | 2,189 | 1,112 |
| Long-term investments | | |
| <i>Equity securities without readily determinable fair values:</i> | | |
| Cjia Group-preferred shares | 99 | 81 |
| Oravel Stays Private limited (“OYO”) | 54 | 54 |
| Other equity securities without readily determinable fair values | 29 | 28 |
| Subtotal | 182 | 163 |
| <i>Equity-method investments:</i> | | |
| AAPC LUB | 490 | 468 |
| Hotel related funds | 479 | 476 |
| Other investments | 320 | 320 |
| Subtotal | 1,289 | 1,264 |
| <i>Available-for-sale debt securities:</i> | | |
| Cjia Group-convertible notes | 281 | 248 |
| <i>Held to maturity investments</i> | | |
| Bank time deposits | 812 | 824 |
| Total | 2,564 | 2,499 |

7. ASSETS AND LIABILITIES HELD FOR SALE

In the fourth quarter of 2023, the Group committed to a plan to sell certain lease-and-owned hotels (the “disposal group”) included in legacy DH. In February 2024, the Group entered into a Share and Asset Purchase and Transfer Agreement with an unaffiliated third party, and the transaction is expected to be closed in 2024, subject to certain customary closing conditions. As of December 31, 2023 and June 30, 2024, the related assets and liabilities were classified as held for sale on the Group’s consolidated balance sheet.

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The total assets and liabilities of the disposal group that were classified as held for sale on the Group's consolidated balance sheet as of December 31, 2023 and June 30, 2024, were as follows:

| | As of | |
|--|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| <i>Assets held for sale:</i> | | |
| Cash and cash equivalents | 17 | 7 |
| Property and equipment, net | 102 | 95 |
| Operating lease right-of-use assets | 1,834 | 1,788 |
| Finance lease right-of-use assets | 295 | 288 |
| Other assets | 65 | 61 |
| Total | 2,313 | 2,239 |
| <i>Liabilities held for sale:</i> | | |
| Accrued expenses and other current liabilities | 102 | 79 |
| Operating lease liabilities, current | 76 | 74 |
| Operating lease liabilities, noncurrent | 1,936 | 1,851 |
| Finance lease liabilities | 324 | 312 |
| Other liabilities | 98 | 84 |
| Total | 2,536 | 2,400 |

8. DEBT

The short-term and long-term debt as of December 31, 2023 and June 30, 2024 were as follows:

| | As of | |
|---|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| <i>Short-term debt and current portion of long-term debt:</i> | | |
| Long-term bank borrowings, current portion | 125 | 186 |
| Short-term bank borrowings | 329 | 77 |
| Convertible senior notes, current portion | 3,537 | — |
| FF&E liability, current portion | 58 | 52 |
| Total | 4,049 | 315 |
| <i>Long-term debt:</i> | | |
| Long-term bank borrowings, noncurrent portion | 1,050 | 1,435 |
| Convertible senior notes, noncurrent portion | — | 3,563 |
| FF&E liability, noncurrent portion | 199 | 207 |
| Others | 16 | 15 |
| Total | 1,265 | 5,220 |

Bank borrowings

In August 2022, the Group entered into a 3-year long-term facility of EUR220 million and RMB-equivalent of EUR110 million term facility, and EUR70 million revolving credit facility agreement with several banks. The EUR70 million revolving credit facility is available for 35 months after the date of the agreement. The interest rate on the loan for each interest period is the aggregate of the applicable Margin and EURIBOR or one-year benchmark LPR. The margin for each loan depends on the currency of loan, a loan denominated in EUR means 1.55% per annum and a loan denominated in RMB means -0.15% to - 0.2% per annum. There are some financial covenants including interest cover, leverage and book equity related to this facility. The Group was fully in compliance with the amended covenants during the six months ended June 30, 2024. In 2022, the Group had drawn down EUR220 million, RMB equivalent of EUR110 million and EUR70 million under the facility agreement, among which, the Group repaid EUR220 million, RMB equivalent of EUR6 million and EUR70 million in 2023 and repaid RMB equivalent of EUR3 million during the six months ended June 30, 2024. For the six months ended June 30, 2024, the weighted average interest rate of borrowings drawn under this agreement was 3.43%.

