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Application Proof of

Tongcheng-Elong Holdings Limited

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

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IMPORTANT

If you have doubt about any of the contents in this [REDACTED], you should obtain independent professional advice.



Tongcheng-Elong Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])

Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)

Number of [REDACTED] : [REDACTED] (subject to reallocation and the [REDACTED])

[REDACTED] : HK\$[REDACTED] per [REDACTED] plus [REDACTED] of 1%, SFC transaction levy of 0.0027% and [REDACTED] trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund)

Nominal value: : US\$0.0005 per Share

Stock Code : [REDACTED]

Joint Sponsors

Morgan Stanley

J.P.Morgan



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A copy of this [REDACTED], having attached thereto the documents specified in the section headed “Documents Delivered to the Registrar of Companies and available for inspection” in Appendix VI to this [REDACTED], has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this [REDACTED] or any other document referred to above.

The [REDACTED] is expected to be determined by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] and, in any event, not later than [REDACTED].

The [REDACTED] will be not more than HK\$[REDACTED] and is currently expected to be not less than HK\$[REDACTED] unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

The [REDACTED] (on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the indicative [REDACTED] below that stated in this [REDACTED] at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published in the [South China Morning Post] (in English), [Hong Kong Economic Times] (in Chinese), and on the websites of the Stock Exchange www.hkexnews.hk and our Company www.tcelir.com not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. For further information, please refer to the sections headed “Structure of the [REDACTED]” and “How to apply for the [REDACTED]” in this [REDACTED].

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. See “[REDACTED]” in this [REDACTED].

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this [REDACTED], including the risk factors set out in the section headed “Risk Factors” in this [REDACTED].

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be [REDACTED], sold, pledged, or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being [REDACTED] (i) solely to QIBs pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

[REDACTED]

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EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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EXPECTED TIMETABLE⁽¹⁾

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EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This [REDACTED] is issued by us solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] by this [REDACTED] pursuant to the [REDACTED]. This [REDACTED] may not be used for the purpose of making, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this [REDACTED] in any jurisdiction other than Hong Kong. The distribution of this [REDACTED] for purposes of a [REDACTED] and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this [REDACTED] and the [REDACTED] to make your investment decision. The [REDACTED] is made solely on the basis of the information contained and the representations made in this [REDACTED]. We have not authorized anyone to provide you with information that is different from what is contained in this [REDACTED]. Any information or representation not contained nor made in this [REDACTED] and the [REDACTED] must not be relied on by you as having been authorized by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of our or their respective directors, officers, employees, agents, or representatives of any of them or any other parties involved in the [REDACTED].

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SUMMARY

This summary is intended to give you an overview of the information contained in this [REDACTED]. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole [REDACTED] before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this [REDACTED]. Various expressions used in this section are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this [REDACTED].

OUR MISSION

Our mission is to make travel easier and more joyful.

OVERVIEW

We are an innovator and market leader in China’s online travel industry. We are the combined business resulting from the merger of Tongcheng and eLong, which was completed in March 2018. As two independently successful businesses founded in 2004 and 1999, Tongcheng and eLong had each been a leading OTA in China with innovative business models and longstanding relationships with a wide array of TSPs. Following the merger, benefiting from the years of experience and technological development of Tongcheng and eLong and their complementary resources, we have achieved greater economies of scale, solidified our market leadership and accomplished a stronger ability to provide comprehensive travel products and services offerings. According to iResearch, we ranked third in terms of GMV in China’s online travel market in 2017, with the highest year-over-year growth from 2015 to 2017 in the number of online transportation ticketing and accommodation reservation transactions in China’s OTA travel market. Through our in-depth understanding of the user experience and advanced technological capabilities, we have been revolutionizing what consumers expect from the online travel industry, making the entire travel process more convenient, personalized and enjoyable than ever.

We are a one-stop shop for users’ travel needs. We offer a comprehensive and innovative selection of products and services covering nearly all aspects of travel, including transportation ticketing, accommodation reservation and various ancillary value-added travel products and services designed to meet users’ evolving travel needs throughout their trips. As of December 31, 2017, the online platforms of Tongcheng and eLong offered over 6,400 domestic routes and over 594,000 international routes operated by 306 domestic and international airlines, over 1 million hotels and alternative accommodation options, approximately 450,000 bus routes, and over 300 voyage routes. We have established extensive long-term strategic partnerships and alliances with TSPs to support our product innovation efforts and develop more innovative ancillary value-added products and services.

We have a large, fast-growing and engaged user base, which we believe is a key factor for our success. The average MAUs of Tongcheng and eLong combined increased from 88.7 million in 2015 to 121.2 million in 2017, representing a CAGR of 16.9%. During the same period, the average MPUs of Tongcheng and eLong combined increased from 3.9 million in 2015 to 15.6 million in 2017, representing a CAGR of 99.6%. Leveraging on the mutually beneficial partnership between us and Tencent and our effective sales and marketing strategies, we are able to reach an extensive and diversified user base in a cost-effective manner. We retain our users and increase their stickiness by delivering an excellent user experience and capture nearly all available revenue streams throughout the travel process, which we believe provides us an avenue towards greater continued growth.

As a technology-driven company, we prioritize the development of our information technology. By leveraging our big data and AI capabilities, we can not only better understand the preferences and behaviors of our users and provide them with customized products and services, but also offer insights to our TSPs and enhance our value proposition to them.

We have achieved substantial growth over the Track Record Period. Our Group’s total revenue grew from RMB1,026.1 million in 2015 to RMB2,204.6 million in 2016 and further to RMB2,518.6 million in 2017, representing a CAGR of 56.7%, and the total revenue of Tongcheng Online Business

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grew from RMB580.5 million in 2015 to RMB1,435.0 million in 2016 and further to RMB2,707.5 million in 2017, representing a CAGR of 116.0%. Our Group had losses of RMB963.0 million and RMB2,160.6 million in 2015 and 2016, respectively, and a profit of RMB194.4 million in 2017, and Tongcheng Online Business had losses of RMB335.1 million and RMB91.1 million in 2015 and 2016, respectively, and a profit of RMB491.3 million in 2017.

TRAVEL PRODUCTS AND SERVICES WE OFFER

We offer a comprehensive suite of travel products and services catering to travelers’ needs throughout their trips.

- **Transportation ticketing.** We provide reservations of air tickets, train tickets, bus tickets, and voyage tickets as well as travel insurance and other ancillary value-added travel products and services built around our users’ travel needs to help them travel with ease. In 2015, 2016 and 2017, the transportation ticketing GMV of Tongcheng and eLong combined was RMB22,553.7 million, RMB50,525.1 million and RMB80,037.7 million, respectively. We generate revenue from transportation ticketing primarily by (i) charging commissions from TSPs, and (ii) charging users service fees for certain ancillary value-added travel products and services.
- **Accommodation reservation.** We provide a large, diversified accommodation offerings to cater to users’ varying budgets and preferences. According to iResearch, on a combined basis, we ranked third in China’s online travel industry in terms of accommodation reservation GMV in 2017. In 2015, 2016 and 2017, the accommodation reservation GMV of Tongcheng and eLong combined was RMB14,277.8 million, RMB17,270.5 million, and RMB22,300.2 million, respectively. We generate revenue from accommodation reservation by receiving commissions from accommodation suppliers for each room night booked through us, except for room nights prepurchased by us for which we take inventory risk where we record revenue (namely, the amount billed to the users for the room nights sold) on a gross basis and record the price we prepurchase such room nights from the accommodation suppliers as cost of revenue.

OUR ONLINE PLATFORMS

We deliver our travel product offerings primarily through our online platforms, which comprise our Tencent-based platforms, our mobile apps and our websites.

- **Tencent-based Platforms.** We currently operate: (i) the “Rail & Flight” and “Hotel” portals in “Wallet”, the mobile payment interface of Tencent’s Weixin; (ii) the “Rail & Flight” and “Hotel” portals in “QQ Wallet,” the mobile payment interface of Tencent’s Mobile QQ and certain other portals in Mobile QQ; and (iii) our proprietary Weixin-based mini programs. Weixin and Mobile QQ are two of the largest super apps in China in terms of user base, according to iResearch. Our Tencent-based portals and mini programs direct Tencent users to our interfaces where they can browse, compare and purchase our wide portfolio of travel products, all within Weixin or Mobile QQ without leaving the app or downloading additional apps. We believe that the simplicity of accessing our Tencent-based platforms not only grows our user traffic and engagement, but also enriches services offered to Weixin and Mobile QQ users. In 2017, the average MAUs of Tencent-based platforms of Tongcheng and eLong combined were 79.6 million.
- **Mobile Apps and Websites.** Our users can reach us through our mobile apps which are available on both Android and iOS operating systems and our proprietary websites, ly.com and elong.com. Both of our mobile apps and websites are built to enable access to our full travel product offerings with clear and functional interfaces. We also allow mobile users to visit our websites via a mobile-optimized WAP page to enjoy a similar level of functionality as mobile apps without installation. In 2017, the average MAUs of Tongcheng and eLong’s mobile apps and WAP pages were 27.9 million, and the average MAUs of Tongcheng and eLong’s websites was 13.7 million.

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For more information about our online platforms, see “Business — Our Online Platforms.”

OUR CUSTOMERS

Our customers consist primarily of TSPs, as we generate a substantial portion of our revenue by facilitating the sales of TSPs’ travel products and services through our online platforms and, in exchange, charging TSPs commissions. Our customers also include (i) users who purchase from us travel products (primarily including accommodation) that we prepurchase from TSPs; (ii) users who purchase ancillary value-added travel products and services, such as airport VIP lounge and priority boarding services, and pay us service fees; and (iii) advertisers who post advertisements of their products and services on our online platforms. Our Group had business relationships with its five largest customers in 2017 ranging from one to six years. For details, see “Business — Our Customers.”

OUR SUPPLIERS

Our suppliers primarily consist of (i) user acquisition channels; (ii) online and mobile payment services; (iii) advertising and marketing service providers; (iv) data storage, server hosting and bandwidth providers; (v) suppliers of room nights that we prepurchase for resale to users; and (vi) third-party sales channels through which we make available travel products and services that we source from TSPs. Our Group had business relationships with its five largest suppliers in 2017 ranging from one to seven years. For details, see “Business — Our Suppliers.”

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- Innovator and leader in China’s online travel industry;
- Extensive and cost-effective user reach;
- Large and attractive user base;
- Superior user experience;
- Leading information technology and data capabilities; and
- Management team with extensive industry experience and entrepreneurial culture.

For details, see “Business — Our Strengths.”

OUR STRATEGIES

To achieve our mission and further solidify our leadership, we intend to pursue the following strategies:

- Expand product and service offerings;
- Grow user base and enhance user engagement;
- Deepen cooperation with TSPs;
- Strengthen big data and AI innovations; and
- Pursue strategic alliances, acquisitions and investments.

For details, see “Business — Our Strategies.”

RISK FACTORS

Our business and the [REDACTED] involve certain risks as set out in the section headed “Risk Factors” in the [REDACTED]. You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks we face include the following: (i) any severe or prolonged downturn in the global or Chinese economy may have a material and adverse effect on our business and results of operations; (ii) disruptions in the travel industry may materially and adversely affect our business and results of operations; (iii) we operate in a highly competitive industry and may

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face increased competition; (iv) we incurred losses in the past and we may incur losses in the future; (v) we may fail to achieve the anticipated synergies and other benefits from the Tongcheng-eLong Merger; (vi) any deterioration in our relationship with Tencent, particularly regarding our Tencent-based platforms, could have a material adverse effect on our business and prospects for growth; and (vii) if we are found to be in violation of current or future PRC laws, regulations and government policies, we could be subject to penalties, and our business operations may be materially and adversely affected.

KEY OPERATING DATA

The following table sets forth certain key operating metrics of Tongcheng and eLong combined for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Average MAUs (in millions)	88.7	99.5	121.2
Average MPUs (in millions)	3.9	9.1	15.6
Transportation ticketing GMV (RMB in millions)	22,553.7	50,525.1	80,037.7
Accommodation reservation GMV (RMB in millions)	14,277.8	17,270.5	22,300.2

THE TONGCHENG-ELONG MERGER

On December 28, 2017, our Company entered into a restructuring agreement (the “**Restructuring Agreement**”) with, among others, Tongcheng Network, shareholders of our Company and shareholders of Tongcheng Network, whereby our Company agreed to issue to (i) the designated entities of the shareholders of Tongcheng Network, alongside Wonderful Holidays Limited, Wonderful Land Limited, Cheerful Fishes Limited, and Great Long Tour Limited, which were employee shareholding platforms on behalf of the employees of Tongcheng Network, 96,721,818 ordinary shares of our Company in return for the signing of a series of contractual arrangements with Longyue Tiancheng WFOE; and (ii) Image Frame 3,374,369 ordinary shares of our Company in return for a total cash consideration of US\$30,032,589 (the “**Acquisition Share Issuance**”). The Acquisition Share Issuance was completed on March 9, 2018. The consideration for the issuance of ordinary shares under the Restructuring Agreement was based on arm’s lengths negotiations and the financial results and operational results of our Company, and has been satisfied in full.

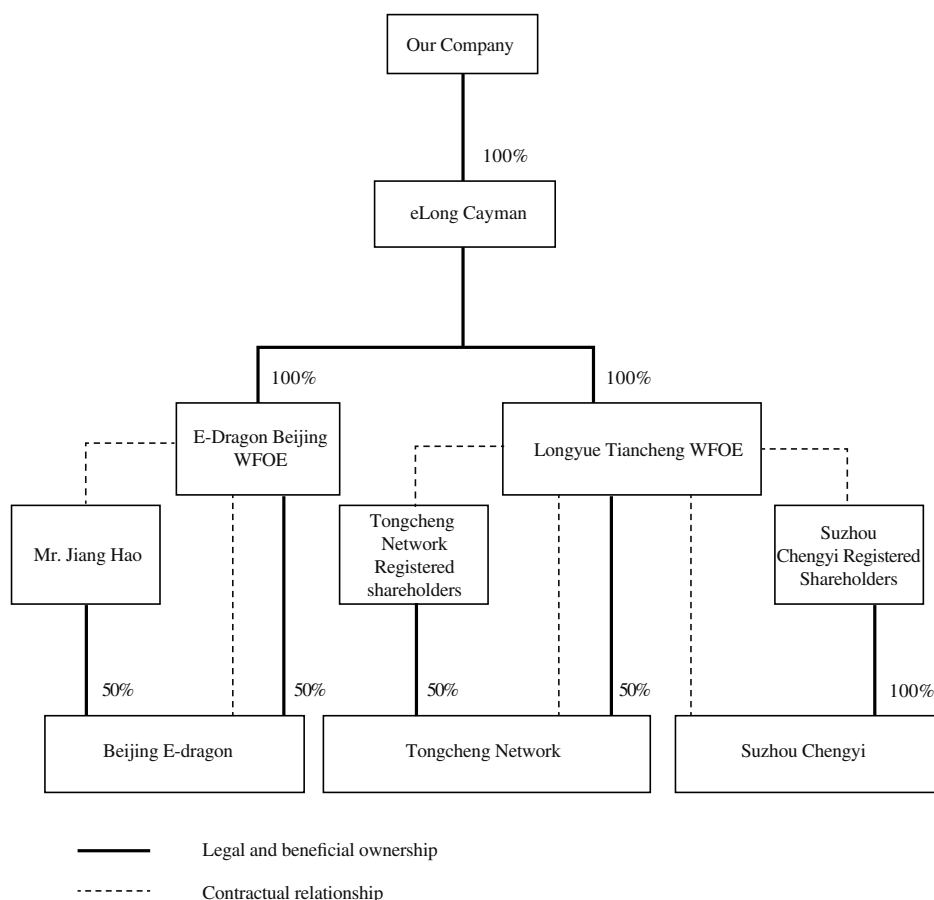
Following the Acquisition Share Issuance, our Group acquired substantially all of the business operations of Tongcheng Network and its subsidiaries. For details, see “History, Reorganization and Corporate Structure — Major Shareholding Changes of our Company — Tongcheng-eLong Merger” and “Contractual Arrangements.”

CONTRACTUAL ARRANGEMENTS

As advised by our PRC Legal Advisor and according to our consultation with the competent authorities in the PRC, operation of the Relevant Businesses are subject to various foreign investment restrictions under PRC law. As a result, we only own 50% equity interest in Beijing E-dragon and Tongcheng Network, and do not own any equity interest in Suzhou Chengyi. In order to enable us to control the equity interest in our Contractual Arrangement Entities we have adopted the Contractual Arrangements to allow us to obtain the economic benefits of the Consolidated Affiliated Entities and consolidate their results of operations into those of ours. For more information on our reasons for entering into the Contractual Arrangements, see “Contractual Arrangements.”

SUMMARY

The following simplified diagram illustrates the flow of economic benefits from our Contractual Arrangement Entities to our Group stipulated under the Contractual Arrangements upon completion of the Reorganization:



For the risks relating to the Contractual Arrangements, see “Risk Factors — Risks Relating to Our Contractual Arrangements.”

OUR LARGEST SHAREHOLDERS

As at the Latest Practicable Date and immediately following completion of the Capitalization Issue and the [REDACTED], our Company had and will have no controlling shareholder as defined under the Listing Rules. As of the Latest Practicable Date, Tencent and Ctrip indirectly controlled approximately [REDACTED]% and [REDACTED]%, respectively, of the total issued share capital of our Company. Tencent and Ctrip will, immediately following completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] and the options granted under the Share Incentive Plans are not exercised), be entitled to exercise voting rights attached to Shares of our Company representing approximately [REDACTED]% and [REDACTED]%, respectively, of the total issued share capital of our Company. Therefore, Tencent and Ctrip will remain as our largest Shareholder and second largest Shareholder respectively after the completion of the Capitalization Issue and the [REDACTED], but will not be regarded as controlling shareholders of our Company as defined under the Listing Rules.

For more information on our business relationship with Tencent and Ctrip, please refer to the section headed “Relationship with our Largest Shareholders.”

SUMMARY

CONNECTED TRANSACTIONS

We have and/or will enter into certain transactions which will constitute continuing connected transactions of our Company following completion of the [REDACTED]. For details of these continuing connected transactions, see “Connected Transactions.”

[REDACTED] INVESTMENTS

We have conducted [REDACTED] Investments before the completion of our Reorganization. For further details, see “History, Reorganization and Corporate Structure — [REDACTED] Investments.”

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Historical Financial Information of our Group

The following tables set forth summary financial data of our Group for the Track Record Period, extracted from the Accountants’ Report in Appendixes I to this [REDACTED]. Such summary financial data should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements of our Group, including the related notes, contained in the Accountants’ Report in Appendix I to this [REDACTED]. For more information, see “Financial Information.”

Your attention should be drawn to the fact that the merger of Tongcheng Network into our Group was completed after the Track Record Period, and therefore the results of operations and financial position of Tongcheng Online Business were not consolidated into the results of operations and financial position of our Group during the Track Record Period. Accordingly, unless otherwise indicated, the historical results of operations and financial condition of our Group presented and discussed in this [REDACTED] does not reflect those of Tongcheng Online Business.

Selected Consolidated Statements of Comprehensive (Loss)/Income Data of the Group

	For the Year Ended December 31,		
	2015	2016	2017
	(RMB in thousands)		
Revenue	1,026,124	2,204,565	2,518,591
Cost of revenue	(639,723)	(1,032,913)	(811,781)
Gross profit	386,401	1,171,652	1,706,810
Service development expenses.....	(399,073)	(517,648)	(522,018)
Selling and marketing expenses.....	(775,464)	(1,882,779)	(1,094,977)
Administrative expenses.....	(272,584)	(898,337)	(97,379)
Fair value changes on investments measured at fair value through profit or loss	17,646	(4,031)	863
Other income	49,006	10,547	12,805
Other gains/(losses), net	51,107	4,689	22,610
Operating (loss)/profit	(942,961)	(2,115,907)	28,714
Finance income	9,156	8,402	10,145
Finance costs	(5,831)	(4,114)	(163)

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SUMMARY

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss....	—	(36,781)	97,576
Share of results of associates	(18,177)	(11,218)	(2,251)
(Loss)/profit before income tax	(957,813)	(2,159,618)	134,021
Income tax (expense)/credit	(5,206)	(978)	60,356
(Loss)/profit for the year	(963,019)	(2,160,596)	194,377
Non-IFRS Measures:			
Adjusted (loss)/profit⁽¹⁾	(730,294)	(239,609)	192,657

Note:

⁽¹⁾ For the reconciliation from (loss)/profit for the year to adjusted (loss)/profit, see “Financial Information — Non-IFRS Measures.”

Selected Consolidated Statements of Financial Position Data of the Group

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Total current assets	1,799,734	1,721,516	1,843,551
Total non-current assets	457,063	584,293	924,459
Total assets	2,256,797	2,305,809	2,768,010
Total current liabilities.....	1,201,722	1,432,640	1,577,952
Total non-current liabilities	6,688	6,405,289	6,521,992
Total liabilities	1,208,410	7,837,929	8,099,944
Net assets/(liabilities)	1,048,387	(5,532,120)	(5,331,934)
Non-controlling interest	27,510	6,079	4,881
Total equity	1,048,387	(5,532,120)	(5,331,934)
Total equity and liabilities	2,256,797	2,305,809	2,768,010

SUMMARY

Key Financial Ratios of the Group

	For the Year Ended December 31,		
	2015	2016	2017
	(%)		
Revenue growth	N/A	114.8	14.2
Gross margin ⁽¹⁾	37.7	53.1	67.8
Adjusted EBITDA margin ⁽²⁾	(64.1)	(8.1)	6.7
Net margin ⁽³⁾	(93.9)	(98.0)	7.7
Adjusted net margin ⁽⁴⁾	(71.2)	(10.9)	7.6

Key financial ratios on adjusted revenue basis

Adjusted revenue growth ⁽⁵⁾	N/A	94.2	30.0
Gross margin on adjusted revenue basis ⁽⁶⁾	49.1	76.7	86.0
Adjusted EBITDA margin on adjusted revenue basis ⁽⁷⁾ ...	(83.7)	(11.7)	8.5
Adjusted net margin on adjusted revenue basis ⁽⁸⁾	(92.9)	(15.7)	9.7

Notes:

- (1) Gross margin equals gross profit divided by revenue for the same year, multiplied by 100%.
- (2) Adjusted EBITDA margin equals adjusted EBITDA divided by revenue for the same year, multiplied by 100%. For the reconciliation from adjusted EBITDA to operating profit/(loss), see “Financial Information - Non-IFRS Measures.”
- (3) Net margin equals net profit divided by revenue for the same year and multiplied by 100%.
- (4) Adjusted net margin equals adjusted profit/(loss) for the year divided by revenue for the same year, multiplied by 100%. For the reconciliation from adjusted profit/(loss) to profit/(loss), see “Financial Information - Non-IFRS Measures.”
- (5) Adjusted revenue equals (i) revenue, less (ii) the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation. For the reconciliation from adjusted revenue to revenue, see “Financial Information - Non-IFRS Measures.”
- (6) Gross margin on adjusted revenue basis equals gross profit divided by adjusted revenue for the same year, multiplied by 100%.
- (7) Adjusted EBITDA margin on adjusted revenue basis equals adjusted EBITDA divided by adjusted revenue for the same year and multiplied by 100%. For the reconciliations from adjusted EBITDA to operating profit/(loss) and from adjusted revenue to revenue, see “Financial Information - Non-IFRS Measures.”
- (8) Adjusted net margin on adjusted revenue basis equals adjusted net profit/(loss) divided by adjusted revenue for the same year and multiplied by 100%. For the reconciliation from adjusted profit/(loss) to profit/(loss), see “Financial Information - Non-IFRS Measures.”

