

2019 Letter to Shareholders

April 25, 2019

These are interesting times. The world is changing at an unprecedented pace. Good and bad changes are simultaneously unfolding, many of which are unexpected, and some may even leave people anxious or in disbelief. The inertia of old forces remains strong, and the problems that arise from them persist. At the same time, new forces, new ideas and new approaches are emerging. As Charles Dickens wrote in *A Tale of Two Cities* – “It was the epoch of belief, it was the epoch of incredulity.” Whether you believe or question, by choice or by chance, we and the world around us are sprinting into a new era.

(1) “New E-commerce” in the New Era

In the new era, what do we mean by “new e-commerce”? What is Pinduoduo’s relationship with the forerunners in our industry?

First of all, we think the primary characteristic of “new e-commerce” is “Benefit All.” This is determined by the era in which “new e-commerce” was born. When the Internet was first introduced to China twenty years ago, it was accessible only to a select few – the more educated and the more affluent. When we launched Pinduoduo in 2015, whether you were in the city or the countryside, whether you were a professor or a farmer, mobile Internet was equally accessible to all. As the new platform born of this time, our mission has been to serve all and benefit all. From day one, we have devoted ourselves to this mission, working hard to increase the income of farmers by bringing agricultural products to cities directly, while providing savings to the urban population. This effort was the most important driving force behind the growth of our platform. Thereafter, through the C2M (Consumer-to-Manufacturer) model of direct sales from factories, we have improved the value-for-money proposition of the merchandise on our platform, thus providing affordable and better-quality household items to all. This marked another significant step towards our mission of benefiting all.

The second characteristic of “new e-commerce” is “People First.” This is in the DNA of “new e-commerce.” Pinduoduo was born in the mobile Internet era, bypassing the PC era’s search-based online shopping model which placed products first. “New e-commerce” no longer treats each individual merely as traffic nor does it simply take wholesale distribution of such traffic as its business model. Instead, “new e-commerce” tries to understand the human touch behind each click; it tries to aggregate similar needs through analyzing the connections and trust amongst people. Only when we wholeheartedly serve and respect people, can we harness the collective power of the people and transform long-cycled scattered demand into short-cycled aggregated demand. This introduces the possibility of on demand customized production, improves supply chain efficiency, and returns value to their creators – the everyday workers. “New

e-commerce” also aims to create more happiness through greater interactions during the shopping experience. Features like Duo Duo Orchard are amongst our early experiments and have demonstrated great potential.

The third characteristic of “new e-commerce” is “More Open.” This is a conscious strategic decision. It is also the requisite of the new era. Our strategy has never been to disrupt a monopoly in order to create a new one of our own, but to disrupt in order to provide a choice. The rapid growth of Pinduoduo is the inevitable result of every player in the industry fighting for its long-term survival. Taking the logistics sector as an example, despite being on a weaker footing, our e-waybill system has become the second largest in China and probably the world shortly after its launch in March. This is not the result of our hard work or being smarter than others, but simply the will of the people. Deep in their heart, nobody likes to be coerced. Despite countervailing forces, people’s desire and hope for having a new choice for their long-term survival is irresistible.

While other mainstream e-waybill systems have till now required the merchants in their ecosystems to only use their designated waybills, we still allow our merchants to choose from other systems. We hope this could set an example for the industry to become more open, to release the energy from fruitless and short-sighted fights for monopolistic power, and to divert them to more worthy causes, such as improving the logistics efficiency of agricultural products. These are much more meaningful initiatives that can benefit our society and people.

From the progress to date, our strategy has brought evident value to the logistics industry.

Apart from logistics, in cloud computing, our current scale allows us to either build our own facilities, or we could use a single provider, but we choose to include all the mainstream cloud computing platforms. In terms of payment processing, we are connected to all the mainstream payment platforms. We believe we should leave the choice to consumers.

Between the old and the new, many people tend to view this as a battle of life and death. Much like the ancient Roman spectators in the Colosseum, their entire world view is limited to a zero-sum game. Perhaps the dueling of the gladiators is more sensational, but the lasting reality we see is more in line with how Mother Nature encourages diverse and constantly evolving co-existence among all things.