Convertible Senior Notes due 2026

In May 2020, the Company issued US\$500 million Convertible Senior Notes (the “2026 Notes”). The 2026 Notes will mature on May 1, 2026 and bear interest at a rate of 3.00% per annum, payable in arrears semi-annually on May 1 and November 1 of each year, beginning on November 1, 2020. In 2020, proceeds to the Company were RMB3,499 (equivalently US\$493 million), net of issuance costs of RMB49 (equivalently US\$7 million).

Holders of the 2026 Notes have the option to convert their Notes at any time prior to the close of business on the second business day immediately preceding the maturity date. The 2026 Notes can be converted into the Company’s ADSs at an initial conversion rate of 23.971 of the Company’s ADSs per US\$1,000 principal amount of the 2026 Notes (equivalent to an initial conversion price of US\$41.72 per ADS).

The holders may require the Company to repurchase all or portion of the 2026 Notes for cash on May 1, 2024, or in the event of certain fundamental changes, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. As of December 31, 2023, the carrying amount of 2026 Notes was classified as short-term debt because the holders have a put option which can be exercised within one year. After May 1, 2024, the Group reclassified the 2026 Notes as long - term debt as the put option was expired.

Debt Maturities

The contractual maturities of the Group’s debt as of June 30, 2024 were as follows:

| | Principle Amounts |
|-------------------|--------------------------|
| Remainder of 2024 | 262 |
| 2025 | 803 |
| 2026 | 4,024 |
| 2027 | 219 |
| 2028 | 150 |
| Thereafter | 77 |
| Total | 5,535 |

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

| | As of | |
|--|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| Payable to franchisees | 1,150 | 1,252 |
| Other payables | 1,146 | 1,306 |
| Accrued rental, utilities and other accrued expenses | 283 | 329 |
| Liabilities related to customer loyalty program | 264 | 287 |
| Value-added tax, other tax and surcharge payables | 337 | 346 |
| Advance from noncontrolling interest holders | 81 | 79 |
| Total | <u>3,261</u> | <u>3,599</u> |

10. HOTEL OPERATING COSTS

Hotel operating costs include all direct costs incurred in the operation of the leased and owned hotels, manachised and franchised hotels and consist of the following:

| | Six Months Ended June 30, | |
|-------------------------------|------------------------------|--------------|
| | 2023 | 2024 |
| Rents | 2,139 | 2,177 |
| Utilities | 341 | 341 |
| Personnel costs | 2,167 | 2,562 |
| Depreciation and amortization | 678 | 634 |
| Consumable, food and beverage | 613 | 620 |
| Others | 794 | 962 |
| Total | <u>6,732</u> | <u>7,296</u> |

11. SHARE-BASED COMPENSATION

In September 2009, the Group adopted the 2009 Share Incentive Plan which allows the Group to offer incentive awards to employees, officers, directors and consultants or advisors (the “Participants”). Under the 2009 Share Incentive Plan, the Group may issue incentive awards to up to 30,000,000 ordinary shares. In August 2010, the Group increased the maximum number of incentive awards available under the 2009 Share Incentive Plan to 150,000,000. In March 2015, the Group increased the maximum number of incentive awards available under the 2009 Share Incentive Plan to 430,000,000. In June 2023, the Group adopted the 2023 Share Incentive Plan (collectively with 2009 Share Incentive Plan, the “Incentive Award Plans”), which allows the Group to offer incentive awards up to 20,000,000 ordinary shares to Participants. In June 2024, the Group increased the maximum number of incentive awards available under the 2023 Share Incentive Plan to 300,000,000. The incentive awards granted under the Incentive Award Plans typically have a maximum life of ten years and vest in typical ways as listed below:

- a.) Vest 50% on the second anniversary of the stated vesting commencement date with the remaining 50% vesting ratably over the following two years;
- b.) Vest over a period of ten years in equal yearly installments;

As of June 30, 2024, the Group had granted 274,295,790 options and 343,723,130 nonvested restricted stocks, which were subject to adjustment on performance condition.

Share options

In 2023, the Group granted 28,625,350 share options to senior officers, which was in five tranches with performance conditions, and the vesting of each of the five tranches commences respectively at the first, second, third, fourth, and fifth anniversary of grant date. Each tranche is accounted for as a separate award with the same grant date, the same service inception date and its own requisite service period. The actual number of share options that could be exercised is contingent on certain financial performance of the year when vesting of share option commences. The Group reassesses the performance condition at each reporting period for true up. For each tranche, 50% vests on the second anniversary of the stated vesting commencement date with the remaining 50% vesting ratably over the following two years and will become exercisable if certain performance conditions are met for the five-year period ending December 31, 2027.