Historical Financial Information of Tongcheng Online Business

To comply with the requirements of Rule 4.05A of the Listing Rules, as well as to present material information necessary to assess the impact of the merger of Tongcheng Network into our Group, this [REDACTED] includes discussion and analysis of the historical financial information of

SUMMARY

Tongcheng Online Business for the years ended December 31, 2015, 2016 and 2017. See “Financial Information — Financial Information of Tongcheng Online Business.” The below tables set forth the historical financial information of Tongcheng Online Business:

Selected Combined Statements of Comprehensive (Loss)/Income Data of Tongcheng Online Business

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Revenue	580,523	1,434,957	2,707,499
Cost of revenue	(228,465)	(530,211)	(858,806)
Gross profit	352,058	904,746	1,848,693
Service development expenses.....	(164,277)	(371,720)	(514,800)
Selling and marketing expenses.....	(580,764)	(515,174)	(670,732)
Administrative expenses.....	(56,830)	(91,119)	(132,772)
Other income	3,574	2,097	7,583
Other gains/(losses), net	516	(1,864)	31,545
Operating (loss)/profit	(445,723)	(73,034)	569,517
Finance income	2,177	2,732	2,955
(Loss)/profit before income tax	(443,546)	(70,302)	572,472
Income tax credit/(expense)	108,437	(20,796)	(81,134)
(Loss)/profit for the year	(335,109)	(91,098)	491,338

Selected Combined Statements of Financial Position Data of Tongcheng Online Business

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Total current assets	674,297	2,466,635	2,106,004
Total non-current assets	964,313	873,375	719,318
Total assets	1,638,610	3,340,010	2,825,322
Total current liabilities.....	372,715	1,221,125	1,380,355
Total non-current liabilities	—	—	—
Total liabilities.....	372,715	1,221,125	1,380,355
Total assets less current liabilities	1,265,895	2,118,885	1,444,967
Equity	1,265,895	2,118,885	1,444,967
Total equity and liabilities	1,638,610	3,340,010	2,825,322

SUMMARY

Key Financial Ratios of Tongcheng Online Business

	For the Year Ended December 31,		
	2015	2016	2017
	(%)		
Revenue growth	N/A	147.2	88.7
Gross margin ⁽¹⁾	60.6	63.1	68.3
Adjusted EBITDA margin ⁽²⁾	(58.7)	9.2	28.9
Net margin ⁽³⁾	(57.7)	(6.3)	18.1

Notes:

- (1) Gross margin equals gross profit divided by revenue for the same year, multiplied by 100%.
- (2) Adjusted EBITDA margin equals adjusted EBITDA divided by revenue for the same year and multiplied by 100%. For the reconciliation from adjusted EBITDA to operating profit/(loss), see “Financial Information — Financial Information of Tongcheng Online Business — Non-IFRS Measures.”
- (3) Net margin equals net profit divided by revenue for the same year, multiplied by 100%.

SUMMARY OF PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following table presents the revenue, cost of revenue, gross profit, operating profit, profit and adjusted profit for the year of the Enlarged Group (as defined in Appendix III — Unaudited Pro Forma Financial Information) based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended December 31, 2017 as if the merger of Tongcheng Network into our Group had taken place on January 1, 2017. The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial performance of the Enlarged Group for the year ended December 31, 2017 or for any future period.

	For the Year Ended December 31, 2017
	(RMB in thousands)
	(unaudited)
Revenue	5,226,090
Cost of revenue	(1,670,587)
Gross profit	3,555,503
Operating profit	338,669
Profit for the year	454,958
Non-IFRS measures:	
Adjusted profit for the year ⁽¹⁾	712,800

Note:

- (1) For the reconciliation from adjusted profit for the year to profit for the year, see “Financial Information — Summary of Pro Forma Financial Information of the Enlarged Group.”

For more information, see “Appendix III — Unaudited Pro Forma Financial Information.”

SUMMARY

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We have applied to the listing committee of the Stock Exchange for the granting of the [REDACTED] of, and permission to deal in, our Shares in issue and to be issued pursuant to the [REDACTED] on the basis that, among other things, we satisfy, among other things, the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2017, being RMB2,518.6 million (equivalent to approximately HK\$3,087.3 million), which is over HK\$500 million, and (ii) our expected market capitalization at the time of [REDACTED], which, based on the low-end of the indicative [REDACTED], exceeds HK\$[REDACTED].

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. Any future decision to declare and pay any dividends will be at the discretion of our Board and will depend on, among other things, the availability of dividends received from our subsidiaries, our earnings, capital and investment requirements, level of indebtedness, and other factors that our Board deems relevant. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. As of December 31, 2015, 2016 and 2017, no dividends have been paid or declared by us.

[REDACTED]

This [REDACTED] is published in connection with the [REDACTED] as part of the [REDACTED]. The [REDACTED] comprises: (i) the [REDACTED] of [REDACTED] (subject to adjustment) in Hong Kong as described in the section headed “Structure of the [REDACTED] — The [REDACTED]” in this [REDACTED]; and (ii) the [REDACTED] of initially [REDACTED] (subject to adjustment and the [REDACTED]), (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S (including to professional and institutional investors in Hong Kong). The [REDACTED] will represent [REDACTED]% of the issued share capital of our Company immediately following the completion of the [REDACTED], assuming the [REDACTED] and the options granted under the Capitalization Issue and the Share Incentive Plans are not exercised.

[REDACTED]

SUMMARY

[REDACTED]

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK\$[REDACTED] (being the mid-point of our [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), the total [REDACTED] expenses (including [REDACTED]) payable by our Company are estimated to be approximately HK\$[REDACTED] (equivalent to RMB[REDACTED]), assuming the [REDACTED] is not exercised and based on the mid-point [REDACTED] of HK\$[REDACTED]. These [REDACTED] expenses mainly comprise professional fees paid and payable to the professional parties, and [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED].

As of December 31, 2017, the [REDACTED] expenses (excluding [REDACTED]) incurred by our Company in relation to the [REDACTED] was [REDACTED]. We estimate that [REDACTED] expenses of RMB[REDACTED] (including [REDACTED] of RMB[REDACTED], assuming the [REDACTED] is not exercised and based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]) will be incurred by our Company, of which approximately RMB[REDACTED] is expected to be charged to our combined statement of comprehensive income and approximately RMB[REDACTED] is expected to be charged against equity upon the [REDACTED].

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED] stated in the [REDACTED], we estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED] after deduction of [REDACTED] and estimated expenses in connection with the [REDACTED], assuming the [REDACTED] is not exercised. We intend to use the [REDACTED] of the [REDACTED] for the following purposes:

- (i) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to support our efforts to (a) expand our products and services offerings by building and enhancing our relationships with emerging and existing TSPs and by developing and introducing innovative travel product and services in partnership with TSPs; (b) expand our user base by strengthening our user acquisition channels, particularly our proprietary mobile apps; (c) enhance user stickiness by improving membership loyalty programs; and (d) increase our brand awareness through advertising and promotional activities;
- (ii) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to fund potential acquisition, investment, joint venture and partnership opportunities that we believe are in line with our overall business strategies, including in particular, (a) acquisition of other online platforms that complement our existing products and services offerings; (b) minority investment in TSPs across different travel verticals; and (c) strategic investment in or partnership with technology companies to further improve our user and TSP services;
- (iii) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used to enhance our overall technology capabilities by building our big data and AI strengths, improving our IT infrastructure, and providing competitive compensation to recruit and retain IT talents; and
- (iv) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the [REDACTED]) is expected to be used for working capital and general corporate purposes.

For further details, see “Future Plans and Use of [REDACTED].”

SUMMARY

RECENT DEVELOPMENTS

On March 9, 2018, the Acquisition Share Issuance was completed and a shareholders’ agreement was entered into among our Company and shareholders of our Company (including the designated offshore entities of the shareholders of Tongcheng Network and the founders of Tongcheng Network, being Mr. Wu Zhixiang, Mr. Wang Zhuan, Ms. Wu Jian, Mr. Zhang Hailong and Mr. Ma Heping). On March 27, 2018, our Company was renamed from China E-dragon Holdings Limited to Tongcheng-Elong Holdings Limited. For more information, see “History, Reorganization and Corporate Structure — History of Our Business.”

Our Directors confirm that, except as stated above, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since December 31, 2017, the date of our latest audited consolidated financial statements.

DEFINITIONS

In this [REDACTED], unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this [REDACTED].

“2016 Share Incentive Plan”	the share incentive plan adopted and approved by our Company on August 26, 2016, the principal terms of which are set out in the section headed “Statutory and General Information — D. Share Incentive Plans — 1. 2016 Share Incentive Plan” in Appendix V to this [REDACTED]
“2018 Share Incentive Plan”	the share incentive plan adopted and approved by our Company on March 9, 2018, the principal terms of which are set out in the section headed “Statutory and General Information — D. Share Incentive Plans — 2. 2018 Share Incentive Plan” in Appendix V to this [REDACTED]
“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
	[REDACTED]
“Articles” or “Articles of Association”	the third amended and restated articles of association of our Company conditionally adopted on [●] 2018, with effect from the [REDACTED], as amended from time to time, a summary of which is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Companies Law” in Appendix IV to this [REDACTED]
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing E-dragon”	Beijing eLong Information Technology Co., Ltd. (北京藝龍信息技術有限公司), a limited liability company established under the laws of the PRC in November 28, 2000
“Board”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands

DEFINITIONS

“C-Travel”	C-Travel International Limited, one of our substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands on March 3, 2006 and a wholly-owned subsidiary of Ctrip
“Capitalization Issue”	the issue of 1,719,906,084 Shares on the [REDACTED] to be made upon the capitalization of part of the sum standing to the credit of the share premium account of our Company, details of which are set out in the section headed “History, Reorganization and Corporate Structure”
“Catalogue”	the Guiding Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) promulgated and amended from time to time by the MOFCOM and the NDRC
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Cayman Registrar”	the Registrar of Companies of the Cayman Islands
“CBIRC”	China Banking and Insurance Regulatory Commission
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	People’s Republic of China, except where the context requires otherwise and only for the purposes of this [REDACTED], excluding Hong Kong, Macau and Taiwan
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company”, “our Company”, or “the Company”	Tongcheng-Elong Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 14, 2016
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely the Contractual Arrangement Entities and their respective subsidiaries. For further details of these entities, see the section headed “Contractual Arrangements” in this [REDACTED]
“Contractual Arrangement(s)”	the series of contractual arrangements entered into by, among others, E-dragon Beijing WFOE, Longyue Tiancheng WFOE and the Contractual Arrangement Entities, details of which are described in the section headed “Contractual Arrangements” in this [REDACTED]
“Contractual Arrangement Entity(ies)”	Beijing E-dragon, Suzhou Chengyi and Tongcheng Network
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Ctrip (Hong Kong)”	Ctrip.com (Hong Kong) Limited, a limited liability company incorporated under the laws of Hong Kong on June 11, 1999, and a wholly-owned subsidiary of Ctrip
“Ctrip”	Ctrip.com International, Ltd., one of our substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands on March 3, 2000 whose shares are listed on NASDAQ (stock symbol: CTRP)
“Ctrip Group”	Ctrip, its subsidiaries and its controlled entities
“Director(s)”	the director(s) of our Company
“Draft Foreign Investment Law”	the Draft Foreign Investment Law (中華人民共和國外國投資法 (草案徵求意見稿)) published by MOFCOM in January 2015
“E-dragon Beijing WFOE”	eLong Net Information Technology (Beijing) Co., Ltd. (藝龍網信息技術(北京)有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on August 17, 1999 and a wholly-owned subsidiary of our Company

DEFINITIONS

“eLong” or “eLong Cayman”

eLong Inc., a corporation incorporated under the laws of the Cayman Islands on May 19, 2004 and a direct wholly-owned subsidiary of our Company and, unless otherwise indicated and as the context may require, all or any of its subsidiaries and controlled entities or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries or controlled entities were, or any one of them, as the context may require, were or was engaged in and which were subsequently assumed by it

“eLong Cayman Privatization”

has the meaning ascribed thereto in the subsection headed “History, Reorganization and Corporate Structure — History of our Business — Delisting of eLong Cayman”

“first-tier cities”

Beijing, Shanghai, Guangzhou, and Shenzhen

“GAAP”

generally accepted accounting principles

“GDP”

Gross Domestic Product

[REDACTED]

“Group”, “our Group”, “the Group”,
“we”, “us”, or “our”

our Company and its subsidiaries and Consolidated Affiliated Entities from time to time or any of them as the context may require or, where the context so requires, (i) in respect of the period prior to our Company becoming the holding company of its present subsidiaries and Consolidated Affiliated Entities, such subsidiaries and Consolidated Affiliated Entities as if they were subsidiaries and consolidated affiliated entities of our Company at the relevant time and (ii) where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries and Consolidated Affiliated Entities, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it

Unless otherwise indicated, the historical results of operations and financial condition of our Group for the years ended and as of December 31, 2015, 2016 and 2017 presented and discussed in this [REDACTED] do not reflect those of Tongcheng Online Business

DEFINITIONS

“Hangzhou E-dragon”	Hangzhou E-dragon Air Travel Services Co., Ltd. (杭州藝龍航空服務有限公司), a limited liability company established under the laws of the PRC on December 31, 1998
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
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[REDACTED]

“ICP License”	Value-added Telecommunications Services Operating Permit for Internet information services
“ICP”	Internet content provider

DEFINITIONS

“IFRS”	International Financial Reporting Standards, amendments, and interpretations, as issued from time to time by the International Accounting Standards Board
“Image Frame”	Image Frame Investment (HK) Limited, one of our Shareholders, a limited liability company incorporated under the laws of Hong Kong on January 5, 2016 and a wholly-owned subsidiary of Tencent
“Independent Third Party” or “Independent Third Parties”	any entity or person who is not a connected person of our Company or an associate of any such person within the meaning ascribed thereto under the Listing Rules
“Industry Report”	the report titled China’s Online Travel and OTA Industry Report written by iResearch and commissioned by our Company, on China’s travel market as referred to in the section headed “Industry Overview”

[REDACTED]

“iResearch”	iResearch Consulting Group, an independent market research and consulting company which prepared the Industry Report
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DEFINITIONS

[REDACTED]

“Joint Sponsors”	Morgan Stanley Asia Limited, J.P. Morgan Securities (Far East) Limited and CMB International Capital Limited
“Latest Practicable Date”	June 15, 2018, being the latest practicable date for ascertaining certain information in this [REDACTED] before its publication
“Listing Committee”	the Listing Committee of the Stock Exchange

[REDACTED]

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Longyue Tiancheng WFOE”	Suzhou Longyue Tiancheng Information Technology Co., Ltd. (蘇州龍越天程信息科技有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on September 7, 2017 and a wholly-owned subsidiary of our Company
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the third amended and restated memorandum of association of our Company conditionally adopted on [●] 2018, with effect from the [REDACTED], as amended from time to time
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of the Board
“non-first-tier cities”	Chinese cities excluding the first-tier cities

[REDACTED]

“PBOC”	People’s Bank of China (中國人民銀行)
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DEFINITIONS

[REDACTED]

“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Registered Shareholder(s)”	the Tongcheng Network Registered Shareholders, Mr. Jiang Hao as registered shareholder of Beijing E-dragon, and Mr. Wu Zhixiang and Mr. Ma Heping as registered shareholders of Suzhou Chengyi, and each of them a “Registered Shareholder”
“Relevant Businesses”	has the meaning ascribed thereto in the subsection headed “Contractual Arrangements—Background to the Contractual Arrangements”
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Reorganization”	the reorganization arrangements undertaken by our Group in preparation for the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure — Corporate Reorganization” in this [REDACTED]
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation (國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	Securities and Futures Commission of Hong Kong
“Shareholder(s)”	holder(s) of our Share(s)
“Shareholders’ Agreement”	the [REDACTED] shareholders’ agreement dated May 31, 2016 and later amended, restated and superseded on March 9, 2018, entered into by and among our Company and our then shareholders, which will be terminated upon the [REDACTED]
“Share Incentive Plans”	the 2016 Share Incentive Plan and the 2018 Share Incentive Plan
“Shares”	ordinary share(s) in the share capital our Company, currently of nominal value US\$0.0005 each
“Shenzhen JL-Tour”	Shenzhen JL-Tour International Travel Agency Co., Ltd. (深圳市捷旅國際旅行社有限公司), a limited liability company established under the laws of the PRC on October 9, 2001
	[REDACTED]
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance

DEFINITIONS

“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Suzhou Chenghuiwan”	Suzhou Chenghuiwan International Travel Agency Co., Ltd. (蘇州程會玩國際旅行社有限公司), a limited liability company established under the laws of the PRC on November 24, 2015
“Suzhou Chengyi”	Suzhou Chengyi Internet Technology Limited (蘇州程藝網絡科技有限公司), a limited liability company established under the laws of the PRC on March 21, 2018, which is one of the Contractual Arrangement Entities
“Takeover Code”	The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“TCH Sapphire”	TCH Sapphire Limited, one of our substantial shareholders, a limited liability company incorporated under the laws of BVI on January 14, 2011 and a wholly-owned subsidiary of Tencent
“Tencent”	Tencent Holdings Limited, one of our substantial shareholders, a limited liability company incorporated under the laws of the Cayman Islands on November 23, 1999 whose shares are listed on the Main Board of the Stock Exchange (stock code: 700)
“Tencent Group”	Tencent, its subsidiaries and its controlled entities
“the Hong Kong Stock Exchange” or “the Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianyuan Difang”	Beijing Tianyuan Difang Insurance Agency Company Limited (天圓地方(北京)保險代理有限公司), a limited liability company established under the laws of the PRC on May 28, 2010
“Tongcheng” or “Tongcheng Network”	Tongcheng Network Technology Limited (同程網絡科技股份有限公司), a joint stock limited company established under the laws of the PRC on March 10, 2004, which is one of the Contractual Arrangement Entities and, as the context may require, all or any of its subsidiaries or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were, or any one of them, as the context may require, were or was engaged in and which were subsequently assumed by it

DEFINITIONS

“Tongcheng-eLong Merger”	the merger between our Company and Tongcheng Network as further described in the section headed “History, Reorganization and Corporate Structure — Major Shareholding Changes of our Company — Tongcheng-eLong Merger”
“Tongcheng Holdings”	Tongcheng Holdings Co., Ltd. (同程控股股份有限公司), a joint stock limited company established under the laws of the PRC on March 17, 2017 pursuant to a spin-off from Tongcheng Network, details of which are set out in the section headed “History, Reorganization and Corporate Structure — History of our Business — Tongcheng Network — Tongcheng Spin-off”
“Tongcheng Network Founders”	founders of Tongcheng Network, being Mr. Wu Zhixiang, Mr. Wang Zhuan, Ms. Wu Jian, Mr. Zhang Hailong and Mr. Ma Heping
“Tongcheng Network Registered Shareholder(s)”	the registered shareholders of Tongcheng Network upon completion of the Reorganization, which comprise Mr. Wu Zhixiang, Mr. Wang Zhuan, Ms. Wu Jian, Mr. Zhang Hailong, Mr. Ma Heping, Kaifeng Chuangye Investment Co., Ltd. (凱風創業投資有限公司), Khorgas Lecheng Tianxia Shareholding Investment Management L.P. (Limited Partnership) (霍爾果斯樂程天下股權投資管理合夥企業(有限合夥)), Suzhou Industrial Park Techeng Wanli Investment Management Co., Ltd. (蘇州工業園區特程萬里投資管理有限公司), Khorgas Qingcheng Shareholding Investment Management L.P. (霍爾果斯青程股權投資管理合夥企業(有限合夥)), Khorgas Yecheng Shareholding Investment Management L.P. (霍爾果斯業程股權投資管理合夥企業(有限合夥)), Shenzhen Tencent Industry Investment Fund Co., Ltd. (深圳市騰訊產業投資基金有限公司), Shenzhen Shiji Huixiang Technology Co., Ltd. (深圳市世紀匯祥科技有限公司), Shenzhen Litong Industry Investment Fund Co., Ltd. (深圳市利通產業投資基金有限公司), and Shenzhen Shiji Kaihua Investment Fund Co., Ltd. (深圳市世紀凱華投資基金有限公司), each a “Tongcheng Network Registered Shareholder”
“Tongcheng Online Business”	the online business unit of Tongcheng Network which comprises transportation ticketing, accommodation reservation and certain other travel-related online services offered through its online platforms

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“Tongcheng Offline Business”	the offline business unit of Tongcheng Network which primarily comprises sales of travel packages, attraction tickets and financial services
“Tongcheng Spin-off”	has the meaning ascribed thereto in the subsection headed “History, Reorganization and Corporate Structure — History of Our Business — Tongcheng Spin-off”
“Track Record Period”	the three financial years ended December 31, 2015, 2016 and 2017
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

[REDACTED]

“United States”, “U.S.” or “US”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”, “U.S. dollars: or “US\$”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax
“VAT License(s)”	Value-added Telecommunications Services Operating Permit
“Wanda”	Beijing Wanda Cultural Industry Group Co., Ltd. (北京萬達文化產業集團有限公司), a limited liability company established under the laws of the PRC on September 19, 2002

[REDACTED]

DEFINITIONS

[REDACTED]

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the [REDACTED] assume that the [REDACTED] is not exercised.

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

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

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this [REDACTED] in connection with us and our business. These terms and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.

AI	artificial intelligence
Average MAUs	the monthly average MAUs for a given period, which is calculated by dividing the sum of the MAUs of each month during such period by the number of months in such period;
Average MPUs	the monthly average MPUs for a given period, which is calculated by dividing the sum of the MPUs of each month during such period by the number of months in such period;
B2B	business to business
direct connect	the technology that allows TSPs to upload availability, pricing and other information about their travel products and services directly from their own reservation systems to OTAs’ online platforms and to automatically confirm reservations made through OTAs’ online platforms
GDS	a computerized network system that enables transactions between travel industry service providers which mainly comprise airlines, hotels, car rental companies, and travel agencies
gross merchandise volume, or GMV	the total value of merchandise sold in the specified market or through a specified platform during a given period
MAUs	<p>monthly active users who access our platforms at least once during a calendar month. Specifically:</p> <ul style="list-style-type: none">• “MAUs” for a specific mobile app of ours are calculated using the number of unique devices that access the app at least once during a calendar month. If a mobile device accesses two different mobile apps of ours over the course of a calendar month, it would, under this methodology, be counted as two MAUs;• “MAUs” for a specific website (including WAP) of ours are calculated using the number of unique cookies (a commonly used tracking code) recorded by the Internet browsers that access such website (including WAP) at least once during the calendar month;• “MAUs” for the Tencent-based platforms refers to the sum of the number of OpenID (a unique ID assigned to a registered user of Weixin or Mobile QQ) that access any of the Tencent-based platforms at least once during a calendar month;• the calculation of eLong’s MAUs only takes into account the MAUs relating to eLong’s domestic accommodation reservation business;

GLOSSARY OF TECHNICAL TERMS

	<ul style="list-style-type: none">• The MAUs of Tongcheng and eLong combined for a given period is the sum of the MAUs of each of Tongcheng and eLong during such period, without eliminating duplicates; and• “total MAUs” refers to the sum of MAUs of mobile apps, WAP, websites, and Tencent-based platforms
mini program	light features within the Weixin interface which connect service providers and Weixin users
MPUs	Monthly paying users who make purchases at least once during a calendar month. Specifically, unless otherwise indicated, the total MPUs of each of Tongcheng and eLong are calculated using the sum of each of the following sales channels: mobile app, WAP, website, Tencent-based platforms, and user services hotline; under this methodology, if a user makes purchases through two different channels during the course of a calendar month, such user will be counted as two MPUs. We estimate that in 2017, the average MPUs generated from Tongcheng’s and eLong’s user services hotlines accounted for less than 0.2% of the combined average MPUs of Tongcheng and eLong. The MPUs of Tongcheng and eLong combined for a given period is the sum of the MPUs of each of Tongcheng and eLong during such period, without eliminating duplicates
OTA	online travel agencies
SaaS	software-as-a-services, a software delivery model in which software and associated data are centrally hosted on the cloud
social graph	a graph that depicts personal relations of Internet users
super apps	multi-functional apps that house various mobile functions such as messaging, social, payment, search, and e-commerce
Tencent-based platforms	include (i) the “Rail & Flight” and “Hotel” portals in “Wallet”, the mobile payment interface of Tencent’s Weixin; (ii) the “Rail & Flight” and “Hotel” in “QQ Wallet”, the mobile payment interface of Tencent’s Mobile QQ and certain other portals in Mobile QQ; and (iii) Weixin-based mini program. See “Business — Our Online Platforms — Our Tencent-based Platforms” for more information
TSPs	travel service providers
WAP	“Wireless Application Protocol,” access via a mobile browser using this protocol

FORWARD-LOOKING STATEMENTS

Certain statements in this [REDACTED] are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “aim”, “aspire”, “objective”, “target”, “schedules”, and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this [REDACTED]), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our future business development, financial condition and results of operations;
- our business strategies and plans to achieve these strategies;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with our TSPs and other business partners;
- general economic, political and business conditions in the industries and markets in which we operate;
- relevant government policies and regulations relating to our industry, business and corporate structure;
- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section headed “Risk Factors” in this [REDACTED].