“New e-commerce” is a latecomer, but also an innovator. It is young and weak with much to improve, but it is also a new force, full of vitality and hope. It represents the way of the future. At this opportune time, Pinduoduo, through its business model and technological innovation, has disrupted the status quo and created a new shopping scenario. We hope we can lead the way in building a world that will “Benefit All”, put “People First” and be “More Open.”

(2) Where We are Now

2.1 Pinduoduo is Still a Young Start-up

Even at its scale and pace of growth, Pinduoduo is still only four years old. It is like when Yao Ming just started in elementary school. He might have been quite tall, but he was nevertheless only an elementary school student. At that stage, what he needed the most were adequate nutrition, appropriate training and life experiences. Occasionally, he got pushed onto the court to compete head-to-head with adult players. It was during those times that the referees and coaches should have watched closely to decide whether the competition was fair – would this “little grown-up” become a

stronger player through the cuts and bruises from the game, or would he suffer injuries that could be career threatening. We believe that everyone would prefer to see more talented players emerging and contributing to exciting games, rather than brawls on the court.

As his guardian, if you wanted to nurture him into a kind and independent individual, having him involved in community service or encouraging him to earn some pocket money on weekends might not be a bad idea. But it might not be a good idea if you asked him to count his pocket money in the piggy bank every now and then, and to solely keep it there. Investing in something that would benefit him in the future, such as a new pair of basketball shoes, might deliver better returns. This is because this “little grown-up,” having been pushed onto the court, had already proven his capability and potential to “generate revenue” and make real money at any time.

Similarly, at this current stage, Pinduoduo has the ability to generate revenue, but it is weakly correlated with the large amount of spending we choose to incur. These short-term expenses are highly discretionary. In fact, we view a significant portion as long-term investments where we foresee meaningful continuous returns. It is probably not a good idea to put our money “in the piggy bank” into a fixed deposit at this stage. Hence, we will not change our business strategy for a considerable period of time. We will continue to focus on building our intrinsic value and proactively seek investment opportunities that can drive the long-term value of our company, even if these investments are recognized as expenses under the accounting standards.

2.2 “Forced Exclusivity” and Thereafter

The current “forced exclusivity” observed in the market environment is likely to persist for some time. However, such a practice will eventually be dismantled; co-opetition for innovation, new opportunities and growth is inevitable.

Pinduoduo disrupted the existing equilibrium of China's e-commerce landscape. Naturally and consequently, it has triggered existing players to react. Sometimes, these reactions are out of bound. But none of them are constructive to the industry; they do not create value for consumers, nor do they deliver benefits to brands and manufacturers. In fact, most are at significant cost and damages to consumers and ecosystem partners. More often than not, these attempts to establish or prolong any monopolistic control are both wasteful and destructive. Sometimes it is akin to "killing a thousand enemies and losing two hundred men," or worse yet, "killing a thousand enemies and losing two thousand men." If such exclusivity cannot be maintained over the long term, all these short-term attempts would ultimately be in vain.

And these exclusivities are destined to be broken. On the one hand, taking a time horizon of one to two years, any momentary promise, from the perspective of merchants and consumers as a whole, is bound to be unsustainable. It might even require twice the payback. On the other hand, without a scaled "new e-commerce" player like Pinduoduo, the entire value chain of suppliers, brands, cash flow and deliveries will have no choice but to rely on one single de facto system. That is unthinkable and against any healthy business environment and natural evolution of a market. Even parties who thought they would benefit from such exclusivities would gradually realize that this closed system is a disaster. Therefore, the emergence of a scaled "new e-commerce" player is inevitable. If it is not Pinduoduo, then it will be another "Costco + Disney."

Whether the current status quo is sustainable over the long run does not depend on how much commercial benefits can be split with the relevant parties, or how many participants would succumb to such pressure and make claims counter to their best interests. On the contrary, every incident of coercion only prompts a stronger innate desire to resist.