The weighted-average grant date fair value for options granted in 2023 was US\$2.22 per share, computed using the binomial option pricing model. The binomial option pricing model requires the input of subjective assumptions including the expected stock price volatility and the expected price multiple at which employees are likely to exercise stock options. The Group uses historical data to estimate forfeiture rate. Expected volatilities are based on the average historical equity volatility of the Group. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of stock options was estimated using the following significant assumptions:

| | 2023 |
|----------------------------|-------------|
| Suboptimal exercise factor | 2.80 |
| Risk-free interest rate | 3.61 % |
| Volatility | 49.31 % |
| Dividend yield | 0.80 % |
| Life of option | 10 years |

The following table summarized the Group's share option activity under the option plans:

| | <u>Number of Options</u> | <u>Weighted Average Exercise Price</u> US\$ | <u>Weighted Average Remaining Contractual Life</u> Years | <u>Aggregate Intrinsic Value</u> US\$ million |
|---|------------------------------|--|---|--|
| Share options outstanding at January 1, 2024 | 28,519,100 | 2.80 | 9.41 | 16 |
| Share options outstanding at June 30, 2024 | <u>28,519,100</u> | 2.80 | 8.92 | 15 |
| Share options vested or expected to vest at June 30, 2024 | <u>26,429,100</u> | 2.80 | 8.92 | 14 |
| Share options exercisable at June 30, 2024 | <u>—</u> | — | — | — |

Given the actual number of share options that could be exercised is contingent on certain financial performance of the year when vesting commences, the share-based compensation expenses related to these options would be recognized when the financial performance is expected to be met. The Group didn't record any compensation expenses relating to options which are indexed to financial performance beyond the year ended December 31, 2024. The total share based compensation expenses relating to these options was RMB256.

As of June 30, 2024, there was RMB123 in total unrecognized compensation expense, net of estimated forfeitures, related to the option arrangements, which is expected to be recognized over a weighted-average period of 3.44 years.

Nonvested restricted stocks

The fair value of nonvested restricted stock with service conditions or performance conditions is based on the fair market value of the underlying ordinary shares on the date of grant.

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In 2023, the Group granted 28,625,350 nonvested restricted stocks to senior officers, each was in five tranches with performance conditions, and the vesting of each of the five tranches commences respectively at the first, second, third, fourth, and fifth anniversary of grant date. Each tranche is accounted for as a separate award with the same grant date, the same service inception date and its own requisite service period. The actual number of nonvested restricted stocks that could vest is contingent on certain financial performance of the year when vesting commences. The Group reassesses the performance condition at each reporting period for true up. For each tranche, 50% vests on the second anniversary of the vesting commencement date with the remaining 50% vesting ratably over the following two years. The share-based compensation expenses related to these nonvested restricted stocks would be recognized when the financial performance is expected to be met. The Group didn't record any compensation expenses relating to incentive shares which are indexed to financial performance beyond the year ended December 31, 2024.

The following table summarized the Group's nonvested restricted stock activities during the six months ended June 30, 2024.

| | <u>Number of Restricted Stocks</u> | <u>Weighted Average Grant Date Fair Value</u> US\$ |
|--|--|---|
| Nonvested restricted stocks outstanding at January 1, 2024 | 95,061,300 | 2.54 |
| Granted | 35,576,220 | 3.10 |
| Forfeited | (1,109,850) | 2.84 |
| Vested | (3,775,370) | 1.66 |
| Nonvested restricted stocks outstanding at June 30, 2024 | <u>125,752,300</u> | <u>2.72</u> |

As of June 30, 2024, there was RMB1,656 in unrecognized compensation costs, net of estimated forfeitures, related to unvested restricted stocks, which is expected to be recognized over a weighted-average period of 6.40 years.

The total fair value of nonvested restricted stocks vested was RMB134 and RMB101 for the six months ended June 30, 2023 and June 30, 2024 respectively.