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this [REDACTED]. Any such intentions may change in light of future developments.

All forward-looking statements in this [REDACTED] are expressly qualified by reference to this cautionary statement.

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You should carefully consider all of the information in this [REDACTED], including the risks and uncertainties described below, before making an investment in the [REDACTED]. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market price of the [REDACTED] could significantly decrease due to any of these risks and uncertainties, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorized into (i) risks relating to our business and industry; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to conducting business in China; and (iv) risks relating to the [REDACTED] and our Shares. Additional risks and uncertainties presently not known to us or not expressed or implied below, or that we currently deem immaterial could also harm our business, financial condition, results of operations or prospects. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

Risks Relating to Our Business and Industry

Our business is sensitive to macroeconomic conditions. Any severe or prolonged downturn in the global or Chinese economy may have a material and adverse effect on our business and results of operations.

We operate in the online travel industry, which is highly sensitive to business and personal discretionary spending levels and generally tends to decline during general economic downturns. Weaknesses in the economy could erode consumer confidence which could, in turn, result in changes to consumer spending on travel products and services. Accordingly, our business and results of operations have been, and are expected to continue to be, affected by developments in the global and Chinese macroeconomic conditions. If consumer demand for travel products and services decreases, our business and results of operations will suffer.

The global macroeconomic environment is faced with many challenges and uncertainties, including: escalation of the European sovereign debt crisis since 2011; the end of quantitative easing by the U.S. Federal Reserve; the sanctions against Russia over the Ukraine crisis since 2014; shadows of international terrorism spread by Islamic State of Iraq and al-Sham; the uncertainty associated with the United Kingdom leaving the European Union since the referendum in June 2016; as well as the trade war between the United States and China in 2018. There have also been concerns over unrest in the Middle East and Africa, which has resulted in volatility in oil and other markets. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term.

Economic conditions in China are sensitive to global economic conditions and are subject to various uncertainties. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing in recent years. Although growth of China’s economy remained relatively stable in 2017, there is a possibility that China’s economic growth may materially decline in the near future, due to several current or emerging factors, such as rudimentary monetary policy, failure to boost domestic consumption, dwindling supply of surplus labor, and decreased exports due to weakened overseas demand or international trade disputes. Any severe or prolonged slowdown in the Chinese economy could adversely affect our business, operating results and financial condition.

Disruptions in the travel industry may materially and adversely affect our business and the results of operations.

We generate substantially all of our revenue from the travel industry. Our business may be significantly affected by many factors that tend to reduce travel, including increased prices in hotel, air-ticketing, fuel or other travel-related sectors, work stoppages or labor unrest at airlines, increased occurrence of travel-related accidents, outbreaks of contagious diseases, natural disasters and unexpected extreme weather. For example, the travel industry was negatively impacted by the

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outbreak of severe acute respiratory syndrome in several regions in Asia, including Hong Kong and the PRC, in early 2003, snowstorms that severely affected southern China in early 2008, the outbreak of H1N1 influenza (swine flu) that occurred in Mexico and the United States in April 2009, which was discovered in Hong Kong and the PRC, the earthquake, tsunami and nuclear crisis in Japan in early 2011, the volcanic eruption in Bali, Indonesia in November 2017, as well as the earthquake in Hualien, Taiwan in February 2018. Examples also include the incident of the missing Malaysia Airlines plane in March 2014, which has had and may continue to have a negative impact on air travel among our target users. In addition, travel by Chinese travelers to overseas destinations may be restricted by adverse changes of visa policies of foreign countries that might prevent Chinese nationals from obtaining tourist visas, which may negatively impact the sale of relevant travel products and services. Terrorist attacks or threats of terrorist attacks, political unrest, wars, imposition of taxes or surcharges by regulatory authorities and regional hostilities may also reduce the demand for overseas tours. For example, the political protests in early 2009 and late 2013 in Thailand negatively impacted travel to Thailand. We have little or no control over the occurrence of such disruptions, which could result in a decrease in demand for our travel products and services and, in turn, materially and adversely affect our business and results of operations.

We operate in a highly competitive industry and may face increased competition.

China’s online travel industry is highly competitive. We compete primarily with other OTAs and, to a lesser extent, traditional travel agencies and travel service suppliers. As China’s online travel market continues to evolve, we may also face increased competition from both emerging domestic players, including e-commerce companies, search engines and other internet companies, and international travel companies that seek to expand into China. Our current and future competitors may enter into mergers and acquisitions, alliances, equity investments or commercial arrangements with one another or with TSPs or marketing or user acquisition channels, which may limit our ability to reach commercial or strategic relationship arrangements with such parties.

We may also be negatively affected by the changing competition landscape among TSPs. We face increasing competition from TSPs, particularly hotel groups and airlines, that increase their online direct selling efforts. Moreover, consolidation of, and alliance among, major TSPs may result in TSPs becoming fewer but larger, which will lead to stronger bargaining power of TSPs as a whole against OTAs, including us.

Increased competition could reduce our operating margins and profitability and result in our loss of market share. For example, in response to increasing competition, we used to engage in aggressive promotion and advertising campaigns to promote our brands, acquire new users and take market shares from competitors, which caused us to incur substantial sales and marketing expenses and put pressure on our revenue and profit margin. Some of our existing and potential competitors may have competitive advantages, such as better known brands, larger user bases, broader and more diverse product and service offerings, significantly greater financial, marketing or other resources. We cannot assure you that we will be able to successfully compete against new or existing competitors. If we are unable to successfully compete, our business, financial condition and results of operations may be adversely affected.

We may not be able to implement our business strategies and future plans successfully.

Our business strategies and future plans are described in “Business — Our Strategies” and “Future Plans and Use of [REDACTED]” in this [REDACTED]. The successful implementation of these strategies and plans depends on a number of factors including, among other things, changes in the market, the availability of funds, competition, government policy, and our ability to obtain governmental consents, permits and licenses. Some of these factors are beyond our control and, by nature, are subject to uncertainty. There is no assurance that these business strategies and future plans can be implemented successfully. For instance, we intend to expand our offerings of accommodation options by introducing more emerging TSPs, such as bed-and-breakfast properties and short-term rental, to meet our users’ evolving lodging needs and preferences. However, there is no assurance that we will be able to find a sufficient number of such emerging TSPs in a timely manner, or that the

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users’ needs and preferences would not change in a way that makes such accommodation options less attractive to the users. Additionally, our strategy to further develop our big data and AI technologies may not materialize due to our lack of funding or highly skilled personnel, in which event we might not be able to satisfy our users’ evolving needs, which would make our products and services less attractive to the users. Any failure or delay in the implementation of any or all of these strategies and future plans may have a material adverse effect on our prospects, financial condition, and results of operations.

We incurred losses in the past and we may incur losses in the future.

We have incurred net losses historically and may incur losses in the future as we grow our business. In 2015 and 2016, our Group had net losses of RMB963.0 million and RMB2,160.6 million, respectively, while Tongcheng Online Business had net losses of RMB335.1 million and RMB91.1 million, respectively. The historical net losses of our Group and Tongcheng Online Business were primarily attributable to increased selling and marketing expenses as we broadened our sales and marketing channels in response to intensified industry competition. For more information, see “Financial Information.” We expect to continue to incur significant selling and marketing expenses in the future, along with our business growth, which could affect our profitability. Our ability to achieve profitability is affected by various factors, many of which are beyond our control, including developments in the macroeconomic and regulatory environment, changing competitive dynamics, evolving consumers’ preference to make travel bookings online, as well as our ability to respond to these changes in a timely and effective manner. Factors negatively affecting our TSPs’ profitability may also, in turn, adversely affect our financial condition and results of operations, thus preventing us from achieving profitability. If we are unsuccessful in addressing any of these risks and uncertainties, our business and our ability to achieve profitability may be materially and adversely affected.

We may fail to achieve the anticipated synergies and other benefits from the Tongcheng-eLong Merger.

We are the combined business resulting from the merger of Tongcheng and eLong, which was completed in March 2018. For more information, see “History, Reorganization and Corporate Structure.” The success of the merger, including the achievement of the anticipated synergies and other benefits from the merger, is subject to a number of uncertainties and will depend, in part, on our ability to successfully integrate the businesses of both companies in an efficient and effective manner. Potential difficulties and challenges that we may encounter in the integration and the subsequent restructuring include the following:

- inability to successfully integrate businesses of Tongcheng and eLong in a manner that permits us to achieve business and operating synergies, cost savings, and other anticipated benefits from the merger;
- loss of key management and technical and marketing personnel;
- inability to integrate the personnel, IT systems and corporate, finance and administrative infrastructures of both companies, while maintaining focus on consistently providing high quality products and services;
- performance shortfalls as a result of the diversion of the management’s attention;
- possibility of faulty assumptions underlying expectations regarding potential synergies and the integration process; and
- potential unknown liabilities and unforeseen or increased costs and expenses.

Any of these factors could result in us failing to achieve the anticipated benefits of the merger and could adversely impact our business, financial condition, cash flows and results of operations. Even if we are able to integrate Tongcheng and eLong successfully, this integration may not result in the realization of the full benefits of the growth opportunities and synergies that we expect from this

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integration, and we cannot guarantee that these benefits will be achieved within anticipated time frames, or at all. For example, we may not be able to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration. While it is anticipated that certain expenses will be incurred to achieve cost savings, such expenses are difficult to estimate accurately, and may exceed current estimates. Furthermore, we may experience difficulties in managing operations after the integration, including difficulties in managing a significantly larger company than before and coordinating geographically separate organizations. Accordingly, the benefits from the merger may be offset by costs incurred, or delays in, integrating the businesses.

Our limited operating history as a combined business makes it difficult to evaluate our business and growth prospects.

We believe that our future success depends on our ability to increase revenue and profitability from our operations as a combined entity. We have a limited operating history as a combined business since March 2018. Accordingly, you should consider our future prospects in light of the risks and challenges encountered by a company with a limited operating history as a combined entity. These risks and challenges include those associated with our ability to:

- increase awareness of our “Tongcheng-eLong” (同程藝龍) as a single brand and continue to grow user base and user loyalty;
- continue our growth while maintaining profitability;
- maintain and enhance our competitive position in China’s online travel industry;
- continue to offer innovative products and services to attract recurring and new users;
- implement our strategies and modify from time to time to respond effectively to competition and changes in user preferences and needs;
- attract, train, retain and motivate qualified personnel; and
- retain existing and attract new TSPs to continue to offer quality products and services with competitive prices.

If we are unsuccessful in addressing any of these risks or challenges, our business may be materially and adversely affected.

In addition, the results of operations and financial position of Tongcheng Online Business were not consolidated into those of our Group during the Track Record Period and until the date of the completion of the merger of Tongcheng Network into our Group. Accordingly, a period-to-period comparison of our future results of operations and financial condition following the merger with those during the Track Record Period may not be meaningful as the movements may be partially attributable to the effect of the combination of business rather than an accurate reflection of our business operations. Our historical financial performance may therefore not be indicative of our future results of operations and financial position, and you should not rely on our historical results to predict our future performance.

Any deterioration in our relationship with Tencent, particularly regarding our Tencent-based platforms, could have a material adverse effect on our business and prospects for growth.

We have extensive collaboration with Tencent, one of our largest shareholders, in several areas, including information technologies and infrastructure and sales and marketing. In particular, we collaborate with Tencent to integrate our platforms into Tencent’s Weixin and Mobile QQ. Weixin and Mobile QQ are two of the largest super apps in China in terms of user base, according to iResearch. We currently operate the “Rail & Flight” and “Hotel” portals on Weixin and Mobile QQ and certain other portals on Mobile QQ. We also operate our Weixin-based mini programs, which are light features connecting service providers and Weixin users. In 2017, a majority of our MAUs and a significant majority of our MPUs were generated through our Tencent-based platforms. For more information

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about our Tencent-based platforms and the agreements between us and Tencent regarding the Tencent-based platforms, see “Business — Our Online Platforms,” “Business — Our Suppliers,” and “Relationship with Our Largest Shareholders.”

We cannot assure you that we will be able to maintain the current level of cooperation with Tencent in the future. If our collaborative relationship with Tencent, particularly regarding our Tencent-based platforms, is terminated or curtailed due to Tencent’s initiating its own online travel portals or partnering with other OTAs, or if any of the commercial terms between us and Tencent are revised or made less favorable to us, or if Tencent does not continue to deliver to us an adequate level of access to its platforms or adequately promote our products and services, our business and prospects will be adversely affected.

We depend on a limited number of suppliers for the services that are necessary for our business operations and a limited number of customers for a substantial portion of our revenue.

We rely on a limited number of suppliers to provide services necessary to operate our business. These services include advertising services, user acquisition channel, as well as online sales channel through which we make available the travel products and services that we source from TSPs. In 2015, 2016 and 2017, our Group’s five largest suppliers in the aggregate accounted for 33.0%, 26.5% and 46.6%, respectively, of its total purchases. During the same periods, Ctrip, one of our connected persons, together with its affiliates, were among our Group’s five largest suppliers, accounting in the aggregate for approximately 4.4%, 17.0% and 35.9%, respectively, of our Group’s total purchases. We expect that our business in the foreseeable future will continue to depend on our ability to maintain good relationships with a relatively small number of suppliers, as well as the ability of these suppliers to continue to provide us the services that we need of adequate quality. If our largest suppliers decide to reduce the services they provide to us, or if their business operations or financial condition deteriorate, or if our business relationship with them are interrupted and terminated, our business, financial condition and results of operations may be negatively affected.

We depend on a limited number of major customers for a substantial portion of our revenue. Our largest customers consist primarily of TSPs, and we generate revenue from our transactions with them mainly by facilitating the sales of their travel products and services through our online platforms and, in exchange, charging TSPs commissions. In 2015, 2016 and 2017, our Group’s five largest customers in the aggregate accounted for 12.3%, 6.5% and 13.4%, respectively, of its revenue. During the same periods, Ctrip, one of our connected persons, together with its affiliates, were among our Group’s five largest customers, accounting in the aggregate for approximately 1.3%, 3.9% and 9.7%, respectively, of our Group’s total revenue. If any of our major customers reduces the volume of, or no longer sells, its travel products and services sold through us, our revenue may be reduced, which, in turn, would negatively affect our results of operations.

If we fail to enhance our brand recognition, we may face difficulty in retaining existing and attracting new users, TSPs and business partners, and our business may be harmed.

Recognition and reputation of our brands, including the “Tongcheng-eLong” brand, among our targeted users and TSPs have contributed significantly to our growth. We have made continuous investment in enhancing awareness of our brands among users and TSPs. Our brand recognition and reputation depend on our ability to provide comprehensive product offerings, deliver high-quality user services, and maintain relationships with a wide array of TSPs. Failure to maintain the strength of our brands could negatively affect our ability to grow our user base and deteriorate our relationships with TSPs.

We operate in a highly competitive industry and we intend to continue to incur substantial advertising and marketing expenditures and other resources to maintain and increase our brand recognition. Our marketing costs may also increase as a result of inflation in media pricing in China,

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including costs for placing online and offline advertisements. If we fail to maintain and increase our brand recognition in a cost-effective manner, our financial condition and results of operations may be materially and adversely affected.

If we fail to grow or retain our user base, or if our user engagement ceases to grow, or declines, our business and operating results may be materially and adversely affected.

The size of our user base and the level of user engagement are critical to our success. Our average MAUs were approximately 88.7 million, 99.5 million and 121.2 million, respectively, in 2015, 2016 and 2017. Our business has been depending, and will continue to significantly depend, on our users and their level of engagement with our products and services. If users no longer view our products and services as useful and attractive, we may not be able to increase or maintain our user base and the level of user engagement.

A number of factors could negatively affect user growth, retention and engagement, including:

- despite our continuous research, monitoring and analysis of user needs, we may be unable to identify and meet evolving user demand;
- we may not be able to develop and introduce new or updated products and services in a timely fashion, or the new or updated products and services we introduce may not be favorably received by users;
- we may fail to update existing technology or develop new technology in time to stay ahead or abreast of market developments;
- we may encounter technical or other problems that prevent our products and services from operating in a smooth and reliable manner;
- we may fail to address user concerns related to privacy, data security and other factors; and
- we may be compelled to modify our products and services to address requirements imposed by laws, regulations and government policies or requests from government authorities, in ways that may compromise user experience.

Our ability to grow or retain our user base and drive user engagement also depends on our ability to deliver a superior user experience. If we fail to provide quality user services, users may be less inclined to book travel products and services with us or recommend us to new users, and we may lose our users to our competitors. If we are unable to grow or maintain our user base or enhance user engagement for one or more of the reasons discussed above, our business, operating results and long-term monetization potential could be adversely impacted.

Our business depends on our relationships with TSPs.

Our success depends on our ability to maintain our existing relationships and to build new relationships with TSPs. Adverse changes in existing relationships, or our inability to enter into new arrangements with TSPs on commercially favorable terms, if at all, could reduce the amount, quality and breadth of travel products and services that we source from TSPs, which could adversely affect our business, financial condition and results of operations.

We generate revenue from the travel products and services we offer primarily by charging commissions from TSPs. TSPs may reduce the commission rates, which may adversely impact our revenue and profitability. If a large number of TSPs negotiate to lower the commission rates, our business and results of operations may be adversely impacted. Additionally, TSPs are increasingly seeking to lower their travel distribution costs by promoting their own direct sales channels, with more attractive loyalty program offerings and/or lower transaction fees to users than we share or offer and might choose not to make their travel products and services available on our online platforms, which may negatively impact our results of operations and financial condition.

As an important part of our business strategies, we intend to leverage our extensive user base, technologies and data insights to help TSPs grow their businesses and offer more innovative and

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customized travel products and services. However, we cannot guarantee that the initiatives we take to implement these strategies will yield the anticipated results. If we are not successful in implementing these strategies, our business prospect and results of operations may suffer.

We rely on information technology to operate our businesses and maintain our competitiveness, and any failure to adapt to technological developments could harm our business.

We depend on the use of information technology and systems to support nearly every aspect of our business, including platform operations, data gathering and analytics, product development, and user services, and to accommodate demands for new features and functionalities. We must continuously improve and upgrade our systems and infrastructure to offer enhanced products, services, features and functionality, while maintaining their reliability and integrity. Delays or difficulties in implementing new or enhanced systems may keep us from achieving the desired results in a timely manner, to the extent anticipated, or at all. Any interruptions, outages or delays in our systems, or deterioration in their performance, could impair our ability to process transactions and could decrease our quality of service that we offer to our users. If any of these events occurs, our business and financial performance could suffer.

If we are found to be in violation of current or future PRC laws, regulations and government policies, we could be subject to penalties, and our business operations may be materially and adversely affected.

Our business is subject to various PRC laws and regulations and governmental supervision by the relevant PRC governmental authorities. These laws and regulations require us, among other things, to obtain licenses, permits or approvals for our businesses, such as separate licenses for provision of value-added telecommunication business, insurance intermediary services, and transportation ticketing services. For more information, see “Regulatory Overview” and “Business — Licenses and Permits.” If we fail to obtain or renew any of the required licenses, permits or approvals, or are otherwise found to be in violation of any other laws and regulations, we may be subject to various penalties, such as warnings, fines, orders to rectify any violations, or suspension of operations in the regulated businesses, any of which could disrupt our business operations and, in turn, adversely affect our financial condition and results of operations.

Additionally, the PRC government may promulgate new laws and regulations, interpretation of existing laws and regulations, as well as regulatory guidance and policies. We may not be able to always keep abreast of these developments, and we could be subject to regulatory or administrative penalties and operational disruption if we are unable to comply with these laws, regulations and policies in a timely fashion, or at all. These additional laws, regulations and policies may also require us to change certain aspects of our business, operations and commercial relationships, which could decrease the demand for our products and services, reduce revenues, increase costs and/or subject us to additional liabilities. If we are unable to respond to these new laws, regulations and policies in an effective and cost-efficient manner, our business and results of operations may be negatively impacted.

We may be adversely affected by any negative publicity concerning us and our business, shareholders, directors, officers and employees and the industry in which we operate, regardless of its accuracy, which could harm our reputation and business.

We have been, and in the future may be, the target of adverse publicity, malicious allegations or other detrimental conduct by others, including our employees, users and TSPs, which may harm our brand and adversely affect public perception of our corporate image and service quality. For example, we received user complaints and were subjected to related negative publicity about bundle sales of travel products and services on our platforms. Allegations, directly or indirectly against us, may be posted on blogs, websites and online social platforms by anyone, on an anonymous basis. We may be required to spend significant time and incur substantial costs in response to such allegations or other detrimental conduct, and there is no assurance that we will be able to conclusively refute each of them within a reasonable period of time, or at all. Our reputation may be harmed as a result of the public

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dissemination of malicious allegations about our personnel, business, operations, accounting, prospects or business ethics, which in turn could adversely affect our business and the trading price of our Shares.

If there is any deterioration in the quality of the travel products and services sourced from TSPs, our users may claim compensation for damages from us and not continue using our online platforms.

Our ability to ensure satisfactory user experience in a large part depends on our TSPs to provide high-quality travel products and services. Our reputation and brand will be negatively affected if our TSPs fail to provide quality travel products and services.

We implement guidelines and quality control protocols for TSPs to follow and have in place dedicated teams to monitor and engage with TSPs in responding to user queries and feedback. These actions may be inadequate in discovering quality issues in a timely fashion. There have been user complaints and litigations in the past against us due to our TSPs’ failure to provide travel products or services of satisfactory quality. If our users are dissatisfied with the travel products and services provided, they may reduce their use of, or completely forgo, our online platforms, and may even demand refunds of their payments to us or claim compensation from us for the damages they suffered from our TSPs’ performance or misconduct, which could harm our reputation and materially and adversely affect our business, financial condition and results of operations.

Privacy concerns relating to the use of user information by us or third parties, or any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, could negatively impact our reputation, subject us to governmental or legal obligations and substantially harm our business and results of operations.

We collect and process certain personal data of our users, including, among others, identification information, email addresses, passwords, as well as billing information, such as credit card numbers, full names, billing addresses, and phone numbers. We cannot guarantee that our security measures will prevent data breaches. While we have taken steps to protect our user data, our security measures could be compromised, because techniques used to obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, and we may be unable to anticipate these techniques or to implement adequate preventive measures. Any failure or perceived failure by us or our TSPs or other business partners to protect such information could damage our reputation, cause users and business partners to lose confidence in us and cease to purchase travel products and services through our online platforms, or subject us to inquiries and other proceedings or actions against us by government agencies or others, all of which may materially and adversely affect our business and results of operations.

We also face risks associated with security breaches affecting third parties conducting business over the Internet. Users generally are concerned with security and privacy on the Internet, and any publicized security problems could negatively affect their willingness to provide private information or effect commercial transactions on the Internet generally, including through our services. Additionally, users using our services could be affected by security breaches at third parties, such as our TSPs and payment processors or global distribution systems, or GDSs, upon which we rely. A security breach at any such third party could be perceived by users as a security breach of our systems and could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions.

In addition, the interpretation of privacy and data protection laws and their application to the online travel industry is unclear and in flux. There is a risk that these laws may be interpreted and applied in conflicting manners from country to country, or region to region, and in a manner that is not consistent with our current data protection practices. As our operations become increasingly globalized, complying with these varying international requirements could cause us to incur additional costs and change our business practices.

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We may be negatively affected by untrue or misleading information offered on our online platforms, or by misrepresentations made by our employees, users or TSPs.

Our online platforms contain information about transportation tickets, accommodation, popular vacation destinations, and other travel-related topics, including information provided by our TSPs. Although we have internal systems and technologies in place to ensure the truthfulness and accuracy of such information, it is possible that third parties could take legal or regulatory actions against us for making allegedly false, inaccurate, unauthorized, politically sensitive, or misleading information or content accessible on our online platforms. In addition, we have been subject to negative publicity or administrative fines in the past in connection with allegedly inaccurate product descriptions provided by accommodation suppliers, and we may be subject to liabilities arising from similar misconduct in the future. Any such claims, with or without merit, could be time-consuming to defend, result in litigation, divert management’s attention and resources and may negatively impact our reputation.

We are exposed to risks associated with payment fraud.