Whether a business model or landscape could be sustainable fundamentally depends on the value it brings - whether it is beneficial to the value creators themselves (factory workers, farmers, etc.), whether it is irreplaceable, and whether it fulfills its social responsibilities.

(3) Future Strategies

Regarding our next step, I think it's mainly centered around the following four points:

- Commit relentlessly to a consumer-centric approach, explore innovative solutions to solve existing problems, and offer new contributions to society;
- Fulfilling our social responsibilities is the cornerstone of our value system – protect intellectual property rights, combat counterfeits vigorously, support farmers, and alleviate poverty. We will focus on and get to the roots of these problems pragmatically and solve them persistently one by one;

- Focus on the long-term intrinsic value; we should not be afraid to invest for the future; and
- Continue to evolve our organization, and step-by-step make it a more inclusive, transparent, global and mature public institution.
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The torrent of our times flows with great strength and vigor; its direction is unstoppable.

Pinduoduo has gone through many ups and downs over the past four years of rapid development. We have prevailed because of the vote of confidence cast by each and every one of our users through their purchases. In a forest, neighboring trees often vie fiercely for nutrients in deep and complex ways. However, as a whole, they are uniformly growing towards the same direction. That is the direction of the sun. The desire to grow in the direction of the sun is incredibly powerful; it can transform many things, or pave the way for future transformation. The emergence and development of Pinduoduo is not because of our capability, nor the maturity of the platform, or even our diligence, but because we grow in the direction of the sun, one that seeks to “Benefit All,” put “People First” and be “More Open.” The sun we see inspires us to abandon the imperialist mindset of zero-sum competition, and to transform our thinking towards continuous innovation and value creation for consumers and the society.

No matter how big or small our role is, our generation will eventually be pushed by the rapid torrent of our times into a different, new era we can call our own.

I thank the investors who choose to believe in us and join us in this wonderful journey of creating “new e-commerce.” Let us continue to move forward in the direction of the morning sun because that is where new life begins.

Colin Zheng Huang
On behalf of Pinduoduo

April 21, 2019

P.S. I attach the letter from our IPO. It is still the beginning, and our principles stay the same.

2018 Letter to Shareholders (Reprinted from the IPO Prospectus)

Pinduoduo is not a conventional company. We founded Pinduoduo when the China market accepted the status quo of the existing e-commerce landscape and thought its formative phase had come to an end. Within three years, Pinduoduo has attracted over 300 million active buyers and over 1 million merchants through a new shopping format and experience. This exponential growth shows unlimited potential of our platform. As our three- year-old platform is still burgeoning, we know we face many obvious challenges

and uncertainties ahead. Hence, why are we bringing Pinduoduo into the ebbs and flows of the capital markets so soon? We'd appreciate you hearing our thoughts in this letter.

- We think the e-commerce business is closely tied with social impacts and responsibilities, and therefore its growth and value should be shared with the public;
- We believe in the tremendous potential of our platform; therefore, if we take a long-term view, there is no difference for our listing in three years, five years or longer. On the contrary, with public scrutiny and regulatory supervision, we may grow better and stronger; and
- We envision Pinduoduo to be an organization that reports to the public. It should create value for the public, rather than being a show-off trophy for a few or carrying too much personal color. We want it to be an independent organization that brings value to the society with its unique organizational structure and corporate culture. Most importantly, it should continue to strive to better itself.

Now as the founder, I would like to give you more color on my observation and vision for Pinduoduo so as to give you a more concrete understanding of the company you are investing into.

What does Pinduoduo do?