For the six months ended June 30, 2023 and 2024, the Group recognized share-based compensation expenses of RMB61 and RMB170, respectively, which were classified as follows:

| | <u>Six Months Ended June 30,</u> | |
|-------------------------------------|----------------------------------|-------------|
| | <u>2023</u> | <u>2024</u> |
| Hotel operating costs | 16 | 15 |
| Selling and marketing expenses | 3 | 3 |
| General and administrative expenses | 42 | 152 |
| Total | <u>61</u> | <u>170</u> |

12. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the six months ended June 30, 2023 and 2024 indicated:

| | Six Months Ended June 30, | |
|---|---------------------------|---------------|
| | 2023 | 2024 |
| Net income attributable to ordinary shareholders — basic | 2,005 | 1,726 |
| Eliminate the dilutive effect of interest expense of convertible senior notes | 59 | 58 |
| Net income attributable to ordinary shareholders — diluted | 2,064 | 1,784 |
| Weighted average ordinary shares outstanding — basic | 3,180,817,047 | 3,138,594,148 |
| Incremental weighted-average ordinary shares from assumed exercise of share options and nonvested restricted stocks using the treasury stock method | 47,838,781 | 37,795,005 |
| Dilutive effect of convertible senior notes | 120,601,000 | 123,927,000 |
| Weighted average ordinary shares outstanding — diluted | 3,349,256,828 | 3,300,316,153 |
| Basic earnings per share | 0.63 | 0.55 |
| Diluted earnings per share | 0.62 | 0.54 |

For the six months ended June 30, 2023 and 2024, the Group had securities which could potentially dilute basic earnings per share in the future, but which were excluded from the computation of diluted earnings per share as their effects would have been anti-dilutive. Such outstanding securities consist of the following at non-weighted basis:

| | As of | |
|------------------------------|---------------|---------------|
| | June 30, 2023 | June 30, 2024 |
| Outstanding employee options | 28,625,350 | 28,519,100 |

13. SEGMENT

The Group's chief operating decision maker ("CODM") has been identified as the chief executive officer. The Group has two operating segments which are legacy Huazhu and legacy DH according to the way management intends to evaluate results and allocate resources within the Group. In identifying its reportable segments, the Group assesses nature of operating segments and evaluates the operating results of each reporting segments. Both operating segments meet the quantitative thresholds and should be considered as two reportable segments. The Group used adjusted EBITDA, which is defined as EBITDA before share-based compensation expenses, gain (loss) from fair value changes of equity securities, foreign exchange gain (loss) and gain (loss) on disposal of investments, as segment profit measure as the CODM used adjusted EBITDA to evaluate the performance of each segment.

The following table provides a summary of the Group's operating segment results for the six months ended June 30, 2023 and 2024.

| | Six Months Ended June 30, | | | | | | | |
|---|---------------------------|--------------|-------------|---------------|---------------|--------------|-------------|---------------|
| | 2023 | | | | 2024 | | | |
| | Legacy Huazhu | Legacy DH | Elimination | Total | Legacy Huazhu | Legacy DH | Elimination | Total |
| Leased and owned hotels | 4,486 | 1,980 | — | 6,466 | 4,507 | 2,273 | (0) | 6,780 |
| Manachised and franchised hotels | 3,366 | 47 | (3) | 3,410 | 4,347 | 55 | (5) | 4,397 |
| Others | 90 | 45 | (1) | 134 | 222 | 30 | (3) | 249 |
| Total revenues | 7,942 | 2,072 | (4) | 10,010 | 9,076 | 2,358 | (8) | 11,426 |
| Adjusted EBITDA | 2,801 | 3 | (1) | 2,803 | 3,393 | 69 | (1) | 3,461 |
| Interest income | | | | 101 | | | | 107 |
| Interest expense | | | | 224 | | | | 167 |
| Income tax expense | | | | 502 | | | | 702 |
| Depreciation and amortization | | | | 721 | | | | 674 |
| Share-based compensation | | | | 61 | | | | 170 |
| Loss from fair value changes of equity securities | | | | 6 | | | | 13 |
| Foreign exchange (gain) loss, net | | | | (99) | | | | 116 |
| Gain on disposal of investments | | | | (516) | | | | — |
| Net income attributable to H World Group Limited | | | | 2,005 | | | | 1,726 |

The following table presents total assets for operating segments, reconciled to consolidated amounts:

| | As of | | | | | |
|---------------------|-------------------|---------------|---------------|---------------|---------------|---------------|
| | December 31, 2023 | | | June 30, 2024 | | |
| | Legacy Huazhu | Legacy DH | Total | Legacy Huazhu | Legacy DH | Total |
| Total assets | 44,285 | 19,247 | 63,532 | 43,014 | 19,438 | 62,452 |

The following tables represent revenues and property and equipment, net, intangible assets, net, right-of-use assets, land use rights, net and goodwill by geographical region.