Orders placed by users on our platforms are processed through debit cards, credit cards and third-party payment channels. We have suffered losses, and may continue to suffer losses, because of orders placed with fraudulent credit cards or other fraudulent payment data. Although we employ technologies to detect fraudulent transactions, these technologies may not always be effective, due to either technical glitches or human error. Any failure to detect or control payment fraud could negatively impact our reputation and cause us to lose sales and revenue.

Our results of operations may fluctuate due to seasonality, and the results for any period in a year are not necessarily indicative of full-year results.

The travel industry in China is characterized by seasonal fluctuations. In general, we generate higher revenue from the sales of travel products and services during holiday seasons, such as Chinese New Year holiday, the National Day holiday, and summer holidays, compared to the rest of the year. The seasonality of China’s travel market is affected by government regulation of public holidays, including, for example, the decision by the State Council in 2008 to restructure the annual calendar of public holidays by adding a few shorter holidays and reducing the Labor Day holiday from one week to three days. Our future results will continue to be affected by seasonality and regulatory adjustments to public holidays in China. Therefore, the results for any period in a year are not necessarily indicative of the full-year results.

We are subject to inventory risk arising from room nights prepurchased by us.

We prepurchase room nights from accommodation suppliers for resale to users to secure quality room night inventory. In these prepurchase transactions, to the extent that we cannot return to the accommodation suppliers the unsold room nights, we are subject to inventory risk, with our potential loss being the full price of the room nights for which we have paid, or are committed contractually to pay, to the accommodation suppliers. If, due to forecasting error, competitive market conditions or other unforeseen circumstances, we are unable to sell the prepurchased room nights, we could incur significant losses, which may have a material adverse effect on our business results and financial performance.

If we are unable to identify, attract, hire, train or retain key personnel, our business may be adversely affected.

Our future performance depends on the continued service of our senior management. If one or more of our key executives were unable or unwilling to continue in their present positions, we may not be able to replace them easily, our future growth may be constrained, our business may be disrupted and our financial condition and results of operations may be materially and adversely affected.

As our business continues to expand, we will need to hire additional personnel, including user and TSP services, information technology and engineering personnel. If we are unable to identify,

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attract, hire, train or retain sufficient employees in these areas, our users may not have satisfactory experiences with us and may turn to our competitors, which may adversely affect our business and results of operations.

We have been in the past, and may in the future be, subject to legal or administrative proceedings regarding our travel products and services, the information provided on our platforms, or other aspects of our business operations, which could have adverse impacts on our business.

We have been in the past, and may in the future, from time to time, become a party to various legal or administrative proceedings arising in the ordinary course of our business, including breach of contract claims, anti-competition claims, sanctions by regulatory authorities, and other matters. Such proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome and merit of such proceedings, any such legal action could have an adverse impact on our business because of defense costs, negative publicity, diversion of management’s attention and other factors.

We may not be able to prevent third-party infringements of our intellectual property rights, which may harm our business and expose us to litigations.

We regard our intellectual property as critical to our success. We rely primarily on a combination of copyright, software registration, trademark, trade secret and unfair competition laws and contractual rights, such as confidentiality agreements with our employees and others, to protect our intellectual property rights. Unauthorized use or other misappropriation of our technologies would enable third parties to benefit from our technologies without paying us, or enable our competitors to offer travel products and services that are comparable to or better than ours. From time to time, we may have to enforce our intellectual property rights through litigation. Such litigation may result in substantial costs and diversion of resources and management attention. If we are not successful in protecting our intellectual property, our business, financial condition and results of operations may be materially and adversely affected.



We may from time to time be subject to infringement claims relating to intellectual property rights of third parties.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon copyrights or other intellectual property rights held by third parties. We have been in the past, and may be from time to time in the future, subject to legal proceedings, claims or regulatory actions relating to alleged infringement on copyrights or other intellectual property rights held by third parties in relation to the content on our online platforms or intellectual property rights otherwise used in our operation. For example, our website may be found to contain pictures that infringe on copyrights of third parties. If we are found to have infringed on the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees. Successful infringement or licensing claims made against us may result in significant financial liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question. Moreover, regardless of whether we successfully defend against such claims, we could suffer negative publicity and our reputation could be severely damaged. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

In addition, user-generated content on our online platforms may contain or provide links to information that infringes on the copyrights or other intellectual property rights of third parties or violates applicable laws or regulations in relation to censorship, or we may use the user-generated content in a way that infringes on the rights of the users or third parties. Any claims, with or without merit, could be time-consuming to defend, result in litigation and divert management’s attention and resources.

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We are subject to reputational risk in relation to the similarity of our and Tongcheng Holdings’ trademarks.

Pursuant to a spin-off agreement dated March 20, 2017 entered into between Tongcheng Network and Tongcheng Holdings, Tongcheng Offline Business, which was originally operated by Tongcheng Network, were spun off and transferred to Tongcheng Holdings and its subsidiaries. For details, see “History, Reorganization and Corporate Structure — History of Our Business — Tongcheng Spin-off.” Tongcheng Holdings has, since the spin-off, operated Tongcheng Offline Business mainly under the trademark of “ 同程旅游”, while we have, following the completion of the merger of Tongcheng Network into our Group in March 2018, operated our businesses under the trademark of  同程艺龙. The fact that both of these trademarks have the same word element “同程” and the double-fish design may potentially cause consumer confusion, and it is possible that our reputation and brand recognition are compromised by user complaints or concerns over the quality of the travel products and services provided by Tongcheng Holdings or improper or unauthorized uses of Tongcheng Holdings’ trademark by any third parties.

We may need additional capital, and financing may not be available on terms acceptable to us, or at all.

We believe that our current cash and cash equivalents, and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs in the near term. We may, however, require additional cash resources due to changed business conditions or other future developments, including any marketing initiatives or investments we may decide to pursue. If current cash resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

We may engage in acquisition and investment activities, which could require significant management attention, disrupt our business, dilute shareholder value, and adversely affect our operating results.

As part of our business strategy, we may acquire or make investments in other companies, products, or technologies to enhance the features and functionality of our devices, and accelerate the expansion of our platforms and network of strategic partners. We may not be able to find suitable acquisition or investment candidates and we may not be able to complete acquisitions and investments on favorable terms, if at all. If we do complete acquisitions and investments as we expect, we may not ultimately strengthen our competitive position or achieve our goals; and any acquisition and investment we complete could be viewed negatively by users or investors. In addition, if we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could be adversely affected.

Acquisitions and investments may disrupt our ongoing operations, divert management from their primary responsibilities, subject us to additional liabilities, increase our expenses, and adversely impact our business, financial condition, operating results, and cash flow. We may not accurately forecast the financial impact of an acquisition or investment transaction, including accounting charges. We would have to pay cash, incur debt, or issue equity securities to pay for any such acquisition and investment, each of which may affect our financial condition or the value of our capital stock and could result in dilution to our shareholders.

Additionally, we may receive indications of interest from other parties interested in acquiring some or all of our business. The time required to evaluate such indications of interest could require significant attention from management, disrupt the ordinary functioning of our business, and adversely affect our operating results.

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Disruption to or failures of our online platforms and IT infrastructure could reduce user satisfaction and could harm our reputation and business operations.

The satisfactory performance, reliability and availability of our online platforms and IT infrastructure are critical to the success of our business. Any system interruptions that result in the unavailability or slowdown of our online platforms or other systems and the disruption in our services could reduce the volume of our business and make us less attractive to users. Substantially all of our computer and communication systems are located at two IT centers, one in Suzhou, China and the other one in Beijing, China. Our technology platform and computer and communication systems are vulnerable to damage or interruption from human error, computer viruses, fire, flood, power loss, telecommunication failure, physical or electronic break-ins, hacking or other attempts at system sabotage, vandalism, natural disasters and other similar events. We cannot assure you that unexpected disruption to or failures of our systems will not occur in the future. We do not carry business interruption insurance to compensate us for losses that may occur as a result of such disruptions. In addition, any such future occurrences could reduce user satisfaction levels, damage our reputation and materially and adversely affect our business.

We use a booking software system developed in-house that supports nearly all aspects of our booking transactions. Our business may be harmed if we are unable to upgrade our systems and infrastructure quickly enough to accommodate future traffic levels, avoid obsolescence or successfully integrate any newly developed or purchased technology with our existing system. Capacity constraints could cause unanticipated system disruptions, slower response time, poor user service, impaired quality and speed of reservations and confirmations and delays in reporting accurate financial and operating information. These factors could cause us to lose users and TSPs, which would have a material adverse effect on our results of operations and financial condition.

Certain of our substantial Shareholders may have potential conflicts of interest with us.

Immediately upon completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), Tencent and Ctrip will control the voting power of approximately [REDACTED]% and [REDACTED]%, respectively, of our issued Shares and will be in a position to exert significant influence over the affairs of our Company and will be able to influence the outcome of any Shareholders’ ordinary resolutions, irrespective of how other Shareholders vote. The interests of our substantial Shareholders may not necessarily be aligned with the interests of our public Shareholders or our Shareholders as a whole.

We may face competition from certain of our major shareholders or their subsidiaries. For example, Ctrip Group, one of our largest shareholders, operates in China’s online travel industry as we do. There may arise business opportunities in the future that both we and Ctrip are interested in. Additionally, Ctrip may from time to time make strategic decisions with respect to its business activities that it believes are in the best interests of its business, but there is no guarantee that we will not be negatively affected by these decisions. See “Relationship with our Largest Shareholders.”

We intend to continue to incur significant costs on marketing efforts, and some marketing campaigns may not achieve our expected results.

We operate in a highly competitive industry and we intend to continue to incur substantial advertising and marketing expenditures and other resources to maintain and increase our brand recognition. Our marketing activities may not be well received by the market and may not result in the levels of sales that we anticipate. We also may not be able to retain or recruit a sufficient number of experienced sales and marketing personnel, or to train newly hired sales and marketing personnel, which we believe is critical to implementing our sales and marketing strategies cost-effectively. Further, sales and marketing approaches and tools in China’s online travel market are evolving rapidly. This requires us to continually enhance our sales and marketing approaches and experiment with new methods to keep pace with industry developments and consumer preferences. Failure to engage in sales and marketing activities in a cost-effective manner and failure to achieve the anticipated results

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from our sales and marketing activities may reduce our market share, cause our revenues to decline, negatively impact our profitability, and materially harm our business, financial condition and results of operations.

We have granted, and may continue to grant, options, restricted share units and other types of awards to our employees, which may result in increased share-based compensation expenses.

We have adopted the Share Incentive Plans for the purpose of granting share-based compensation awards to their respective employees. As of the Latest Practicable Date (assuming the Capitalization Issue had been completed), [44,186,710] restricted share units under the 2016 Share Incentive Plan and options to purchase [102,052,960] Shares under the 2018 Share Incentive Plan have been granted and outstanding, excluding awards that were forfeited or cancelled after the relevant grant dates. We expect to grant certain qualified employees equity awards pursuant to such Share Incentive Plans upon the completion of the [REDACTED], which shall vest once the market capitalization of our Company exceeds a certain threshold, by which time we may record a significant share-based compensation expense.

We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

We have limited business insurance coverage and our insurance policies may not provide adequate coverage for all existing and potential claims associated with our business operations.

Insurance companies in China offer limited business insurance products. Business disruption insurance is available to a limited extent in China, but we have determined that the risks of disruption, the cost of such insurance and the difficulties associated with acquiring such insurance make it commercially impractical for us to have such insurance. We maintain insurance coverage for travel company liabilities, but we do not maintain insurance coverage for business disruptions and would have to bear the costs and expenses associated with any such events out of our own resources.

Risks Relating to Our Contractual Arrangements

We conduct the Relevant Businesses in the PRC through our Consolidated Affiliated Entities by way of Contractual Arrangements, and if the PRC government finds that these Contractual Arrangements do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to penalties or be forced to relinquish our interests in those operations.

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in the Internet related businesses, such as the provision of Internet information. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider, and any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record in accordance with the Provisions on Administration of Foreign Invested Telecommunications Enterprises.

We are a company incorporated under the laws of the Cayman Islands, and E-dragon Beijing WFOE and Longyue Tiancheng WFOE, our PRC subsidiaries, are therefore considered foreign-invested enterprises. To comply with PRC laws and regulations, we currently conduct a portion of our business in the PRC through the Contractual Arrangement Entities, as well as their respective subsidiaries, through a series of Contractual Arrangements by and among E-dragon Beijing WFOE and Longyue Tiancheng WFOE, the Contractual Arrangement Entities, as well as the Registered Shareholders. In addition, upon the completion of the Reorganization, we will hold 50% equity interest in Beijing E-dragon and Tongcheng Network respectively, and do not hold any equity interests in Suzhou Chengyi. The Contractual Arrangements enable us to (i) have the power to direct the activities that most significantly affect the economic performance of the Contractual Arrangement Entities; (ii) receive substantially all of the economic benefits from the Contractual Arrangement Entities in consideration for the services provided by E-dragon Beijing WFOE and Longyue Tiancheng WFOE; and (iii) have an exclusive option to purchase all or part of the equity interests in the

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Contractual Arrangement Entities when and to the extent permitted by PRC law or request any existing shareholders of the Contractual Arrangement Entities to transfer any or part of the equity interest in the relevant Contractual Arrangement Entity to another PRC person or entity designated by us at any time at our discretion. Because of the Contractual Arrangements, we are the primary beneficiary of the Contractual Arrangement Entities and their respective subsidiaries and consolidate the results of operations of the Consolidated Affiliated Entities into ours. Our Consolidated Affiliated Entities hold the licenses, approvals and key assets that are essential for our business operations.

If the PRC government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment, or if the PRC government otherwise finds that we, the Contractual Arrangement Entities or any of their subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including but not limited to MOFCOM, MIIT, and CBIRC, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and Consolidated Affiliated Entities may not be able to comply;
- requiring us or our PRC subsidiaries and Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or our other financing activities to finance the business and operations of our Consolidated Affiliated Entities; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of any of the Consolidated Affiliated Entities in our consolidated financial statements, if the PRC governmental authorities find our legal structure and Contractual Arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in our inability to direct the activities of Contractual Arrangement Entities that most significantly impact their economic performance and/or our failure to receive the economic benefits from the Contractual Arrangement Entities, we may not be able to consolidate the Consolidated Affiliated Entities into our consolidated financial statements in accordance with the IFRS.

Certain provisions in the Contractual Arrangements through which we conduct our business operations in the PRC may not be enforceable under PRC laws.

All the agreements under the Contractual Arrangements are governed by PRC laws. The legal environment in the PRC is not as developed as certain other jurisdictions, such as Hong Kong and the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce our Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over the Consolidated Affiliated Entities, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected.

Under the dispute resolution provisions of the agreements under the Contractual Arrangements, in the event of any dispute relating to the Contractual Arrangements, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission (“CIETAC”)

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for arbitration, in accordance with the then effective arbitration rules and procedures. The Contractual Arrangements also contain provisions to the effect that the arbitration tribunal may grant any remedies in accordance with the relevant agreement and applicable PRC laws, including preliminary and permanent injunctive relief (such as injunctions against carrying out business activities, or mandating the transfer of assets), specific performance of contractual obligations, remedies concerning the equity interest or assets of our Consolidated Affiliated Entities and awards directing them to conduct liquidation. However, under PRC laws, an arbitral body does not have the power to grant injunctive relief or to directly issue liquidation orders. Interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands also may not be enforceable under PRC laws. See “Contractual Arrangements — Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Dispute Resolution” for details of the enforceability of the Contractual Arrangements. Therefore, in the event that the Contractual Arrangement Entities or their shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected.

Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the Draft Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

Background of the Draft Foreign Investment Law

The MOFCOM published the Draft Foreign Investment Law in January 2015 for public review and comments aiming to, upon its enactment, replace the existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. The Draft Foreign Investment Law embodies an expected regulatory trend in China to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. While the MOFCOM solicited comments on this draft in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or “FIE.” The Draft Foreign Investment Law specifically provides that entities established in China, but “controlled” by foreign investors, will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor, provided that the entity is “controlled” by PRC entities and/or citizens. In this regard, “foreign investors” refers to the following parties making investments within the PRC: (i) natural persons without PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; and (iv) international organizations. Domestic enterprises under the control of such parties as mentioned above are deemed foreign investors. “Control” is broadly defined to cover the following categories: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of voting rights or other similar rights of the target; (ii) holding, directly or indirectly, less than 50% of the voting rights of the target but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies or having the voting power to exert material influence on the board, the shareholders’ meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the target’s operations, financial matters or other key aspects of business operations. Once an entity is determined to be a FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a Catalog of Special Administrative Measures, which is classified into the Catalog of Prohibitions and the Catalog of

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Restrictions, to be separately issued by the State Council later. Foreign investors are not allowed to invest in any sector set forth in the Catalog of Prohibitions. However, unless the underlying business of the FIE falls within the Catalog of Restrictions or Catalog of Prohibitions, which calls for market entry clearance by the MOFCOM, prior approval from governmental authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

Impact of the Draft Foreign Investment Law on VIE

The “variable interest entity” (or “VIE”) structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “Contractual Arrangements.” Under the Draft Foreign Investment Law, if a variable interest entity is ultimately controlled by a foreign investor via contractual arrangements, it would be deemed as a foreign investment. Accordingly, for the companies with a VIE structure in an industry category that is on the “Catalog of Special Administrative Measures,” the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC individual, or PRC government and its branches or agencies). Conversely, if the actual controlling person(s) is/are of foreign nationalities, the variable interest entities will be treated as foreign-invested enterprises and any operation in the industry category on the “Catalog of Special Administrative Measures” would require market entry clearance by the MOFCOM.

In addition, the Draft Foreign Investment Law does not specify what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC entities and/or citizens. Moreover, it is uncertain whether the online travel industry, in which our Consolidated Affiliated Entities operate, will be subject to the foreign investment restrictions or prohibitions set forth in the “Catalog of Special Administrative Measures” to be implemented.

Potential Consequences for our Group

In view of the shareholding structure of our shareholders, we may not be able to fall clearly within the definition of “control” under the Draft Foreign Investment Law in its current form. It is therefore uncertain whether we are “controlled” by PRC entities and/or citizens, if the Draft Foreign Investment Law is enacted in its current form.

Furthermore, if the enacted version of the Draft Foreign Investment Law and the final “Catalog of Special Administrative Measures” provide for further actions, such as the market entry clearance, to be completed by companies with an existing VIE structure like us, we would face uncertainties as to whether such clearance can be timely obtained, or at all.

Our Contractual Arrangements, in the worst case scenario, may be regarded invalid and illegal, under the enacted version of the Draft Foreign Investment Law. As a result, even though we hold 50% equity interest in Tongcheng Network and Beijing E-dragon, we will not be able to operate our online travel business through the Contractual Arrangements and will lose our rights to receive 50% of the economic benefits from Tongcheng Network and Beijing E-dragon, and the rights to receive 100% of the economic benefits from Suzhou Chengyi. In this case, 50% of the financial results of Tongcheng Network and Beijing E-dragon and 100% of the financial results of Suzhou Chengyi would no longer be consolidated into our financial results, and we will have to derecognize their assets and liabilities according to the relevant accounting standards. In such case, the Stock Exchange may also consider us no longer suitable for listing on the Stock Exchange and delist our Shares.

According to the State Council Legislative Work Plan for 2018 issued on March 2, 2018, the Draft Foreign Investment Law will be submitted to the National People’s Congress Standing Committee for deliberation. According to the National People’s Congress Standing Committee Legislative Work Plan for 2018 amended on April 17, 2018, the Draft Foreign Investment Law will be deliberated for the first time in December, 2018. The Draft Foreign Investment Law is currently in draft form only and does not have any binding force.

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For further details of the Draft Foreign Investment Law and the “Catalog of Special Administrative Measures” and its potential impact on us, see “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” in this [REDACTED].

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership, and the Contractual Arrangement Entities or their respective shareholders may fail to perform their obligations under our Contractual Arrangements.

Due to the PRC restrictions or prohibitions on foreign ownership of Internet and other related businesses in China, we operate a portion of our business in China through our Consolidated Affiliated Entities, and we rely on a series of Contractual Arrangements with the Contractual Arrangement Entities and their respective shareholders to control and operate their business. These Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See “Contractual Arrangements” in this [REDACTED] for more details.

Although we have been advised by Zhong Lun Law Firm, our PRC Legal Advisor, that our Contractual Arrangements with the Contractual Arrangement Entities constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these Contractual Arrangements may not be as effective in providing control over Contractual Arrangement Entities as direct ownership. If the Contractual Arrangement Entities or their shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in China. However, the legal system in China is not as developed as in other jurisdictions, such as the United States. There are very few precedents and little official guidance as to how Contractual Arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these Contractual Arrangements. In the event we are unable to enforce these Contractual Arrangements, or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements and our ability to conduct our business may be negatively affected.

We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if any of our Consolidated Affiliated Entities declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. If any of our Consolidated Affiliated Entities undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority over such third-party creditors on the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and claim any outstanding liabilities owed by Consolidated Affiliated Entities to the relevant WFOE under the applicable service agreement, along with other general creditors.

If the shareholders of our Consolidated Affiliated Entities were to attempt to voluntarily liquidate our Consolidated Affiliated Entities without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request the shareholders of our Contractual Arrangement Entities to transfer all of their respective equity ownership interests to a PRC entity or individual designated by us in accordance with the option agreement with the shareholders of our Contractual Arrangements Entities. In addition, under the Contractual Arrangements signed by, among others, E-dragon Beijing WFOE, Longyue Tiancheng

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WFOE, the Contractual Arrangement Entities and the Registered Shareholders, the Registered Shareholders do not have the right to receive dividends or retained earnings or other distributions from Contractual Arrangement Entities without our consent. In the event that the Registered Shareholders initiate a voluntary liquidation proceeding without our authorization or attempts to distribute the retained earnings or assets of our Contractual Arrangement Entities without our prior consent, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management’s time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

The Registered Shareholders may potentially have a conflict of interest with us, and they may breach their contractual arrangements with us or cause such arrangements to be amended in a manner contrary to our interests.

We conduct substantially all of our operations, and generate substantially all of our revenue, through the Consolidated Affiliated Entities. Our control over these entities is based upon the Contractual Arrangements with the Contractual Arrangement Entities and the Registered Shareholders that allow us to control the Consolidated Affiliated Entities. the Registered Shareholders may potentially have a conflict of interest with us, and they may breach their Contractual Arrangements with us, if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and the Contractual Arrangement Entities, the Registered Shareholders will act in our interests or that the conflicts of interest will be resolved in our favor.

In addition, the Registered Shareholders may breach or cause the Contractual Arrangement Entities to breach the Contractual Arrangements. If the Contractual Arrangement Entities or the Registered Shareholders breach their Contractual Arrangements with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control the Consolidated Affiliated Entities and otherwise result in negative publicity. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements signed by, among others, E-dragon Beijing WFOE, Longyue Tiancheng WFOE, our Contractual Arrangement Entities and the Registered Shareholders are not at arm’s-length and adjust our Contractual Arrangement Entities’ income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Contractual Arrangement Entities, which could in turn increase its tax liabilities without reducing our tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our Contractual Arrangement Entities for under-paid taxes. Our consolidated net loss may be increased if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

Risks Relating to Conducting Business in China

China’s political, economic and social conditions could affect our business, results of operations, financial condition and prospects, and adverse developments in China’s economy or an economic slowdown in China may reduce the demand for our products and services and have a material adverse effect on our business, results of operations, financial condition and prospects.

We conduct most of our business in China, and substantially all of our assets and operations are located, and substantially all of our revenue is derived from our operations, in China. Accordingly, our business, financial position, results of operations and prospects are subject to the political, economic

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and legal developments in China. China’s economy differs from the economies of most developed countries in many respects, including government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

Although China’s economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in China are still owned by the PRC government. The PRC government also has significant oversight over the economic growth of China by allocating resources, regulating payments of foreign currency-denominated obligations, setting monetary policies and granting preferential treatment to particular industries or companies. Although the PRC government has implemented economic reform measures with a view to introducing market forces and establishing sound corporate governance systems and modern management systems in business enterprises in recent years, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not necessarily benefit from such measures.

The PRC government has the power to implement macroeconomic control measures affecting its economy. Macroeconomic measures adopted by the PRC government to stimulate economic growth may not be effective in sustaining the current growth of China’s economy. In addition, if any macroeconomic measures reduce the disposable income of the overall population, such measures may have a material adverse effect on our business, results of operations, financial condition and prospects.