- Pinduoduo dedicates itself to creating a commingled "space" between cyberspace and physical space, where users can find the most value-for-money merchandise that meet their different needs and derive happiness;
- Pinduoduo leverages a platform and an ecosystem comprised of hundreds of millions of users, merchants, platform management personnel/operators and platform infrastructure/service providers; while each player is interdependent with one another, all of them evolve and improve as they constantly try to balance cost-effectiveness, efficiency, user experience and satisfaction;
- Pinduoduo's survival depends on the value it creates for its users; I hope our team wakes up feeling anxious every day, never because of share price volatilities, but because of their constant fear of users departing if we are unable to anticipate and meet users' changing needs; and
- Pinduoduo is dedicated to investing in the future and will always focus on the long term. It might appear too aggressive or too conservative at times. However, it always follows the basic and simple principle—growing its long term intrinsic value.

Company Value

Pinduoduo's core value is "本分" (Ben Fen). It is difficult to express it perfectly in English, but it essentially means to adhere firmly to one's own duties and principles. There are several layers of meaning here:

- Be honest and trustworthy;
- Discharge our own duties and responsibilities regardless of others' conduct; ;
- Insulate our minds from outside pressures so that we can focus on the very simple basics of what we should be doing; Never take advantage of others even when we are in a position to do so;
- Self-reflect and take responsibilities when problems arise instead of blaming others.

Specifically for Pinduoduo, the management's 本分 (Ben Fen) is to relentlessly focus on value creation for our consumers. We may not always be understood, but we always do things out of goodwill and do no evil.

Going forward

In the past three years, Pinduoduo has established and promoted a new e-commerce concept and experience of "team purchase" (or "拼", "pin"). We can reasonably expect that it would evolve into a variety of "pin" formats. We also hope that other innovative formats for different user scenarios will be created just like how we have created "pin" today.

If you close your eyes and visualize the next stage for Pinduoduo, it would be an exemplification of a multi-dimensional space, seamlessly integrating cyberspace and the physical space. It would be a combination of "Costco" and "Disneyland" (value-for-money and entertainment combined), driven by a distributed network of intelligence agents (versus the popular super-brain-like centralized AI system). It not only matches information efficiently, but also constantly puts the social interactions of the universe into consideration to make the entire experience more enjoyable.

As part of the process to constantly meet users' needs, we are highly aligned to be the driving force to improve the efficiency and quality of the supply

chain. One good example would be the agricultural industry. China has relatively less arable land per capita given its population and landscape. This is different from countries like the United States, where large-scale farms are prevalent, and the production and transportation of agricultural products could be highly industrialized. We find "pin" an effective solution to aggregate consumer demand, match them with batches of agricultural produce, and mobilize China's well-penetrated and affordable logistics capability to have perishable and fresh produce shipped directly from farms to users and bypass multiple layers of distribution. This not only enhances user experience, but more importantly, helps to turn small scale agriculture production of different quality, variety, and volume into a semi-customized batch processing mechanism. It lowers the

unnecessary costs of agricultural consumption and potentially makes small scale customized services viable. The social impact and value to our society would far exceed our business success or the perceived valuation of the company. We are excited by the small impact we see today and think this would be a trend even beyond agriculture.

Appreciation for our investors

We are grateful to those who are willing to invest in Pinduoduo after reading through the utopian ideas above. It is not easy to take the leap of faith believing in such an unconventional company, which strives to meet both economic and social needs of users, and to make a positive impact to the society. The pursuit and focus of our long-term vision and intrinsic value may not always translate into near-term profits. Instead, we hope to show you the true colors of our company no matter how bumpy or rough the numbers may seem to be. We ask you to ride the journey with us for the long term. We believe it will be wonderful.

So, what should you expect from Pinduoduo as an investor?

First of all, you can reasonably believe that we are far from the best we could achieve. In fact, we are probably at our most rudimentary level of services now if we look forward in 10 years' time. Yet, many of our users have chosen to believe in us. We are encouraged and have every reason to believe that as we work hard day after day to improve our services, more and more users will stick with us, believe in us.

Secondly, you should expect a team with passion that is trustworthy and always focuses on serving users and our company's intrinsic value. We have the courage and the ability to invest in long-term opportunities.

Pinduoduo, as a growing organization, will always dedicate itself to do the right things, to create value for our society, and to make this world a better and happier place.

Colin Zheng Huang
On behalf of Pinduoduo June 2018

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