| Revenues: | Six Months Ended June 30, | |
|--------------|---------------------------|---------------|
| | 2023 | 2024 |
| China | 7,927 | 9,056 |
| Germany | 1,532 | 1,691 |
| All others | 551 | 679 |
| Total | 10,010 | 11,426 |

Property and equipment, net, intangible assets, net, right-of-use assets, land use rights, net and goodwill:

| | As of | |
|--------------|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| China | 28,762 | 28,257 |
| Germany | 12,504 | 12,559 |
| All others | 3,439 | 3,545 |
| Total | 44,705 | 44,361 |

Other than China and Germany, there were no countries that individually represented more than 10% of the total revenue for the six months ended June 30, 2023 and 2024, and 10% of the above long lived assets as of December 31, 2023 and June 30, 2024.

14. CASH DIVIDEND

On November 29, 2023, the Group approved and declared a cash dividend of US\$0.093 per ordinary share or US\$0.93 per ADS, on its outstanding shares as of the close of trading on January 10, 2024. Such dividend of RMB2,085 was recorded as dividend payable as of December 31, 2023 and was fully paid in the first quarter of 2024.

On July 23, 2024, the Group approved and declared a cash dividend of US\$0.063 per ordinary share, or US\$0.63 per ADS, on its outstanding shares as of the close of trading on August 14, 2024. Such dividend of RMB1,427 was mostly paid in August 2024.

15. PREPAID PUT OPTION

In May 2024, the Company entered into a prepaid put option agreement, similar to a structured share repurchase program, which required the Company to make an upfront cash payment in exchange for the right to receive the Company's own ordinary shares or cash at the expiration of the agreement, depending on the market price of the Company's ordinary share at the expiration date. Upon expiration of the agreement, if the market price of Company's share was at or above pre - determined price (the "strike price"), the Company would have the initial investment returned with a premium in either cash or shares at its election. If the market price was below the strike price, the Company would receive the number of shares specified in the agreements. As the arrangement was based entirely on the Company's share price and did not require the Company to deliver either shares or cash, other than the initial investment, the entire transaction was recorded in equity. In May 2024, the Company made an upfront payment of US\$100 million, which was recorded in additional paid in capital. In the third quarter of 2024, this agreement was fully settled and the Company repurchased 31,034,050 shares.

16. LEASES

The Group's leases mainly related to building and the rights to use the land. The total expense related to short-term leases were insignificant for the six months ended June 30, 2023 and 2024, and sublease income of the Group which was recognized in revenues in the consolidated statements of comprehensive income were RMB65 and RMB80 for the six months ended June 30, 2023 and 2024, respectively. The Group recognizes a negative lease expense of RMB67 and RMB2 for the six months ended June 30, 2023 and 2024 under the relief of lease concession from COVID-19 as the Group elects using the variable lease expense approach.

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A summary of supplemental information related to operating leases for the six months ended June 30, 2023 and 2024 is as follows:

| | Six Months Ended June 30, | |
|---------------------------------------|----------------------------------|--------------|
| | 2023 | 2024 |
| Lease cost: | | |
| Operating fixed lease cost | 2,110 | 2,085 |
| Finance lease cost | | |
| — Amortization of ROU assets | 41 | 41 |
| — Interest on lease liabilities | 52 | 63 |
| Variable lease cost | 65 | 134 |
| Total lease cost | 2,268 | 2,323 |
| Other information: | | |
| Weighted average remaining lease term | | |
| Operating leases | 13 years | 13 years |
| Finance leases | 28 years | 27 years |
| Weighted average discount rate | | |
| Operating leases | 6.20 % | 6.14 % |
| Finance leases | 4.03 % | 4.32 % |

As of June 30, 2024, the maturities of lease liabilities in accordance with ASC 842 in each of the next five years and thereafter are as follows:

| | Total Operating Leases | Total Finance Leases |
|--|-----------------------------------|---------------------------------|
| Remainder of 2024 | 2,043 | 76 |
| 2025 | 4,014 | 155 |
| 2026 | 3,840 | 156 |
| 2027 | 3,704 | 160 |
| 2028 | 3,509 | 162 |
| Thereafter | 24,281 | 3,910 |
| Total minimum lease payments | 41,391 | 4,619 |
| Less: amount representing interest | 13,526 | 1,987 |
| Present value of minimum lease payments | 27,865 | 2,632 |

As of June 30, 2024, the Group has entered 16 lease contracts that the Group expects to account for as operating or finance leases, the future undiscounted lease payments for these non-cancellable lease contracts are RMB3,848, which is not reflected in the consolidated balance sheets.