Although China has been one of the world’s fastest growing economies in recent years, as measured by GDP growth, China may not be able to sustain such a high growth rate. For example, the GDP growth rate of China decreased from 9.5% in 2011 to 6.9% in 2015, 6.7% in 2016 and 6.9% in 2017. China’s GDP growth rate may continue to decline. The global economy may continue to deteriorate in the future and continue to have an adverse impact on China’s economy. Any significant slowdown in China’s economy could have a material adverse effect on our business and operations.

In addition, China’s stock market has been volatile in the past few years. The significant government involvement in the stock market, including suspending the IPO process has brought further uncertainties to the market. This has had, and may continue to have, an adverse impact on investors’ confidence in the capital markets in China. Moreover, concerns over liquidity issues, geopolitical issues, the availability and cost of credit and the unemployment rate have resulted in adverse market conditions in China, which may materially and adversely affect our business, results of operations, financial condition and prospects.

Furthermore, factors such as consumer, corporate and government spending, business investment levels, capital market volatility and inflation all affect the business and economic environment, the growth of China’s online travel industry and ultimately, the profitability of our business. Our labor and other costs may also increase due to pressure from inflation.

The successful operation of our business depends upon the performance and reliability of the Internet infrastructure and telecommunications networks in China.

Our business depends on the performance and reliability of the Internet infrastructure and telecommunications networks in China. Almost all access to the Internet is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology of the PRC, or the MIIT. In addition, the national networks in China are connected to the Internet through international gateways controlled by the PRC government. These international gateways are the only channels through which a domestic user can connect to the Internet. We rely on a limited number of telecommunications service providers, primarily China Telecom and China Unicom, to provide us with data communications capacity. We, our users or TSPs, may not have access to alternative networks in the event of disruptions, failures or other problems with China’s Internet infrastructure. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our online platforms. However, we have no control over the costs of the services provided by

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telecommunications service providers. If the prices we pay for telecommunications and Internet services rise significantly, our results of operations may be materially and adversely affected. If Internet access fees or other charges to Internet users increase, the number of Internet users may decline and our business may be harmed.

Moreover, if we are not able to renew service agreements with the telecommunications carriers when they expire, and are not able to enter into agreements with alternative carriers on commercially reasonable terms or at all, the quality and stability of our online platforms may be adversely affected.

Government control of currency conversion and future fluctuations in Renminbi exchange rates could have a material adverse effect on our business, results of operations, financial condition and prospects, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms.

Our revenue and expenses are substantially denominated in Renminbi, which is currently not a freely convertible currency. A portion of the revenue must be converted into other currencies in order to meet our foreign currency obligations. For example, we will need to obtain foreign currency to make payments of declared dividends, if any, on our Shares.

Under China’s existing foreign exchange regulations, we are able to make payments of current account items, including paying dividends in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, in the future, China’s government may take measures, at its discretion, to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. If such measures are implemented, we may not be able to pay dividends in foreign currencies to holders of our Shares. Foreign exchange transactions under our capital account are subject to significant foreign exchange controls and require the SAFE’s approval. These limitations could affect our ability to obtain foreign exchange through offshore financing.

The value of the Renminbi against the Hong Kong dollar and the U.S. dollar and other currencies fluctuates, and is subject to changes resulting from government policies (including those of the PRC government) and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. From 1994 to July 2005, the official exchange rate for the conversion of Renminbi to the U.S. dollar was generally stable. In July 2005, the PRC government changed its policy of pegging the value of Renminbi to the U.S. dollar. Under the current policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall within stipulated ranges against different currencies each day. This change in policy has resulted in an appreciation of the value of the Renminbi against the U.S. dollar of approximately 24.6% from July 21, 2005 to June 30, 2015. From July 2008 to June 2010, the Renminbi traded within a narrow range against the U.S. dollar. In April 2012, the PBOC expanded the floating range of Renminbi against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1.0% and further expanded it to 2.0% in March 2014. In August 2015, the PBOC announced that the mid-point exchange rate for the floating range of the Renminbi against the U.S. dollar will be determined, based on market maker submissions that take into account the Renminbi-U.S. dollar exchange rate at the previous day’s closing of the inter-bank spot foreign exchange market, the supply and demand dynamics and the movements of other major currencies. The Renminbi depreciated against the U.S. dollar by 6.7% by June 2017 following this August 2015 announcement by the PBOC. With an increased floating range of the Renminbi’s value against foreign currencies and a more market-oriented mechanism for determining the mid-point exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the Hong Kong dollar and the U.S. dollar or other foreign currencies in the long-term, depending on the fluctuation of the basket of currencies against which it is currently valued; or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the U.S. dollar or other foreign currencies. We cannot assure you that the Renminbi will not experience significant appreciation or depreciation against the U.S. dollar or other foreign currencies in the future.

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Our [REDACTED] from the [REDACTED] will be denominated in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets and our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on our Shares in foreign currencies. There are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost in China, and we have not utilized, and may not in the future utilize, any such instrument. Furthermore, currently we are also required to obtain SAFE’s approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

Uncertainties with respect to China’s legal system could have a material adverse effect on our business and operations.

We conduct our businesses in China primarily through our PRC subsidiaries and Consolidated Affiliated Entities. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. The PRC legal system is evolving rapidly, and the interpretation of many laws, regulations and rules may contain inconsistencies, and the enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

PRC laws and regulations, such as the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”), Anti-Monopoly Law of the PRC and the Rules of MOFCOM on Implementation of the Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, promulgated by the MOFCOM in August 2011, or the MOFCOM Security Review Rules, which came into effect on September 1, 2011, and replaced the Interim Provisions of the MOFCOM on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM in March 2011, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review.

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The MOFCOM Security Review Rules are formulated to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on February 3, 2011, or Circular No. 6. According to these circulars and rules, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns, and for mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises that have “national security” concerns. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review, the MOFCOM will look into the substance and actual impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

You may experience difficulties in effecting service of legal process and enforcing judgments, or bringing original actions in China or Hong Kong based on foreign laws, against us and our Directors and management.

Substantially all of our assets and a substantial portion of the assets of our Directors are located in China. It may not be possible for investors to effect service of process upon us or those persons in China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “**Arrangement**”), pursuant to which a party with an enforceable final court judgment rendered by any designated people’s court of China or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant people’s court of China or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement, in which a Hong Kong court or a Chinese court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in China in order to seek recognition and enforcement of foreign judgments in China.

We may be required to obtain prior approval from the CSRC for the listing and trading of our Shares on the Hong Kong Stock Exchange.

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the SAIC, the CSRC, and the SAFE, jointly issued the M&A Rules, which became effective on September 8, 2006, and amended on June 22, 2009. The M&A Rules, among other things, purport to require an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. In September 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by a special purpose vehicle seeking CSRC approval of its overseas listing. The application of the M&A Rules remains unclear.

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Our PRC legal advisor, Zhong Lun Law Firm, is of the opinion that prior CSRC approval for this [REDACTED] is not required because (i) our PRC subsidiaries were incorporated as wholly foreign-owned enterprises by means of direct investment rather than by merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are our beneficial owners; and (ii) no provision in the M&A Rules clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules. As a result, we did not seek prior CSRC approval for this [REDACTED]. However, our PRC legal advisor has further advised us that there remains some uncertainty as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. We cannot assure you that the relevant PRC government authorities, including the CSRC, will reach the same conclusion as our PRC legal advisor. If the CSRC or other relevant PRC government authorities subsequently determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the [REDACTED] from this [REDACTED] into the PRC or take other actions that could have a material adverse effect on our business. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

We may be deemed to be a Chinese tax resident under the Enterprise Income Tax Law in which case our global income may be subject to Chinese corporate tax under the Enterprise Income Tax Law, dividends paid on our ordinary shares may be subject to PRC withholding tax and gains from disposition of our shares may be subject to PRC tax.

We are a holding company incorporated under the laws of the Cayman Islands and indirectly hold interests in our Chinese operating subsidiaries. Pursuant to the Enterprise Income Tax Law of China (中華人民共和國企業所得稅法) and the Regulation on the Implementation of the Enterprise Income Tax Law of China (中華人民共和國企業所得稅法實施條例), or collectively the EIT Law, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a Chinese resident enterprise are subject to a 10% withholding tax, unless such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding tax arrangement.

The EIT Law provides that if an enterprise incorporated outside China has its “de facto management bodies” within China, such enterprise would generally be deemed a “Chinese Resident Enterprise” for tax purposes and be subject to an EIT rate of 25% on its global income. “De facto Management Body” is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT, promulgated a circular to clarify the certain criteria for the determination of the “De facto Management Bodies” for foreign enterprises controlled by Chinese enterprises. These criteria include: (1) the enterprise’s senior management personnel and department, who are responsible for managing the day-to-day production and operation, will perform their obligations primarily in China; (2) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in China; (3) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in China; and (4) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. According to these regulations, we may be regarded as a Chinese resident enterprise by Chinese tax authorities and pay Chinese EIT at a rate of 25% on all of our global income. In addition, the “De facto Management Bodies” determination is based on the principle of substance over form. The SAT further issued administrative rules in July 2011 and January 2014 regarding administrative procedures for recognizing Chinese resident enterprise status of a Chinese-invested company registered abroad.

According to the foregoing SAT circulars, a Chinese-invested company registered abroad could either apply for China’s resident enterprise status with the competent Chinese tax authorities in the place where its major Chinese investors are located and the application will be subject to approval by

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competent Chinese tax authorities, or be recognized as a Chinese resident enterprise by competent Chinese tax authorities. In this regard, there are uncertainties regarding whether a Chinese-invested company registered abroad would be treated as a Chinese resident enterprise before receiving a confirmation to that effect from the competent Chinese tax authorities, and there have been no official implementation rules regarding the determination of the “De facto Management Bodies” for foreign enterprises which are not controlled by Chinese enterprises, including us.

Therefore, it remains unclear how China’s tax authorities will treat a case such as ours. We intend to take the position that we, as legal entities organized outside the PRC, are not deemed a Chinese resident enterprise. However, since China’s tax authorities may reach a different conclusion, we cannot assure you that we will not be considered a Chinese resident enterprise for Chinese EIT purposes and be subject to the uniform 25% EIT rate on our global income. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends paid on our ordinary shares may be subject to PRC withholding tax at a rate of 70% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders and gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders, if such dividends or gains are deemed to be from PRC sources. Any such PRC tax liability may be reduced under an applicable income tax treaty. In addition, although the EIT Law provides that dividend payments between qualified Chinese resident enterprises are exempt from enterprise income tax, due to the relatively short history of the EIT Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our China-incorporated subsidiaries to us will meet such qualification requirements if we are considered as a Chinese resident enterprise for tax purposes.

Failure to obtain any preferential tax treatments, or the discontinuation, reduction or delay of any of the preferential tax treatments that may be available to us in the future, could materially and adversely affect our business, financial condition and results of operations.

Under the PRC Enterprise Income Tax Law effective from January 1, 2008, foreign-invested companies such as E-dragon Beijing WFOE and Longyue Tiancheng WFOE, and domestic companies such as our Consolidated Affiliated Entities, are subject to a unified income tax rate of 25%. Various favorable income tax rates are, however, available to qualified enterprises in certain encouraged sectors of the economy. For the companies that qualified as “high and new technology enterprise”, such as Beijing E-dragon and Tongcheng Network, are eligible for such preferential tax treatment and are entitled to a preferential rate of 15%. However, if any of our PRC subsidiaries and Consolidated Affiliated Entities that qualifies for preferential tax treatment fails to continue to qualify in a subsequent year, our income tax expenses would increase, which may have a material adverse effect on our net income and results of operations.

Failure by the shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing profits and could expose us and our PRC resident shareholders to liability under the PRC laws.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“SAFE Circular 37”), which was promulgated by SAFE and became effective on July 14, 2014, requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” If the shareholders of an offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries of the offshore holding company may be prohibited from distributing their profits and proceeds from any reduction in capital, share

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transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. In addition, on February 13, 2015, SAFE issued SAFE Circular No. 13, which took effect on June 1, 2015, pursuant to which, the power to accept SAFE registration was delegated from local SAFE to local qualified banks where the assets or interest in the domestic entity was located.

We have requested PRC residents who we know hold direct or indirect interest in us to make the necessary applications, filings and amendments as required under SAFE Circular 37 and other related rules. As of the Latest Practicable Date, certain of the indirect individual shareholders of our Company was preparing for the registration as required under SAFE Circular 37, and we cannot assure you that such registration can be completed. We are committed to complying with, and to ensuring that our shareholders who are subject to the regulations will comply with, the relevant SAFE rules and regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available under all circumstances as prescribed in those regulations. In addition, we may not at all times be fully informed of the identities of all our shareholders who are PRC residents and we do not have control over our Shareholders. As such, we cannot assure you that all of our PRC resident beneficial owners will comply with SAFE’s regulations, including those requiring them to make necessary applications, filings and amendments. Any failure by our PRC residents shareholders to register with SAFE or update SAFE’s records, or the failure of future shareholders who are PRC residents to comply with the registration requirements may result in penalties and limit our PRC subsidiaries’ ability to make distributions, pay dividends or other payments to us or affect our ownership structure and restrict our cross-border investment activities, which could adversely affect our business.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (“SAFE Circular 7”), replacing the previous rules issued by SAFE in March 2007. Under the SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Also, SAFE Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local branches before they exercise the share options. We and our PRC employees who have been granted share options and restricted shares will be subject to these regulations upon the completion of this [REDACTED]. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary’s ability to distribute dividends to us, or otherwise materially and adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC

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individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise.

In October 2017, the State Administration of Taxation issued the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source (“**Bulletin 37**”), which replaced the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation, on December 10, 2009, and partially replaced and supplemented by rules under the State Administration of Taxation of China, issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”) issued by the State Administration of Taxation, on February 3, 2015. Pursuant to Circular 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in a non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax (the “**Chinese Taxable Assets**”).

For example, Circular 7 provides that where a non-resident enterprise transfers Chinese Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such Chinese Taxable Assets, Chinese tax authorities may disregard the existence of the overseas holding company and re-characterize the nature of the indirect transfer of Chinese Taxable Assets as a direct transfer of Chinese Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding Chinese EIT and without any other bona fide commercial purpose.

Except as provided in Circular No. 7, transfers of Chinese Taxable Assets under the following circumstances will be automatically deemed as having no bona fide commercial purpose, and are subject to Chinese enterprise income tax: (i) more than 75% of the value of the overseas enterprise is derived directly or indirectly from Chinese Taxable Assets; (ii) more than 90% of the total assets (cash excluded) of the overseas enterprise is directly or indirectly composed of investment in China at any time during the year prior to the indirect transfer of China’s Taxable Assets, or more than 90% of the income of the overseas enterprise is directly or indirectly from China during the year prior to the indirect transfer of China’s Taxable Assets; (iii) the overseas enterprise and its subsidiaries directly or indirectly hold China’s Taxable Assets and have registered with the relevant authorities in the host countries (regions) in order to meet the local legal requirements in relation to organization forms, yet prove to be inadequate in their ability to perform their intended functions and withstand risks as their alleged organization forms suggest; and (iv) the tax from the indirect transfer of Chinese Taxable Assets payable abroad is lower than the tax in China that may be imposed on the direct transfer of such Chinese Taxable Assets.

Pursuant to Bulletin 37, the withholding agent shall declare and pay the withheld tax to the competent tax authority, in the place where such withholding agent is located, within 7 days from the date of occurrence of the withholding obligation, while the transferor is required to declare and pay such tax to the competent tax authority within the statutory time limit according to Circular 7. Late payment of applicable tax will subject the transferor to default interest. Neither Bulletin 37 nor Circular 7 apply to transactions of sale of shares by investors on a public stock exchange where such shares were acquired in a transaction on a public stock exchange. Although Circular 7 contains certain additional exemptions, it is unclear whether any such additional exemptions under Circular 7 will be

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applicable to the transfer of our Shares or to any future acquisition by us outside of China involving Chinese Taxable Assets, or whether China’s tax authorities will reclassify such transactions by applying Circular 7. Therefore, China’s tax authorities may deem any transfer of our Shares (not acquired and sold on a public stock exchange) by our shareholders that are non-resident enterprises, or any future acquisition by us outside of China involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our shareholders or us to additional Chinese tax reporting obligations or tax liabilities.

During the Track Record Period, we have taken certain corporate restructuring steps, in preparation for [REDACTED]. See “History, Reorganization and Development” for details. These corporate restructuring steps taken by us may be subject to Circular 7. In particular, there is a risk that the relevant transfer of equity may be considered by the relevant Chinese tax authority as having no “reasonable commercial purpose” and thus subject to the EIT law. However, it is currently unclear how the relevant Chinese tax authorities will implement or enforce Circular 7.

PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of Shareholders’ loans or capital contributions after completion of the [REDACTED]. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, cannot exceed statutory limits based on the difference between the registered capital and the investment amount of such subsidiaries, and shall be registered with the SAFE or its local counterparts.

Furthermore, any capital contributions we make to our PRC subsidiaries shall be approved by the MOFCOM or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (“**Circular 19**”), which took effect and replaced certain previous SAFE regulations from June 1, 2015. SAFE further promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (Circular 16), effective on June 9, 2016, which, among other things, amend certain provisions of Circular 19. According to Circular 19 and Circular 16, the flow and use of the Renminbi capital converted from foreign currency denominated registered capital of a foreign-invested company is regulated such that Renminbi capital may not be used for business beyond its business scope, or to provide loans to persons other than affiliates, unless otherwise permitted under its business scope. Circular 19 and Circular 16 may limit our ability to transfer the [REDACTED] from the [REDACTED] to our PRC subsidiaries and convert the [REDACTED] into RMB.

We principally rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition.

We are a holding company, and we principally rely on dividends and other distributions on equity that may be paid by our PRC subsidiaries for our cash and financing requirements, including the funds

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necessary to pay dividends and other cash distributions to the holders of our ordinary shares and service any debt we may incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, wholly foreign-owned enterprises in the PRC may pay dividends only out of their retained earnings as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. Furthermore, under PRC law, our wholly-owned PRC subsidiary, which is a wholly foreign-owned enterprise under PRC law, cannot distribute any profits until all of its losses from prior fiscal years have been offset. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our wholly-owned PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases.

Our business could be adversely affected by natural disasters or outbreaks of epidemics. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in China or any other market in which we do business could severely disrupt our business operations by damaging our network infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations. We have not adopted any written contingency plans to combat any future natural disasters or outbreaks of avian flu, H1N1 flu, SARS or any other epidemic.

Our business and our profitability may be negatively affected by the rising labor costs and potential obligations to make additional contributions of social insurance premium and housing funds.

In recent years, labor costs in China has continued to increase, driven by increased inflation, as well as enactment of new labor laws. As a result, we expect our labor costs, including wages and employee benefits, to continue to increase in the foreseeable future. Unless we are able to pass on these increased labor costs to our users by increasing the prices of our products and services, our financial condition and results of operations may be adversely affected.

In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We have historically failed to promptly make social insurance and housing fund contributions in full with respect to a small portion of our employees. In addition, we engage third party human resources agencies to make social insurance and housing fund contributions for certain of our employees, and there is no assurance that such third-party agencies will make such contributions in full in a timely manner, or at all. If the relevant PRC authorities determine that we shall make supplemental social insurance and housing fund contributions, and that we are subject to fines and legal sanctions, our business, financial condition and results of operations may be adversely affected.

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Risks Relating to the [REDACTED] and Our Shares

There is no existing public market for our Shares, and their liquidity and market price may fluctuate.

Prior to the [REDACTED], there has been no public market for our Shares. We cannot assure you that an active trading market for our Shares will develop and be sustained following the [REDACTED]. In addition, the initial [REDACTED] for our Shares was the result of negotiations between our Company and the [REDACTED], and the [REDACTED] may differ significantly from the market price of our Shares following the completion of the [REDACTED]. We have applied for the [REDACTED] of and permission to deal in our Shares on the Stock Exchange. The [REDACTED] on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, that it will be sustainable following the [REDACTED] or that the market price of our Shares will not decline after the [REDACTED].

Furthermore, the price and trading volume of our Shares may be volatile. The following factors, among others, may cause the market price of our Shares after the [REDACTED] to vary significantly from the [REDACTED], some of which are beyond our control:

- variations in our revenue, earnings and cash flow;
- unexpected business interruptions resulting from natural disasters or power shortages;
- major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our operations;
- our inability to compete effectively in the market;
- political, economic, financial and social developments in China, Hong Kong and in the global economy;
- fluctuations in stock market prices and volume;
- changes in analysts' estimates of our financial performance; and
- involvement in material litigation.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the [REDACTED] of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the [REDACTED] may experience further dilution in their shareholding percentage.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and substantial shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and substantial shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by certain of our Shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

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The market price of our Shares when trading begins could be lower than the [REDACTED].

The initial price to the public of our Shares sold in the [REDACTED] is expected to be determined on or about [REDACTED], and in any event, not later than [REDACTED]. However, the Shares will not commence trading on the Stock Exchange until they are delivered. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, shareholders are subject to the risk that the price of the Shares when trading begins could be lower than the [REDACTED] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Future financing may cause a dilution in your shareholding or place restrictions on our operations.

We may raise additional funds in the future to finance the expansion of our capacity, the enhancement of our research and development capabilities, the development of our operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of our new equity or equity-linked securities other than on a pro rata basis to existing Shareholders, the percentage ownership of such shareholders in us may be reduced, and such new securities may confer rights and privileges that may take priority over those conferred by the Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- limit our ability to pay dividends or require us to seek consent for the payment of dividends;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to service our debt, thereby reducing the availability of our cash flow to fund capital expenditure, working capital requirements and other general corporate needs; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

We cannot assure you that we will declare and distribute any amount of dividends in the future and dividends distributed in the past may not be indicative of our dividend policy in the future.

During the Track Record Period, we did not declare or pay any dividends. We cannot assure you that dividends will be declared or paid in the future. A decision to declare or pay any dividends and the amount of dividends is subject to the discretion of our Directors, depending on, among other considerations, our operations, earnings, cash flows and financial position, operating and capital expenditure requirements, our strategic plans and prospects for business development, our constitutional documents and applicable law. For more details on our dividend policy, see “Financial Information — Dividends.” In addition, as a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries. The calculation of our operating subsidiaries’ profit under applicable accounting standards differs in certain aspects from the calculation under IFRS. Accordingly, we may not have sufficient or any profits to enable us to make dividend distributions to our Shareholder in the future, even if our IFRS financial statements indicate that our operations have been profitable.

We cannot guarantee the accuracy of facts, forecasts and other statistics obtained from official governmental sources or other sources contained in this [REDACTED].

Certain facts, statistics and data contained in this [REDACTED] relating to China, Hong Kong, the online travel market and industry have been derived from various official government publications or other third party reports we generally believe to be reliable. We have taken reasonable care in the reproduction or extraction of the official government publications or other third party reports for the purpose of disclosure in this [REDACTED] and have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any of their respective affiliates or advisors

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and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside China and Hong Kong. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this [REDACTED] may be inaccurate or may not be comparable to statistics produced with respect to other economies. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, you should give due consideration as to how much weight or importance they should attach to or place on such facts.

You should read the entire [REDACTED] carefully, and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industry or the [REDACTED].

There may have been, prior to the publication of this [REDACTED], and there may be subsequent to the date of this [REDACTED] but prior to the completion of the [REDACTED], press and/or media regarding us, our business, our industries and the [REDACTED]. None of us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any other person involved in the [REDACTED] has authorized the disclosure of information about the [REDACTED] in any press or media and none of these parties accepts any responsibility for the accuracy or completeness of any such information or the fairness or appropriateness of any forecasts, views or opinions expressed by the press and/or other media regarding our Shares, the [REDACTED], our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed in any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this [REDACTED], we disclaim them. Accordingly, you are cautioned to make your investment decisions on the basis of the information contained in this [REDACTED] only and should not rely on any other information.

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WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (i) length of employment with the issuer and other issuers and the roles he/she played;
- (ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and The Codes on Takeovers and Mergers and Share Buy-backs;
- (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (iv) professional qualifications in other jurisdictions.

Our Company has appointed Ms. Ma Li (“**Ms. Ma**”) as one of the joint company secretaries. She has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, we have appointed Ms. Leung Suet Wing (“**Ms. Leung**”), associate of The Hong Kong Institute of Chartered Secretaries and associate of The Institute of Chartered Secretaries and Administrators, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Ms. Ma for an initial period of three years from the [REDACTED] to enable Ms. Ma to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Ms. Leung will work closely with Ms. Ma to jointly discharge the duties and responsibilities as company secretaries and assist Ms. Ma in acquiring the relevant experience as required under Rule 3.28 and 8.17 of the Listing Rules. Ms. Ma will also be assisted by (a) the compliance advisor of our Company for the first full financial year from the [REDACTED], particularly in relation to Hong Kong corporate governance practices and compliance issues; and (b) the Hong Kong legal advisor of our Company, on matters concerning our Company’s ongoing compliance with the Listing Rules and the applicable laws and regulations. In addition, Ms. Ma will endeavor to attend relevant trainings and familiarize herself with the Listing Rules and duties required for a company secretary of an issuer listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the [REDACTED], and is granted on the condition that we engage Ms. Leung, who possesses all the requisite qualifications under Rule 3.28 of the Listing Rules, to assist Ms. Ma in discharging her duties as a joint company secretary and in gaining the “relevant experience” as required under Note 2 to Rule 3.28 of the Listing Rules.

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Before the expiration of the initial three-year period, the qualifications of Ms. Ma will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for on-going assistance will continue. In the event Ms. Ma fulfills all the requirements stipulated at the end of the initial three-year period, the above joint company secretaries would no longer be necessary for our Company.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and, under normal circumstances, at least two of the new applicant’s executive directors must be ordinarily resident in Hong Kong.

Since most of the business operations of our Group are managed and conducted outside of Hong Kong, and all of the executive Directors of our Company ordinarily reside outside Hong Kong, our Company considers that it would be practically difficult and commercially unreasonable and undesirable for our Company to arrange for two executive Directors to be ordinarily resident in Hong Kong, either by means of relocation of existing executive Directors or appointment of additional executive Directors. Our Company does not have and does not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed Ms. Leung Suet Wing, one of our joint company secretaries, and Mr. Ma Heping, our executive Director and Chief Executive Officer, as authorized representatives of our Company, to be the principal channel of communication with the Stock Exchange. Each of them has confirmed that he/she can be readily contactable by phone, facsimile and email to deal promptly with enquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matters on short notice. As and when the Stock Exchange wishes to contact the Directors on any matters, each of the authorized representatives will have means to contact all of the Directors promptly at all times. Our Company will also inform the Stock Exchange promptly in respect of any change in the authorized representatives;
- (b) in addition to the appointment of the authorized representatives, to facilitate communication with the Stock Exchange, the contact details of each Director, including his/her mobile phone number, office phone number, facsimile number and e-mail address have been provided to each of the authorized representatives, our company secretary and the Compliance Advisor (as defined below) who have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period as and when required;
- (c) pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Guotai Junan Capital Limited as our compliance advisor (the “**Compliance Advisor**”) for the period commencing from the date of our [REDACTED] until the date on which our Company announces our financial results and distributes our annual report for the first full financial year after the date of our [REDACTED]. The Compliance Advisor will act as our Company’s additional and alternative channel of communication with the Stock Exchange, and its representatives will be readily available to answer enquiries from the Stock Exchange. Our Company will ensure that there are adequate and efficient means of communication between us, our authorized representatives, Directors and other officers and the Compliance Advisor, and will keep the Compliance Advisor fully informed of all communications and dealings between us and the Stock Exchange. Our Company will also inform the Stock Exchange promptly in respect of any change in the Compliance Advisor.

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Meetings with the Stock Exchange and the Directors can be arranged through our Company’s authorized representatives or the Compliance Advisor, or directly with the Directors with reasonable notice; and

- (d) in addition to the Compliance Advisor’s role and responsibilities after the [REDACTED] to provide advice to our Company on the continuing requirements under the Listing Rules and applicable laws and regulations, our Company will retain a Hong Kong legal advisor to advise us on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the [REDACTED].

CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions that will constitute non-exempt and partially-exempt continuing connected transactions of our Company under the Listing Rules upon [REDACTED] as described in the section headed “Connected Transactions” of this [REDACTED]. We expect such non-exempt and partially exempt continuing connected transactions will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance with the applicable requirement under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company.

Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Hong Kong Stock Exchange [has] granted to us, a waiver from strict compliance with the applicable requirements under Chapter 14A of the Listing Rules once the Shares are [REDACTED] on the Hong Kong Stock Exchange in respect of such non-exempt and partially exempt continuing connected transactions.

For further details, see “Connected Transactions” in this Prospectus.

WAIVER AND EXEMPTION IN RELATION TO SHARE INCENTIVE PLANS

Rule 17.02(1)(b) of the Listing Rules requires a listing applicant to, inter alia, disclose in the prospectus full details of all outstanding options and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding options.

Paragraph 27 of Appendix 1A to the Listing Rules requires a listing applicant to disclose, inter alia, particulars of any capital of any member of the group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, or an appropriate negative statement, provided that where options have been granted or agreed to be granted to all the members or debenture holders or to any class thereof, or to employees under a share option scheme, it shall be sufficient, so far as the names and addresses are concerned, to record that fact without giving the names and addresses of the grantees.

Under Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the prospectus must state the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the number, description and amount of any shares in or debentures of the company which any person has, or is entitled to be given, an option to subscribe for, together with the particulars of the option, that is to say, (a) the period during which it is exercisable; (b) the price to be paid for shares or debentures subscribed for under it; (c) the consideration (if any) given or to be given for it or for the right to it; and (d) the names and addresses of the persons to whom it or the right to it was given or, if given to existing shareholders or debenture holders as such, the relevant shares or debentures, must be specified in the prospectus.

As of the Latest Practicable Date, our Company had granted options under the 2018 Share Incentive Plan to [515] grantees, including Directors and senior management of our Company and other employees of our Group to subscribe for an aggregate of [102,052,960] Shares (assuming the

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WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Capitalization Issue had been completed), representing approximately [REDACTED]% of our Company’s issued share capital immediately after completion of the Capitalization Issue and the [REDACTED] (assuming (i) the [REDACTED] is not exercised and (ii) the options granted under the Share Incentive Plans are not exercised).

Our Company has applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules; and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, on the grounds that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) since the options granted under the 2018 Share Incentive Plan were granted to a total of [515] grantees involved, strict compliance with the relevant disclosure requirements to disclose names, addresses, and entitlements on an individual basis in the [REDACTED] will require substantial number of pages of additional disclosure that does not provide any material information to the investing public and would significantly increase the cost and timing for information compilation, [REDACTED] preparation and printing;
- (b) key information of the options granted under the 2018 Share Incentive Plan to the Directors, members of the senior management and connected persons (if any) has already been disclosed in the [REDACTED] under the section headed “Appendix V — Statutory General Information — Share Incentive Plans”;
- (c) the key information of the Share Incentive Plans as disclosed in this [REDACTED] under the section headed “Appendix V — Statutory General Information — Share Incentive Plans” is sufficient to provide potential investors with information to make an informed assessment of the potential dilution effect and impact on earnings per share of the options granted under the 2018 Share Incentive Plan in their investment decision making process; and
- (d) the lack of full compliance with such disclosure requirements will not prevent potential investors from making an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group and will not prejudice the interest of the investing public.

The Stock Exchange [has granted] us a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Part A of Appendix 1 to the Listing Rules on the conditions that:

- (a) the following information will be clearly disclosed in this [REDACTED]:
 - (i) on individual basis, full details of all the options granted by our Company under the 2018 Share Incentive Plan to each of the Directors, members of the senior management or connected persons (if any) of our Company, including all the particulars required under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules;
 - (ii) in respect of the options granted by our Company to the grantees other than those referred to in sub-paragraph (i) above:
 - (1) the aggregate number of the grantees;
 - (2) the number of Shares subject to such options;
 - (3) the consideration paid for the grant of such options;
 - (4) the exercise period of each option; and
 - (5) the exercise price for the options;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (b) the dilution effect and impact on earnings per Share upon full exercise of the options granted under the 2018 Share Incentive Plan;
- (c) the aggregate number of Shares subject to the outstanding options granted by our Company under the 2018 Share Incentive Plan and the percentage of our Company’s issued share capital of which such number represents;
- (d) a summary of the Share Incentive Plans; and
- (e) the list of all the grantees (including the persons referred to in paragraph (b) above) who have been granted options to subscribe for Shares under the 2018 Share Incentive Plan, containing all details as required under Rule 17.02(1)(b), paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with the section headed “Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection” of this [REDACTED].

The SFC [has granted] to our Company the certificate of exemption under Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance on condition that:

- (a) on an individual basis, full details of all the options granted under the 2018 Share Incentive Plan to each of the Directors, senior management and connected persons (if any) of our Company be disclosed in this [REDACTED], such details include all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted by our Company to the grantees other than those referred to in paragraph (a) above, the following details be disclosed in this [REDACTED]:
 - (i) the aggregate number of the grantees;
 - (ii) the number of Shares subject to such options;
 - (iii) the consideration paid for the grant of such options;
 - (iv) the exercise period of each option; and
 - (v) the exercise price for the options;
- (c) the list of all the grantees (including the persons referred to in sub-paragraph (b) above) who have been granted options to subscribe for Shares under the 2018 Share Incentive Plan, containing all details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be made available for public inspection in accordance with the section headed “Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection” of this [REDACTED]; and
- (d) the particulars of the exemption are disclosed in this [REDACTED].

Further details of the Share Incentive Plans are set forth in the section headed “Appendix V — Statutory and General Information — D — Share Incentive Plans.”

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WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

WAIVER IN RELATION TO PRO-FORMA FINANCIAL INFORMATION

Rule 4.05A of the Listing Rules states that if an applicant acquires any material subsidiary or business during the trading record period and such an acquisition if made by a listed issuer would have been classified at the date of application as a major transaction or a very substantial acquisition under the Listing Rules, it must disclose pre-acquisition financial information from the commencement of the trading record period to the date of acquisition. Rule 4.29 of the Listing Rules provides that where an issuer includes pro forma financial information in any document (whether or not such disclosure of pro forma financial information is required under the Listing Rules), that information must comply with Rules 4.29(1) to (6) of the Listing Rules and a report in the terms of Rule 4.29(7) of the Listing Rules must be included in the relevant document. In particular, Rule 4.29(6) requires an issuer to include in its pro forma financial information any adjustments made, which must be (a) clearly shown and explained; (b) directly attributable to the [REDACTED] and not relating to future events or decisions; (c) factually supportable; and (d) in respect of a pro forma profit or cash flow statement, clearly identified as to those adjustments which are expected to have a continuing effect on the issuer and those which are not.

On December 28, 2017, our Company, Tongcheng Network, shareholders of our Company, shareholders of Tongcheng Network and Image Frame, among others, entered into a restructuring agreement (the “**Restructuring Agreement**”) whereby our Company agreed to issue to (i) the shareholders of Tongcheng Network a certain number of ordinary shares of our Company in return for the signing of a series of contractual arrangements with Longyue Tiancheng WFOE; and (ii) Image Frame a certain number of ordinary shares of our Company in return for a cash consideration (the “**Acquisition Share Issuance**”).

Our Company completed the Acquisition Share Issuance on March 9, 2018, which is expected to be covered in the track record period of the final [REDACTED]. Based on the historical financial information of Tongcheng Online Business, such acquisition is expected to trigger the disclosure thresholds pursuant to Rule 4.05A, and our Company will be required to disclose the pre-acquisition financial information of Tongcheng Online Business from January 1, 2015 up to March 9, 2018 which set forth in Appendix II — Accountants’ Report — Tongcheng Online Business of this [REDACTED].

As part of the [REDACTED], our Company intends to [REDACTED] its shares in an [REDACTED], including [REDACTED] to qualified institutional buyers in the United States in reliance on Rule 144A or other exemptions under the Securities Act of 1933. Although the financial disclosure standards of the U.S. Securities and Exchange Commission (the “**SEC**”) are not strictly applicable to [REDACTED] under Rule 144A, consistent with disclosure practices and investor expectations for a Rule 144A [REDACTED], the disclosure of our Company in this [REDACTED] is expected to be generally consistent with such disclosure standards. In particular, Rule 11-01(a)(2) of Article 11 of Regulation S-X (“**Rule 11-01(a)(2)**”) requires a company [REDACTED] securities to include in its [REDACTED] document pro forma financial statements if a “significant business combination has occurred” after the date of the most recent balance sheet. The Acquisition Share Issuance would be considered as a “significant business combination” after the date of the balance sheet as of December 31, 2017 under Rule 11-01(a)(2) and disclosure pursuant to the requirements set out in Rule 11-01(a)(2) in a Rule 144A [REDACTED] (as is in our Company’s case) would be consistent with investor expectations.

To comply with the requirements of Rule 4.05A of the Listing Rules and to be consistent with the disclosure standards of the SEC, as well as to give investors a more comprehensive picture of the impact of the Acquisition Share Issuance on the financial information of our Group, our Company will present the following financial information of our Group in our application proof [REDACTED] and final [REDACTED] respectively:

- (a) in the application proof [REDACTED]: (i) an accountant’s report on the historical financial information of our Group for the three years ended December 31, 2015, 2016 and 2017; (ii) an accountant’s report on the historical financial information of Tongcheng Online Business

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

for the three years ended December 31, 2015, 2016 and 2017; and (iii) unaudited pro forma combined statements of comprehensive income of our Group for the year ended December 31, 2017, assuming the Acquisition Share Issuance was completed on January 1, 2017, prepared in accordance with the Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (the “AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”); and

- (b) in the final [REDACTED]: (i) an accountant’s report on the historical financial information of our Group for the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 (reflecting financial information of our Company after the completion of the Acquisition Share Issuance on March 9, 2018); (ii) an accountant’s report on the historical financial information of Tongcheng Online Business for the three years ended December 31, 2015, 2016 and 2017 and the period from January 1, 2018 up to the March 9, 2018 (being the date of completion of the Acquisition Share Issuance) as the pre-acquisition financial information; and (iii) unaudited pro forma combined statements of comprehensive income of our Group for the year ended December 31, 2017 and the six months ended June 30, 2018, assuming the Acquisition Share Issuance was completed on January 1, 2017, prepared in accordance with the AG 7 issued by the HKICPA.

The unaudited pro forma consolidated statements of comprehensive income for the year ended December 31, 2017 contained in this application proof [REDACTED] was prepared based on (i) the audited financial information of our Group for the year ended December 31, 2017 as set out in Appendix I to the application proof [REDACTED], and (ii) the audited financial information of Tongcheng Online Business for the year ended December 31, 2017 as set out in Appendix II to this application proof [REDACTED], which were prepared in accordance with the accounting policies conforming with IFRS and after having incorporated the unaudited pro forma adjustments described in the accompanying notes to section (B) of Appendix III to this application proof [REDACTED]. PricewaterhouseCoopers has performed procedures in relation to the unaudited pro forma financial information as set forth in this application proof [REDACTED] in accordance with Hong Kong Standard on Assurance Engagement 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in the Prospectus” issued by the HKICPA and their report is set forth in Section (C) of Appendix III to this application proof [REDACTED]. The Joint Sponsors, having considered Rule 4.29 of the Listing Rules and after (i) reviewing the procedures performed by PricewaterhouseCoopers, and (ii) participating in discussions with PricewaterhouseCoopers and our Company, are of the view that the presentation of the above unaudited pro forma financial information which including the unaudited pro forma consolidated statements of comprehensive income for the year ended December 31, 2017 is fair and reasonable.

Our Company believes that the abovementioned unaudited pro forma combined statements of comprehensive income of our Group for the year ended December 31, 2017 is material information for investors. Such pro forma financial information, together with the historical financial statements of our Group and the Tongcheng Online Business, provides investors with information relevant to the continuing impact of the Acquisition Share Issuance by showing how the transaction might have affected our Company’s historical financial statements for the most recent financial year up until the completion of the Acquisition Share Issuance. In addition, our Company is of the view that such pro forma information is not misleading as it is intended only to illustrate the isolated and objectively measurable effects of the Acquisition Share Issuance and will be prepared in accordance with the AG 7 issued by the HKICPA.

Accordingly we have applied for, and the Stock Exchange [has granted] us, a waiver from strict compliance with Rule 4.29 of the Listing Rules.

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INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]

[REDACTED]

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Wu Zhixiang (吳志祥).....	Room 504, Building 51 Shuanghuwan Garden, Suzhou, Jiangsu Province, China	Chinese
Ma Heping (馬和平)	Room 504, Building 3, Time Garden, Huqiu District, Suzhou, Jiangsu Province, China	Chinese
Jiang Hao (江浩).....	17B, No. 6, Lane 123 Yanping Road, Jing'an District Shanghai, China	Chinese
Non-Executive Directors		
Liang Jianzhang (梁建章).....	Flat A, 49/F, South Tower 5, 38 Bel-Air Ave, Residence Bel-Air Island South, Hong Kong	Chinese (Hong Kong)
Lin Haifeng (林海峰).....	No. 25, Gaoan Road, Xuhui District, Shanghai, China	Chinese
Brent Richard Irvin.....	Unit 18A, Building 1, Block A, Fairview Park Siqi, Kaiping Street, Nanshan District, Shenzhen, China	American
Independent Non-Executive Directors		
Wu Haibing (吳海兵)	Unit 602, No. 14 386 Nong, Shuidian Road Hong Kou District, Shanghai China	Chinese
Dai Xiaojing (戴小京).....	Flat 207, Door 2, Xinta No. 2, Shatan North Street Yi Dongcheng District, Beijing, China	Chinese
Han Yuling (韓玉靈)	Room 1702, Building 48 Tianshuiyuan Dongli Chaoyang District, Beijing China	Chinese

Further information is disclosed in the section headed “Directors and Senior Management” in this [REDACTED].

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

J.P. Morgan Securities (Far East) Limited
28/F, Chater House
8 Connaught Road
Central
Hong Kong

CMB International Capital Limited
45/F, Champion Tower
3 Garden Road
Central
Hong Kong

[REDACTED]

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal Advisers to the Company

As to Hong Kong and U.S. laws

Davis Polk & Wardwell

18th Floor, The Hong Kong Club Building
3A Chater Road, Central, Hong Kong

As to PRC law

Zhong Lun Law Firm

Level 10 & 11, Two IFC
No. 8 Century Avenue
Pudong New Area
Shanghai, China

As to Cayman Islands law

Conyers Dill & Pearman

Cricket Square, Hutchins Drive
PD Box 2681
Grand Cayman KY1-1111
Cayman Islands

**Legal Advisers to the Joint Sponsors
and the [REDACTED]**

As to Hong Kong and U.S. laws

Kirkland & Ellis

26th Floor, Gloucester Tower
The Landmark
15 Queen’s Road Central
Hong Kong

As to PRC law

Grandall Law Firm (Shanghai)

23-25/F, Garden Square
968 West Beijing Road
Shanghai, China

**Reporting Accountant and
Independent Auditor**

PricewaterhouseCoopers

22/F Prince’s Building
Central
Hong Kong

[REDACTED]

Compliance Advisor

Guotai Junan Capital Limited

28/F, Low Block, Grand Millennium Plaza
181 Queen’s Road Central
Hong Kong

Industry Consultant

Shanghai iResearch Co., Ltd.

Room 701, Block B
CCIG International Plaza
No. 333, Caoxi North Road
Xuhui District, Shanghai
China

CORPORATE INFORMATION

Headquarters	Tongcheng Mansion No.188 Yuxin Road Suzhou Industrial Park Jiangsu, China
Principal Place of Business in Hong Kong	31/F., Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong
Registered Office in the Cayman Islands	Cayman Corporate Centre 27 Hospital Road George Town Grand Cayman KY1-9008 Cayman Islands
Company Websites	www.tcelir.com <i>(the information contained on these websites does not form part of this [REDACTED])</i>
Joint Company Secretaries	Ma Li (馬莉) Tongcheng Mansion No.188 Yuxin Road Suzhou Industrial Park Jiangsu, China Leung Suet Wing (梁雪穎) (ACIS, ACS) 31/F., Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong
Authorized Representatives	Ma Heping (馬和平) Room 504, Building 3 Time Garden Huqiu District, Suzhou Jiangsu Province, China Leung Suet Wing (梁雪穎) (ACIS, ACS) 31/F., Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong
Audit Committee	Wu Haibing (吳海兵) (Chairman) Lin Haifeng (林海峰) Han Yuling (韓玉靈)

CORPORATE INFORMATION

Remuneration Committee

Han Yuling (韓玉靈) (*Chairman*)
Brent Richard Irvin
Dai Xiaojing (戴小京)

Nomination Committee

Wu Zhixiang (吳志祥) (*Chairman*)
Dai Xiaojing (戴小京)
Han Yuling (韓玉靈)

[REDACTED]

Principal Banks

China Construction Bank Suzhou Industrial Park Branch

8/F, CSSD Building
No. 158, Wangdun Road
Suzhou Industrial Park
Suzhou, Jiangsu Province
China

Industrial and Commercial Bank of China Beijing Lumicang Branch

Room 11, 1/F,
No. 12 Chaonei South Street
Dongcheng District, Beijing
China

INDUSTRY OVERVIEW

Investors should note that this industry overview section contains information and statistics that are from iResearch Consulting Group and publicly available data.

We believe that the official government publications and the sources of information used by iResearch Consulting Group is appropriate, and that it has taken reasonable care in extracting and reproducing such information. The information and data derived from iResearch Consulting Group is not commissioned by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], and/or the [REDACTED], and iResearch Consulting Group’s information and data can be accessed by all its subscribers. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information extracted from official government publications and provided by iResearch Consulting Group and data extracted from publicly available sources have not been independently verified by us or any of our affiliates and advisers, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED] or their respective directors and advisers or any other persons or parties involved in the [REDACTED]. The information may not be consistent with other information available from other sources within or outside the PRC. We, our affiliates or advisers, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or their respective directors, affiliates, or advisers, or any party involved in the [REDACTED] do not make any representation as to the accuracy, completeness or fairness of such information and, accordingly, you should not unduly rely on such information.

IRESEARCH CONSULTING GROUP AND ITS METHODOLOGY

Founded in 2002, iResearch is an independent provider of online user data and consumer insights in China. Headquartered in Beijing and Shanghai, iResearch has a stable and seasoned management team with over 400 employees worldwide. Other offices are located in Guangzhou, Shenzhen, Chengdu, Hangzhou, Silicon Valley, New York and Hong Kong. iResearch has accumulated extensive experience in researching and monitoring the development of the Internet industry in the PRC. Based on this experience, iResearch provides industry reports in online marketing, online travel, e-commerce, mobile Internet, big data and Internet finance sectors to more than 1,000 clients in these sectors and others in advertising, public relations, retail, telecommunication, investment, consumer goods, government and public service sectors.

We have agreed to pay a commission fee of approximately RMB600,000 for the Industry Report. Data for the Industry Report on market size and online users is mainly obtained through interviews with industry participants, marketing surveys, secondary sources and other research methods, some of which have not been directly verified by the related operators. Some of the data published in the Industry Report is based on sampling conducted through iClick, the online survey platform of iResearch, and is therefore influenced by its sample structure. Due to limited research method, sample size and scope of data collection, part of the data may not precisely reflect actual market conditions.

iResearch has prepared the Industry Report on the assumptions that (i) the social, economic and political environments of China will remain stable during the forecast period, which will ensure a sustainable and steady development of China’s online travel industry; (ii) the data quoted from authoritative agencies remain unchanged; and (iii) the revenue-sharing arrangements among the market participants follow market standards. iResearch believes that the assumptions used in preparing the Industry Report, including those used to make future projections are correct and not misleading. iResearch has independently analyzed the information, but findings in the Industry Report largely rely on the accuracy of the information collected.

OVERVIEW OF CHINA’S TRAVEL MARKET

China has a massive travel market in terms of both volume and travel spending. In 2017, China’s domestic travel volume reached 5.0 billion trips, and it is expected to reach 7.5 billion by 2022, representing a CAGR of 8.3%. China’s overseas travel volume reached 142.7 million trips in 2017 and is expected to reach 182.3 million by 2022, representing a CAGR of 5.0%. In terms of travel spending, total domestic travel spending was RMB4.6 trillion in 2017 and is expected to reach RMB8.0 trillion by 2022, representing a CAGR of 11.6%. China’s overseas travel spending was RMB0.7 trillion in 2017 and is expected to reach RMB1.1 trillion in 2022, representing a CAGR of 7.3%.