Supplemental cash flow information related to leases for the six months ended June 30, 2023 and 2024 are as follows:

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2023 | 2024 |
| Cash paid for amounts included in the measurement of operating lease liabilities | 2,094 | 2,255 |
| Cash paid for amounts included in the measurement of finance lease liabilities | 69 | 84 |
| Non-cash right-of-use assets obtained in exchange for operating lease liabilities | 554 | 1,566 |
| Non-cash right-of-use assets obtained in exchange for finance lease liabilities, net of reassessment of finance lease payments | 53 | — |

17. EMPLOYEE BENEFIT PLANS

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on a certain percentage of the employees' salaries. The total contribution for such employee benefits were RMB335 and RMB402 for the six months ended June 30, 2023 and 2024. The Group has no ongoing obligation to its employees subsequent to its contribution to the PRC plan.

Furthermore, the Group pays contribution to governmental and private pension insurance organizations based on legal regulations in some countries out of China. The contributions are recognized as expense and amount RMB43 and RMB48 for the six months ended June 30, 2023 and 2024.

18. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following entities are considered to be related parties to the Group. The related parties mainly act as service providers and service recipients to the Group. The Group is not obligated to provide any type of financial support to these related parties.

| Related Party | Nature of the Party | Relationship with the Group |
|--|---------------------------------|--|
| Trip.com Group Limited (“Trip.com”) | Online travel services provider | Mr. Qi Ji is a director; Shareholder of the Group |
| Sheen Star Group Limited (“Sheen Star”) | Investment holding company | Equity method investee of the Group, controlled by Mr. Qi Ji |
| China Cjia Group Limited (“Cjia Group”) | Apartment Management Group | Equity method investee of the Group |
| Shanghai Zhuchuang Enterprise Management Co., Ltd. (“Zhuchuang”) | Staged office space company | Equity method investee of the Group |
| Shanghai Lianquan Hotel Management Co., Ltd. (“Lianquan”) | Hotel management company | Equity method investee of the Group |
| Huamai (Guangzhou) Hotel Management Co., Ltd. (“Huamai”) | Hotel management company | Equity method investee of the Group |
| AZURE Hospitality Fund I Limited Partnership (“Azure”) | Fund | Equity method investee of the Group |

(a) Related party balances

Amounts due from related parties consist of the following:

| | As of | |
|--------------------------------------|-------------------|---------------|
| | December 31, 2023 | June 30, 2024 |
| Trip.com | 174 | 213 |
| Lianquan | 45 | 44 |
| Huamai | 22 | 19 |
| Zhuchuang | 14 | 14 |
| Cjia Group | 9 | 10 |
| Others | 34 | 41 |
| Allowance for expected credit losses | (63) | (62) |
| Total | 235 | 279 |

Amounts due to related parties consist of the following:

| | As of | |
|------------|----------------------|------------------|
| | December 31, 2023 | June 30, 2024 |
| Trip.com | 48 | 86 |
| Cjia Group | 16 | 13 |
| Others | 13 | 20 |
| Total | <u>77</u> | <u>119</u> |

(b) Related party transactions

During the six months ended June 30, 2023 and June 30, 2024, significant related party transactions were as follows:

| | Six Months Ended June 30, | |
|---|---------------------------|------|
| | 2023 | 2024 |
| Commission expenses to Trip.com | 102 | 150 |
| Lease expenses to Trip.com | 9 | 10 |
| Lease expenses to Cjia Group | 17 | 18 |
| Goods sold and service provided to Cjia Group | 4 | 11 |
| Service fee from Trip.com | 9 | 68 |
| Service fee from Sheen Star | 3 | — |
| Service fee from Azure | 7 | 11 |
| Sublease income from Lianquan | 4 | 6 |
| Sublease income from Cjia Group | 2 | 3 |

19. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As of June 30, 2024, the Group's commitments related to leasehold improvements and installation of equipment for hotel operations was RMB246, which is expected to be incurred within one to two years.

(b) Contingencies

The Group is subject to periodic legal or administrative proceedings in the ordinary course of the Group's business, including lease contract terminations and disputes, and management agreement disputes. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements. As of June 30, 2024, there are no accrued contingent liabilities from such proceedings.