INDUSTRY OVERVIEW

The demand for China’s travel industry is primarily driven by rise in disposable income and consumption power. From 2013 to 2017, annual disposable income per capita rose from RMB27,000 to RMB36,300 in urban areas, and from RMB9,000 to RMB13,400 in rural areas of China. This growth is further fueled by a rising urbanization rate, which grew steadily from 53.2% to 57.9% between 2013 and 2017. There is also great potential for travel products and services to grow in non-first-tier cities across China. In 2017, the total travel spending of residents in non-first-tier cities accounted for 89.7% of total travel spending in China and is expected to grow at a CAGR of 11.7%, outpacing that of 6.3% for first-tier cities, from 2017 to 2022. The continued growth of disposable income and urbanization rate help nurture an expanding middle class with greater consumption power. From an individual consumer perspective, travel is increasingly becoming an integral part of everyday life and consumers are willing to undertake higher level of spending in return for quality travel experiences. As a result, Chinese consumers are spending more on travel both for business and leisure, with long distance and overseas travel further driving the growth of the total travel demand.

On the supply side, China’s travel industry is primarily driven by expanding transportation infrastructure, increased accommodation suppliers and improved quality of products and services. China’s railroads as well as domestic and international flight routes continue to expand. For instance, China’s high-speed railway network has become the world’s largest and continues to expand rapidly. Domestic flight routes in China increased from 2,876 in 2013 to 4,147 in 2017, representing a CAGR of 9.6%. Besides increased transportation options, there is a rising number of quality travel service providers across China with innovative products and services. Moreover, accommodation service quality continues to improve and alternatives such as short-term rentals provide more options. These factors have made traveling more convenient and efficient for travelers.

LARGE AND EVOLVING ONLINE TRAVEL MARKET IN CHINA

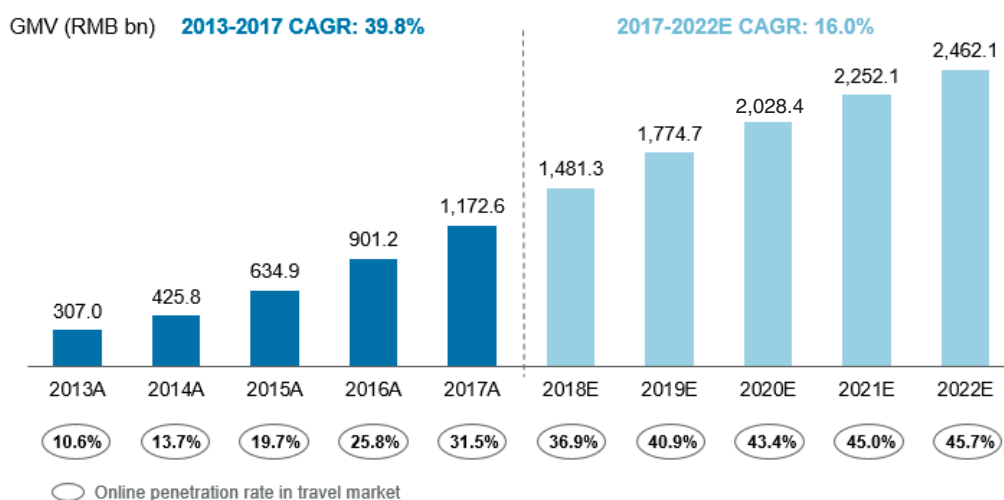
China has the world’s largest number of Internet users. Internet users in China have grown from 591.0 million in 2013 to 772.0 million in 2017, and is further expected to reach 1,031.1 million by 2022, according to the Industry Report. The Internet, coupled with the proliferation of smartphones, has emerged as an efficient medium that facilitates travel booking anytime, anywhere.

China has a large online travel market with a rapid growth rate. In terms of total GMV, China’s online travel market size has increased from RMB307.0 billion in 2013 to RMB1,172.6 billion in 2017, representing a CAGR of 39.8%, and is expected to further increase to RMB2,462.1 billion by 2022, representing a CAGR of 16.0%. The online penetration of China’s travel market has increased from 10.6% in 2013 to 31.5% in 2017 and is expected to further increase to 45.7% by 2022. However, China’s online travel market size as a percentage of total travel market is still relatively low compared to developed countries such as the United States, which was 45.0% in 2017.

INDUSTRY OVERVIEW

The following table illustrates China’s online travel market size by GMV from 2013 to 2022:

China’s online travel market size by GMV, 2013-2022E



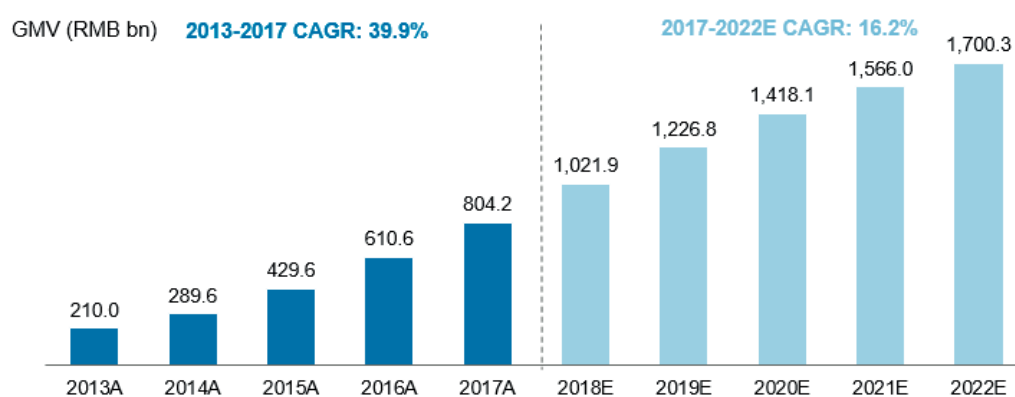
Source: iResearch

Note: Online travel market consists of online transportation ticketing (air, train, bus and voyage), accommodation reservation market, packaged tours, attraction tickets, destination services, and other travel related products booked online.

The majority of online travel bookings in China are made through OTAs. OTAs provide unique value proposition to both users and TSPs. Users can enjoy efficient and comprehensive booking services while TSPs benefit from technology and data driven solutions provided by OTAs. China’s OTA market reached RMB804.2 billion in 2017 and is expected to grow to RMB1,700.3 billion by 2022, representing a CAGR of 16.2%. According to iResearch, China’s OTA market accounted for 68.6% of the total online travel market in 2017, and will remain as the leading channel for China’s online travel industry in the coming years.

The following table illustrates China’s OTA travel market size by GMV from 2013 to 2022:

China’s OTA travel market size by GMV, 2013-2022E



Source: iResearch

Note: OTA travel market consists of online transportation ticketing (air, train, bus and voyage), accommodation reservation, packaged tours, attraction tickets, destination services, and other travel related products booked via OTAs.

Key development trends

Customers are increasingly demanding quality service and user experience. Chinese customers are increasingly focusing on product authenticity, online booking experience, speed and accuracy as well as quality customer service. Besides basic transportation and accommodation reservation

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services, users are also looking for ancillary value-added services, such as travel reviews, online to offline services, sightseeing recommendations and travel guides without switching from one platform to another. Furthermore, online travel platforms enhance price transparency and enable easy comparison across products.

OTAs are becoming a one-stop shop for travelers’ entire travel experience. OTAs are expanding their products and services to better serve travelers before, during and after their trips. Users can purchase transportation tickets, accommodation and all other travel related products and services such as tours, event tickets, insurance, restaurant coupons and shuttle services either in stand-alone options or through a bundled package. OTAs also offer a rich platform of travel reviews where users can obtain information with respect to all aspects of their trips before the journey.

Technology plays an increasingly important role in China’s online travel industry. Online travel companies have made online travel booking services more convenient and intelligent by leveraging advanced technologies such as big data and AI. These tools help create innovative solutions and new opportunities for online travel companies. For instance, by utilizing these technologies, OTAs are able to build more comprehensive user profiles and provide a wide array of personalized travel products and services to their customers. Moreover, from an operational perspective, such tools help improve online booking efficiency, automation of transactions and intelligent customer services. Finally, by analyzing user behavior, OTAs can also enhance TSPs’ sourcing, distribution and inventory management capabilities. Such technological advancement will continue to play an important role in the development of China’s online travel industry.

Market evolution

The evolution of China’s online travel has three stages: the PC era, the mobile era and the super app era.

In the PC era, with the development of Internet search engines, customers accessed travel service websites to make their travel arrangements. During this period, search engine operators and web portals were the key gateways for customer traffic.

In the mobile era, with the increasing popularity of smart phones and rapid growth of mobile applications, customers shifted their interest from PC to mobile devices. As a result of convenient payment methods and information availability, OTAs’ self-operated mobile applications became main channels for customers to purchase travel tickets, book accommodations or search for other travel products and services. Mobile applications provide a travel friendly, interactive platform which enables OTAs to communicate with customers throughout their entire travel process using their smartphones. Customers can also receive notifications for discounts, flight delays or boarding gate changes with ease.

In the super app era, OTAs started partnerships with super apps to gain a competitive advantage. As users begin to concentrate on fewer mobile applications, super apps are emerging as a key platform for consolidating user traffic and user time spent on mobile devices in China. As a result, OTAs are partnering with super apps to compete and gain market share by offering their products and services within such super apps. Users can conveniently use OTAs’ services such as transportation and accommodation bookings, and other products and services, which are built within the super apps without downloading new mobile applications or going through the set up process. Super apps also strengthen OTA’s customer reach, especially for the less frequent and emerging users in non-first-tier cities, which is a key user segment currently underserved by OTAs.

Competitive landscape and industry ranking

The online travel market in China is highly competitive and a growing number of online travel companies have emerged to capitalize on new market opportunities. According to iResearch, key areas of competition in China’s online travel market include:

- ***User experience.*** Online travel service users increasingly value user experience over other factors. In particular, users aged between 19 and 35 are highly receptive to improved user experience. These users are attracted to thoughtful and aesthetic interfaces that enable convenient and smooth experiences. In addition, among a number of factors, OTA users value payment security, product authenticity, and after-sales services as the most important features, according to a survey by iResearch.
- ***Comprehensive products and services.*** Instead of merely looking for accommodation and transportation tickets, users look to receive a full travel package that also covers other

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ancillary value-added products and services such as travel related insurance products, airport/train station pick-up service, and VIP lounge. OTAs that are able to offer such one-stop service are better positioned to attract and maintain users more effectively.

- **User acquisition channels.** Maintaining and growing user traffic is key for any online travel companies to grow. Particularly when users have various access to the travel market, being able to attract users in steady stream and high volume would be a clear advantage. Hence, online travel companies must develop innovative and effective means of attracting users.
- **Size and engagement level of user base.** The size of user base and the level of user engagement are important for online travel companies growth potential. As new products, features and services are introduced, online travel companies should be able to deliver those to a large and active audience to test their viability. Based on the users’ level of receptiveness, the service providers can then further determine the mix of products and services that can be successful in the wider market.

The top four OTAs in China, respectively, represented a market share of 35.6%, 14.2%, 9.8% and 4.4% of China’s online travel market in terms of GMV in 2017, with Tongcheng-Elong ranking third with a 9.8% market share.

KEY SEGMENTS OF CHINA’S ONLINE TRAVEL MARKET

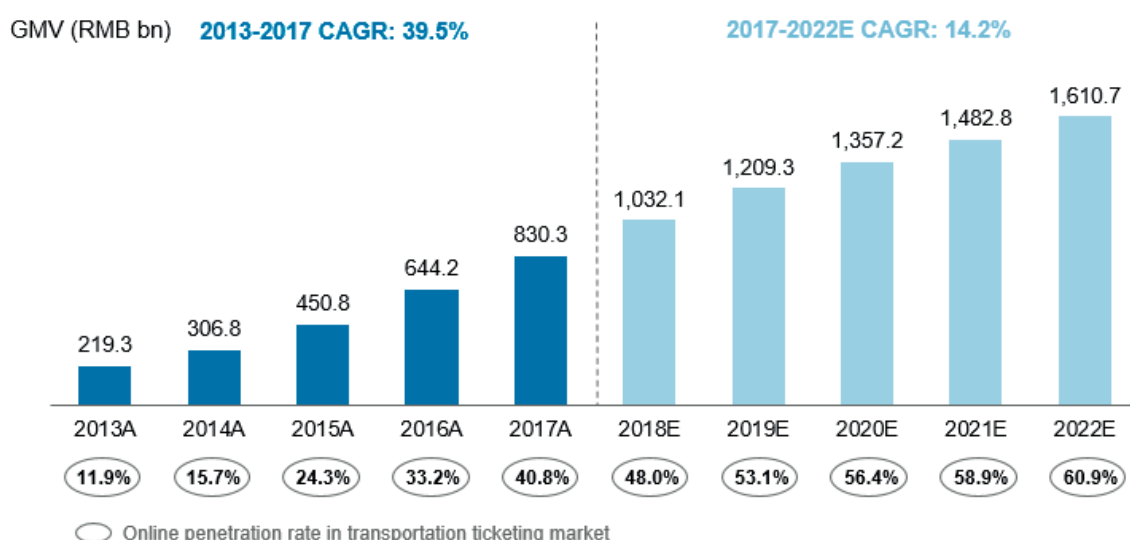
Online transportation ticketing

China’s online transportation ticketing segment, which mainly consists of air ticketing, train ticketing, bus ticketing and voyage ticketing, has shown rapid growth in recent years.

In terms of total GMV, online transportation ticketing has increased from RMB219.3 billion in 2013 to RMB830.3 billion in 2017, representing a CAGR of 39.5%. The total GMV is expected to further increase to RMB1610.7 billion by 2022, representing a CAGR of 14.2%. Compared to PC platforms, mobile platforms play a significantly larger role in this growth, which accounted for 86.6% of the total GMV in 2017 and is expected to reach 92.3% by 2022.

The following table illustrates China’s online transportation ticketing market size by GMV from 2013 to 2022:

China’s online transportation ticketing market size by GMV, 2013-2022E



Source: iResearch

Note: Online transportation ticketing consists of air, train, bus and voyage ticketing.

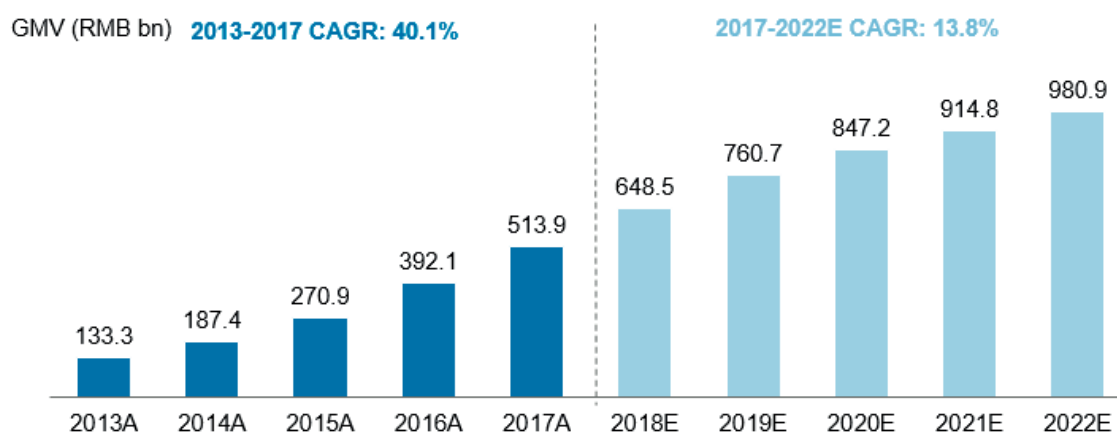
INDUSTRY OVERVIEW

The top four OTAs in China, respectively, represented a market share of 36.9%, 11.2%, 9.6% and 1.3% of China’s online transportation ticketing market in terms of GMV in 2017, with Tongcheng-Elong ranking third with a 9.6% market share.

OTAs play an important role in China’s online transportation ticketing segment. Their contribution in terms of GMV increased from RMB133.3 billion in 2013, accounting for 60.8% of the online transportation ticketing segment to RMB513.9 billion in 2017, accounting for 61.9% of the online transportation ticketing segment.

The following table illustrates China’s OTA transportation ticketing market size by GMV from 2013 to 2022:

China’s OTA transportation ticketing market size by GMV, 2013-2022E



Source: iResearch

Note: OTA transportation ticketing consists of air, train, bus and voyage ticketing.

The top four OTAs in China, respectively, represented a market share of 59.6%, 18.2%, 15.6% and 2.1% of China’s OTA transportation ticketing market in terms of GMV in 2017, with Tongcheng-Elong ranking third with a 15.6% market share.

Online air ticketing

Online air ticketing is the largest sub-segment in China’s online transportation ticketing segment. Online air ticketing accounted for 60.5%, 58.7% and 57.9% of the online transportation ticketing segment in terms of GMV in 2015, 2016 and 2017, respectively. Furthermore, online air ticketing GMV has increased from RMB144.7 billion in 2013 to RMB480.9 billion in 2017, representing a CAGR of 35.0%, and the GMV is expected to further increase to RMB863.0 billion by 2022, representing a CAGR of 12.4%. Online flight segment reached 266.2 million, 389.0 million and 493.0 million in 2015, 2016 and 2017, respectively.

OTAs distribute tickets supplied by airlines or other wholesalers directly to end users and monetize through commissions generated from ticket sale as well as the fees and commissions generated from the sale of ancillary value-added products and services such as insurance. OTAs’ online air ticketing GMV reached RMB224.9 billion, RMB305.5 billion and RMB384.0 billion in 2015, 2016 and 2017, respectively, and is expected to reach RMB660.9 billion by 2022.

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As opposed to airline official channels, OTAs offer users more comprehensive flight options and smarter ticket booking experience. Recognizing this value proposition, Chinese airlines are enhancing their partnership with OTAs and are establishing online stores within the OTA platforms so as to boost their direct sales.

Online train ticketing

China has a fast growing online train ticketing segment. Online train ticketing accounted for 37.8%, 39.4% and 39.7% of the online transportation ticketing segment in terms of GMV in 2015, 2016 and 2017, respectively. The GMV of online train ticketing has increased from RMB72.6 billion in 2013 to RMB329.9 billion in 2017, representing a CAGR of 46.0%, and is expected to further increase to RMB714.0 billion in 2022, representing a CAGR of 16.7%, outpacing the growth of online air ticketing and online bus ticketing. The number of online train ticketing transactions reached 1.7 billion, 2.0 billion and 2.3 billion in 2015, 2016 and 2017, respectively.

Traditionally, China’s train ticketing segment remained mainly offline until the launch of 12306.com, the official online booking platform of China Railway Corporation, in 2011. Following this development, major OTAs have also started to offer online train ticket booking services. OTAs generate revenue primarily from the sale of ancillary value-added products and services such as insurance and ticket delivery. OTAs’ online train ticketing GMV reached RMB44.3 billion, RMB83.0 billion and RMB123.2 billion in 2015, 2016 and 2017, respectively, and is expected to reach RMB303.6 billion by 2022.

The demand for train tickets is highly concentrated during holiday seasons, especially Chinese New Year and Chinese National Day when people have high demand for train tickets. This creates an imbalance of train ticket supply and demand during such peak seasons, where train ticket sales during peak season (approximately 60 days out of one year) account for 41% of total sales while the remaining 59% of sales occur during regular seasons (approximately 300 days out of one year). As a result, competition in purchasing train tickets is intensified during peak season. OTAs are increasingly becoming a reliable channel to purchase train tickets during these periods.

Online bus ticketing

China’s online bus ticketing sub-segment has strong growth potential. Online bus ticketing accounted for 1.5%, 1.8% and 2.1% of the online transportation ticketing segment in terms of GMV for the years ended 2015, 2016 and 2017, respectively. Online bus ticketing GMV has increased from RMB2.0 billion in 2013 to RMB17.8 billion in 2017, representing a CAGR of 73.2%, and the GMV is expected to further increase to RMB29.9 billion by 2022, representing a CAGR of 10.9%. Online bus ticketing volume reached 104.1 million, 166.8 million and 257.7 million in 2015, 2016 and 2017, respectively.

The online bus ticketing sub-segment in China is highly fragmented and the main distribution channels are OTAs, other official channels including bus companies’ self-operated online channels and electronic ticket machines at bus stations. In general, intercity bus ticketing segment is serviced mainly through offline channels. OTAs’ online bus ticketing GMV reached RMB1.4 billion, RMB2.7 billion and RMB5.1 billion in 2015, 2016 and 2017, respectively, and is expected to reach RMB12.6 billion by 2022.

OTAs have been instrumental in bringing bus ticket sales online. By working with bus operators at local and regional levels, OTAs have strengthened the online sale of bus tickets throughout China. There is a significant growth opportunity for OTAs in online bus ticketing as they continue to establish partnership with bus service providers to bring their services online.

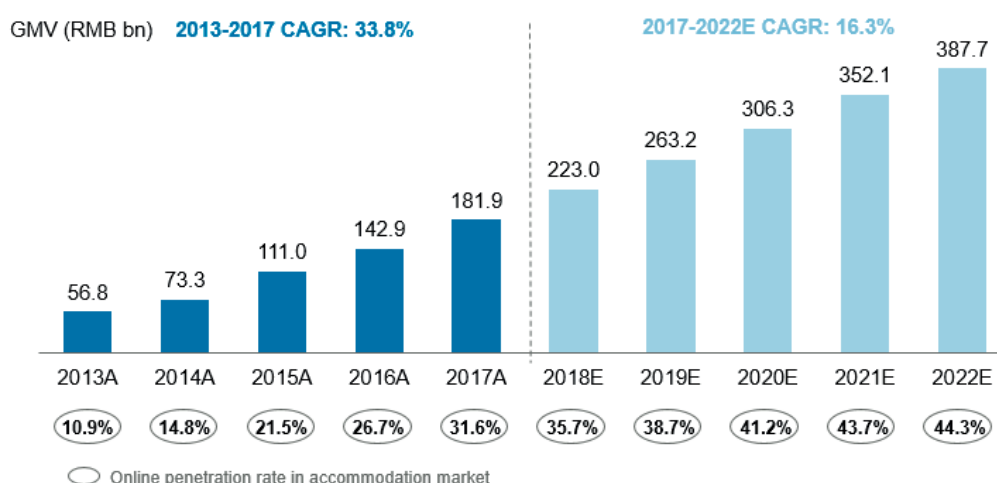
INDUSTRY OVERVIEW

Online accommodation reservation

China’s online accommodation reservation segment GMV increased from RMB56.8 billion in 2013 to RMB181.9 billion in 2017, representing a CAGR of 33.8%, and the GMV is expected to further increase to RMB387.7 billion by 2022, representing a CAGR of 16.3%. In terms of room nights, online accommodation reservation room nights reached 407.4 million, 532.4 million and 658.0 million in 2015, 2016 and 2017, respectively.

The following table illustrates China’s online accommodation reservation market size by GMV from 2013 to 2022:

China’s online accommodation market size by GMV, 2013-2022E



Source: iResearch

Note: Online accommodation refers to hotels, guest houses and other lodging services booked online.

The top four OTAs in China, respectively, represented a market share of 47.6%, 18.1%, 12.3% and 6.1% of China’s online accommodation reservation market in terms of GMV in 2017, with Tongcheng-Elong ranking third with a 12.3% market share.

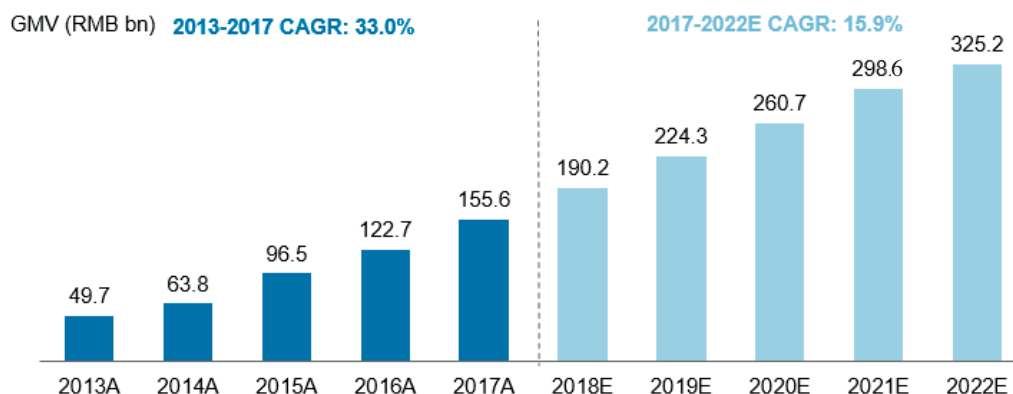
Although the Chinese online accommodation reservation segment is highly fragmented, OTAs have established a stable supply relationship directly with the accommodation service suppliers and have streamlined the online booking process. Under this arrangement, OTAs monetize primarily through commissions charged for accommodation reservations. Moreover, OTAs may also prepurchase certain accommodation inventory to ensure high quality room supply for customers on their own platform and earn the difference between their purchase price and the sale price to the end users.

The GMV of OTAs’ accommodation reservation increased from RMB49.7 billion in 2013 to RMB155.6 billion in 2017, representing a CAGR of 33.0%, and the GMV is expected to further increase to RMB325.2 billion by 2022, representing a CAGR of 15.9%. Similar to online ticketing, online accommodation reservation is largely driven by mobile platforms, which accounted for 85.0% of China’s online accommodation reservation in terms of GMV in 2017.

INDUSTRY OVERVIEW

The following table illustrates China’s OTA accommodation market size by GMV from 2013 to 2022:

China’s OTA accommodation market size by GMV, 2013-2022E



Source: iResearch

Note: OTA accommodation refers to housing, hotels and other lodging services booked via OTAs.

There is substantial growth potential for China’s online accommodation reservation segment. Firstly, China’s online penetration rate of accommodation reservation market is considered to be at the relatively low at 31.6% in 2017, as compared to 37.4% in the United States. Secondly, expansion into alternative and independent accommodations, such as long-term rentals and bed-and-breakfast properties, has been one of the key focuses for OTAs. Independent alternative accommodations are typically not well-equipped with adequate inventory management technology or marketing channels, creating significant opportunities for OTAs to bring their services online. This will help increase supply for the online accommodation reservation segment. Finally, following the overarching trend of the increased use of Internet and smartphones, the growth in the number of online users as well as their engagement level is expected to further propel OTAs’ position in the online accommodation reservation segment.

The top four OTAs in China, respectively, represented a market share of 55.6%, 21.2%, 14.3% and 7.1% of China’s OTA accommodation reservation market in terms of GMV in 2017, with Tongcheng-Elong ranking third with a 14.3% market share.

DIRECTORS’ CONFIRMATION

As of the Latest Practicable Date, after taking reasonable care, our Directors confirm that there was no adverse change in the market information since the respective dates of the various data contained herein, which may qualify, contradict or have an impact on the information in this section.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

INTRODUCTION

Our Company was incorporated as an exempted limited liability company in the Cayman Islands on January 14, 2016 under the name of China E-dragon Holdings Limited. Our Company was renamed Tongcheng-Elong Holdings Limited on March 27, 2018, following the Tongcheng-eLong Merger, which was completed in March 2018.

HISTORY OF OUR BUSINESS

eLong

The history of eLong’s business can be traced back to May 1999 when eLong.com was founded by Mr. Justin Tang and Mr. Richard Chen in order to provide online travel services including the provision of travel information, accommodation reservation services, transportation ticketing and internet-related advertising services in the PRC. In May 2004, eLong Cayman was incorporated in the Cayman Islands as the holding company of eLong’s business.

eLong Cayman’s American Depositary Shares were listed on NASDAQ in October 2004, and it became one of China’s earliest online travel companies that went public. In December 2007, eLong re-positioned itself to strategically focus on the provision of accommodation reservation services.

On May 22, 2015, Expedia, Inc. and its affiliates sold all of their shareholding in eLong Cayman, including 17,290,943 ordinary shares and 28,550,704 high-vote ordinary shares, to Ctrip (through C-Travel), Luxuriant Holdings Limited, Keystone Lodging Holdings Limited and Plateno Group Limited at an aggregate consideration of approximately US\$670.9 million. On August 17, 2015, Keystone Lodging Holdings Limited and Plateno Group Limited transferred their respective shareholding in eLong Cayman, namely 6,185,649 ordinary shares and 10,213,708 high-vote ordinary shares, to Ocean Imagination L.P. in exchange for limited partnership interests in Ocean Imagination L.P..

Before the delisting of eLong Cayman as described below, as of March 31, 2016, eLong Cayman had two categories of shares, being (i) 41,666,043 ordinary shares, each of which is entitled to one vote; and (ii) 33,589,204 high-vote ordinary shares, each of which is entitled to fifteen votes. Prior to delisting, the following shareholders held 5% or more of the voting power of all outstanding shares in eLong Cayman:

Name of shareholder	Number of ordinary shares issued	Number of high-vote ordinary shares issued	Percentage ownership	Percentage voting power⁽¹⁾
Ctrip ⁽²⁾	12,192,608	16,634,711	38.3%	48.0%
Ocean Imagination L.P. ⁽³⁾	6,185,649	10,213,708	21.8%	29.2%
Tencent ⁽⁴⁾	6,031,500	5,038,500	14.7%	15.0%

Notes:

- (1) The voting rights of each high-vote ordinary share *vis-a-vis* each ordinary share are calculated with reference to the conversion ratio of one high-vote ordinary share to fifteen ordinary shares.
- (2) Ctrip held 12,192,608 ordinary shares and 16,634,711 high-vote ordinary shares in eLong Cayman through C-Travel, its wholly-owned subsidiary. Ctrip was also a shareholder in Tongcheng Network prior to the merger of Tongcheng Network into our Group, and is a substantial Shareholder of our Company.
- (3) Ocean Imagination L.P. is an exempted limited liability partnership formed and registered under the laws of the Cayman Islands, and is controlled by Ocean General Partners Limited.
- (4) Tencent held 6,031,500 ordinary shares and 5,038,500 high-vote ordinary shares in eLong Cayman through TCH Sapphire, its wholly-owned subsidiary. Tencent was also a shareholder in Tongcheng Network prior to the merger of Tongcheng Network with our Group, and is a substantial Shareholder of our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Delisting of eLong Cayman

Our Company was incorporated as a limited liability company under the laws of the Cayman Islands in January 2016. On February 4, 2016, eLong Cayman entered into a merger agreement (the “**eLong Cayman Merger Agreement**”) and a plan of merger with our Company, pursuant to which eLong Cayman agreed to (1) merge with China E-dragon Mergersub Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands (the “**eLong Cayman Merger**”); (2) become a wholly-owned subsidiary of our Company as the surviving company of the eLong Cayman Merger, and (3) delist its American Depositary Shares from NASDAQ (together, the “**eLong Cayman Privatization**”). Pursuant to the terms of the eLong Cayman Merger Agreement, the outstanding shares in eLong Cayman excluding, among others, the ordinary shares held by TCH Sapphire, C-Travel, Ocean Imagination L.P. and Luxuriant Holdings Limited (the “**Rollover Shareholders**”), were cancelled in exchange for the right to receive US\$9.00 per share, and the American Depositary Shares in eLong Cayman were cancelled in exchange for the right to receive US\$18.00 per American Depositary Share. The ordinary shares held by the Rollover Shareholders were cancelled for no consideration. The eLong Cayman Merger became effective on May 31, 2016, and as a result, eLong Cayman ceased to be a publicly traded company and became a wholly-owned subsidiary of our Company.

For details on the shareholding changes of our Company following the eLong Cayman Privatization, see “Major Shareholding Changes of Our Company” in this section.

It was considered that the eLong Cayman Privatization would enable eLong Cayman to effectively implement business strategies in response to uncertainties in the operating environment due to adverse effect from economic factors in the PRC including reduced liquidity, greater volatility and widening of credit spreads.

The eLong Cayman Privatization was financed by equity contribution from Tencent Asset Management Limited, Ocean Imagination L.P., Seagull Limited, Jiang Hao and Zhou Rong (together, the “**eLong Privatization Sponsors**”), in exchange for proportionate issuance of shares by our Company, and had been fully satisfied in June 2016. The total consideration for the eLong Cayman Privatization was approximately US\$159 million.

Our Directors confirm that, to the best of their knowledge and belief and in respect of our Group’s business, (a) during the period it was listed on NASDAQ, eLong Cayman had been in compliance in all material respects with all applicable U.S. securities laws and regulations and NASDAQ rules and regulations and had not been subject to any disciplinary action by the relevant regulators; and (b) there are no matters in relation to the prior listing of eLong Cayman that need to be brought to the attention of the Stock Exchange or the Shareholders.

Tongcheng Network

Mr. Wu Zhixiang, among others, established Tongcheng Network in the Jiangsu Province in the PRC in March 2004. At the time of its establishment, Tongcheng Network, operating under the brand name Tongcheng Travel (同程旅遊), was a B2B service provider focused on the travel industry. From 2006 to 2008, Tongcheng Network shifted its focus to the provision of online travel services, including air ticketing and accommodation reservation services. In 2014, Tongcheng Network began offering its travel services through its website “ly.com”.

For details of Mr. Wu’s biography, please refer to the section headed “Directors and Senior Management — Executive Directors” in this [REDACTED].

Tongcheng Spin-off

History and Business of Tongcheng Holdings

Prior to March 2017, the principal businesses of Tongcheng Network (the “**Old Tongcheng Network**”) primarily consisted of two business units, (i) Tongcheng Online Business, namely the business unit that primarily comprised transportation ticketing, accommodation reservation and

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

certain other travel-related online services offered through its online platforms; and (ii) the Tongcheng Offline Business, namely the business unit that primarily comprised sales of travel packages and attraction tickets and provision of financial services. Due to the difference in nature of the two business units, the Tongcheng Online Business and Tongcheng Offline Business of the Old Tongcheng Network were developed separately under different management, sales and business strategies.

On March 17, 2017, Tongcheng Holdings was incorporated and organized under the laws of the PRC as a joint stock company. On March 20, 2017, in order to promote further growth and development of the online travel business of Tongcheng Network, Tongcheng Network and Tongcheng Holdings entered into a spin-off agreement (the “**Tongcheng Spin-off Agreement**”), pursuant to which (i) the capitalization of the Old Tongcheng Network was split between Tongcheng Network and Tongcheng Holdings, while the shareholding structure of both Tongcheng Network and Tongcheng Holdings remained the same; (ii) the assets, liabilities and interests in relation to the Tongcheng Online Business were retained within Tongcheng Network, and the other assets, liabilities and interests of the Old Tongcheng Network were allocated to Tongcheng Holdings (the “**Tongcheng Spin-off**”); and (iii) the employees of the Old Tongcheng Network were allocated based on their respective businesses. The Tongcheng Spin-off was substantially completed in 2017.

After completion of the Tongcheng Spin-off, the principal business of Tongcheng Holdings includes the operation of offline travel agency in relation to travel and tourism related products. Tongcheng Holdings also operates, to a lesser extent, financial services. As our Group does not offer offline travel agency services and financial services, we are of the view that the businesses of Tongcheng Holdings and that of our Group are clearly segregated, and there are no competition or potential competition.

Following the Tongcheng Spin-off, Tongcheng Network and Tongcheng Holdings entered into a framework agreement on regular related party transactions, which include:

- Advertisement display services provided by Tongcheng Network to Tongcheng Holdings regarding display of advertisements prepared by Tongcheng Holdings for display on the website of Tongcheng Network;
- Online platform services between Tongcheng Network and Tongcheng Holdings, pursuant to which Tongcheng Holdings pays Tongcheng Network commission fees to offer its products and services on the online platforms operated by Tongcheng Network;
- Server rental arrangement between Tongcheng Network and Tongcheng Holdings, pursuant to which Tongcheng Network provides Tongcheng Holdings access to servers owned and operated by Tongcheng Network and ancillary technical services;
- Tongcheng Network and Tongcheng Holdings granted to each other a royalty-free license to use the registered and unregistered trademarks in the sales, marketing and promotion activities and materials prepared in the ordinary course of business; and
- Tongcheng Holdings leased to Tongcheng Network a property with floor area of 22,045 square meters for use as the office of Tongcheng Network.

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HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shareholding in Tongcheng Holdings

Tencent and Ctrip are both substantial shareholders in Tongcheng Holdings. To our Company’s knowledge, the following table sets out the shareholders of Tongcheng Holdings holding 5% or more of equity interest in Tongcheng Holdings immediately before the [REDACTED].

Shareholder	% shareholding in Tongcheng Holdings
Suzhou Huafan Runhe Venture Capital Partnership (Limited Partnership) (“ Huafan Runhe ”) (蘇州華帆潤禾創業投資合夥企業(有限合夥))	18.0%
Ctrip ⁽¹⁾	15.1%
Shenzhen Overseas Chinese Town Capital Investment Management Co., Ltd. (深圳華僑城資本投資管理有限公司)	11.5%
Shenzhen Litong Industry Investment Fund Co., Ltd. (深圳市利通產業投資基金有限公司)	11.4%
Suzhou Industrial Park Tiancheng Zhiyuan Chuangye Investment L.P. (Limited Partnership) (蘇州工業園區天程致遠創業投資合夥企業(有限合夥))	5.4%
Mr. Wu Zhixiang	5.0%

Notes:

- (1) Ctrip holds 15.1% equity interest in Tongcheng Holdings through Shanghai Ctrip International Travel Agency Co., Ltd. (上海攜程國際旅行社有限公司), its wholly-owned subsidiary.

Directors of Tongcheng Holdings

The board of Tongcheng Holdings consists of 15 directors, of which four directors, namely Mr. Wu Zhixiang, Mr. Ma Heping, Mr. Lin Haifeng and Mr. Liang Jianzhang, are serving as our Directors upon [REDACTED]. However, they do not participate in the day-to-day management of the business operations of Tongcheng Holdings, and there is no overlap between the senior management of our Group and of Tongcheng Holdings.

Merger with Tongcheng Network

In March 2018, our Company merged with Tongcheng Network. For details, see “— Major Shareholding Changes of our Company — Tongcheng-eLong Merger” of this section.

OUR MILESTONES

The following are the significant milestones in the development of our Group’s business:

Date	Event
1999	eLong was founded
2004	eLong Cayman’s American Depositary Shares were listed on NASDAQ
	Tongcheng Network was founded
2008	eLong launched 24/7 user services, and became the first OTA in the PRC to offer services around the clock

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HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Date	Event
2010	eLong launched the eLong travel, a mobile app for accommodation reservation across the world
2014	Tongcheng Network launched its website “ly.com”
2015	The mobile app of Tongcheng Network was chosen at the Tencent Global Partner Conference as the Fastest Growing Travel Service Application
2016	eLong Cayman was privatized and delisted from NASDAQ
	Tongcheng Network was chosen by the Chinese Consumer Network (中國消費網) as one of the Top 10 Examples of Innovative Services for year 2016 (2016年度服務創新十大經典案例)
	Tongcheng Network was chosen by the China Tourism Association and China Tourism Academy as a Top Five China Travel Group
2017	Tongcheng Network was chosen as the China Travel Brand with Greatest Growth Potential (最具成長力中國旅遊品牌) by the Hurun Research Institute
	Tongcheng Network spun off its offline travel business and transferred these business to Tongcheng Holdings
2018	The merger between eLong and Tongcheng Network was completed

OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities, date of incorporation and date of commencement of business of each member of our Group that made a material contribution to our results of operations during the Track Record Period are set out below.

Name of subsidiary	Principal business activities	Date of incorporation
E-dragon Beijing WFOE	Provision of technology consulting and services	August 17, 1999
Beijing E-dragon.....	Provision of online accommodation reservation services	November 28, 2000
Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司)	Provision of air ticketing agency services	October 23, 2002
Tongcheng Network	Provision of online accommodation, transportation ticketing and ancillary value-added travel-related products and services	March 10, 2004

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HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of subsidiary	Principal business activities	Date of incorporation
Beijing eLong International Travel Company Limited (北京藝龍國際旅行社有限公司)	Provision of accommodation reservation services	July 29, 2004
Tianyuan Difang	Provision of insurance agency services	May 28, 2010
Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司)	Provision of online accommodation services and air ticketing agency services	January 12, 2011
Suzhou Chuanglv Tianxia Information Technology Co., Ltd. (蘇州創旅天下信息技術有限公司).	Provision of transportation ticketing services	December 23, 2015

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

The major shareholding changes of our Company are set out below. For a detailed discussion of the shareholding changes of our Company, see “— [REDACTED] Investments” in this section, and the section headed “Appendix V — Statutory and General Information — A. Further Information about our Group”.

Incorporation of our Company

Our Company was incorporated in the Cayman Islands on January 14, 2016 as an exempted company with limited liability and the ultimate holding company of our Group as part of the reorganization and privatization of eLong Cayman. Upon incorporation, the authorized share capital of our Company was US\$50,000 divided into 5,000,000 shares with a par value of US\$0.01 each.

On May 31, 2016, upon the effective date of the eLong Cayman Merger, the authorized share capital of our Company was changed to US\$50,000 divided into (i) 50,000,000 ordinary shares with a par value of US\$0.0005 each; and (ii) 50,000,000 preferred shares with a par value of US\$0.0005 each. On the same date, our Company issued a total of 26,051,810 ordinary shares, and a total of 49,422,897 preferred shares to the eLong Privatization Sponsors and the Rollover Shareholders. The equity contribution and cash subscription of the Rollover Shareholders and the eLong Privatization Sponsors are set out below:

Name of shareholder	Contribution by shares in eLong Cayman or cash subscription	Number of ordinary shares issued	Number of preferred shares issued
Tencent ⁽¹⁾	6,031,500 ordinary shares	6,031,500	—
	5,038,500 high-vote ordinary shares	—	5,038,500
	US\$80,000,000	—	8,908,791
Ctrip ⁽²⁾	12,192,608 ordinary shares	12,192,608	—
	16,634,711 high-vote ordinary shares	—	16,634,711

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HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of shareholder	Contribution by shares in eLong Cayman or cash subscription	Number of ordinary shares issued	Number of preferred shares issued
Ocean Imagination L.P.	6,185,649 ordinary shares	6,185,649	—
	10,213,708 high-vote ordinary shares	—	10,213,708
	US\$27,184,889	—	3,027,306
Seagull Limited.....	US\$35,000,000	—	3,897,596
Luxuriant Holdings Limited.....	1,030,942 ordinary shares	1,030,942	—
	1,702,285 high-vote ordinary shares	—	1,702,285
Oasis Limited ⁽³⁾	US\$5,000,000	555,556	—
Mr. Zhou Rong	US\$500,000	55,555	—

Notes:

- (1) As at May 31, 2016, Tencent held 6,031,500 ordinary shares and 13,947,291 preferred shares in our Company through TCH Sapphire, its wholly-owned subsidiary.
- (2) As at May 31, 2016, Ctrip held 12,192,608 ordinary shares and 16,634,711 preferred shares in our Company through C-Travel, its wholly-owned subsidiary.
- (3) Oasis Limited is wholly owned by Mr. Jiang Hao, our executive Director.

For details of the [REDACTED] Investments by the Rollover Shareholders and eLong Privatization Sponsors, see “— [REDACTED] Investments — Overview” in this section.

On July 21, 2016, the authorized share capital of our Company was changed to US\$80,000 consisting of (i) 90,000,000 ordinary shares with a par value of US\$0.0005; and (ii) 70,000,000 preferred shares with a par value of US\$0.0005 each.

Issue of shares under 2016 Share Incentive Plan

On October 23, 2017, our Company issued 4,418,671 ordinary shares to eLong Overseas Investment Co., Ltd. at their par value of US\$0.0005 each to be held on behalf of certain employees of our Group as share compensation pursuant to the 2016 Share Incentive Plan.

Tongcheng-eLong Merger

On December 28, 2017, our Company entered into a restructuring agreement (the “**Restructuring Agreement**”) with, among others, Tongcheng Network, the shareholders of our Company, the then shareholders of Tongcheng Network and Image Frame, whereby our Company agreed to issue to (i) the designated entities of the shareholders of Tongcheng Network (together, the “**Tongcheng Investors**”), alongside Wonderful Holidays Limited, Wonderful Land Limited, Cheerful Fishes Limited, and Great Long Tour Limited, which were employee shareholding platforms on behalf of the employees of Tongcheng Network (together, the “**Tongcheng Employee Vehicles**”) 96,721,818 ordinary shares of our Company in return for the signing of a series of contractual arrangements with Longyue Tiancheng WFOE; and (ii) Image Frame 3,374,369 ordinary shares of our Company in return for a total cash consideration of US\$30,032,589 (collectively, the “**Acquisition Share Issuance**”). For details of such contractual arrangements, please see “Contractual Arrangements” in this [REDACTED]. The Acquisition Share Issuance was completed on March 9, 2018. Following the Acquisition Share Issuance, through the contractual arrangements mentioned above, our Group acquired substantially all of the business operations of Tongcheng Network and its subsidiaries. For details, see “— the Corporate Reorganization” in this section.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Following the consummation of the Tongcheng-eLong Merger, Ctrip effected an internal restructuring of investments on June 15, 2018, and designated Ctrip (Hong Kong), a wholly-owned subsidiary of Ctrip, to hold 14,896,659 ordinary shares of our Company in connection with its role as a Tongcheng Investor, and Ctrip (Hong Kong) joined as a party to the Shareholders’ Agreement.

The consideration for the issuance of ordinary shares under the Restructuring Agreement was based on arm’s lengths negotiations and the financial results and operational results of our Company, and has been satisfied in full. Concurrently with the Acquisition Share Issuance, our Company re-designated each one of our preferred shares with a par value of US\$0.0005 each into one ordinary share with a par value of US\$0.0005.

[REDACTED] INVESTMENTS

1. Overview

Our Company underwent the following rounds of [REDACTED] Investments:

- **eLong Privatization:** On May 31, 2016, (i) the Rollover Shareholders subscribed for a total of 25,440,699 ordinary shares and 33,589,204 preferred shares of our Company and (ii) the eLong Privatization Sponsors subscribed for a total of 611,111 ordinary shares and 15,833,693 preferred shares of our Company, pursuant to the eLong Privatization. For details see “— History of our Business — eLong — Delisting of eLong Cayman” of this section.
- **Restructuring Agreement:** On March 9, 2018, (i) the Tongcheng Investors subscribed for a total of 96,721,818 of the ordinary shares of our Company and (ii) Image Frame subscribe for a total of 3,374,369 ordinary shares of our Company, pursuant to the Restructuring Agreement. For details, see “— Major Shareholding Changes of our Company — eLong — Tongcheng-eLong Merger” of this section.

On March 9, 2018, the preferred shares of our Company were converted into ordinary shares on a 1:1 basis.

Wanda Transaction

Pursuant to the Acquisition Share Issuance as disclosed above, our Company issued 27,050,268 ordinary shares to Tongda Travel Development (BVI) Co., Limited (“**Tongda Travel**”), a wholly-owned subsidiary of Suzhou Wancheng Shengda Travel Development Co., Ltd. (蘇州萬程晟達旅遊發展有限公司, “**Wancheng Shengda**”), which is in turn a wholly-owned subsidiary of Wanda. On May 10, 2018, Wancheng Shengda entered into a share purchase agreement with Huafan Runhe, Kinetic Creation Global Investments Limited and City Legend International Limited, pursuant to which Tongda Travel distributed 27,050,268 ordinary shares held by Tongda Travel in our Company to Wancheng Shengda on May 10, 2018. Further, Wancheng Shengda undertook to transfer: (i) to Huafan Runhe 15,381,525 ordinary shares in our Company; (ii) to Kinetic Creation Global Investments 1,060,795 ordinary shares in our Company and (iii) to City Legend International Limited 10,607,948 ordinary shares in our Company, at a price of RMB110.90 per share for an aggregate consideration of RMB3,000,000,000 (the “**Wanda Transaction**”). The Wanda Transaction was completed and consideration settled on June 5, 2018, upon which Wanda and its subsidiaries ceased to be interested in any shares of our Company.

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HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The table below is a summary of the shareholding structure of our Company after completion of the Wanda Transaction and Reorganization and immediately prior to the completion of the Capitalization Issue and the [REDACTED]:

Name of shareholder	Number of ordinary shares held	Percentage shareholding
Tencent ⁽¹⁾	47,621,574	24.92%
Ctrip ⁽²⁾	43,723,978	22.88%
Huafan Runhe ⁽³⁾	16,639,443	8.71%
City Legend International Limited.....	10,607,948	5.55%
Ocean General Partners Limited ⁽⁴⁾	9,860,372	5.16%
EP II Investment Fund L.P.	9,566,291	5.01%
Wonderful Holidays Limited ⁽⁵⁾	5,947,853	3.11%
Sky Journey Limited	5,283,318	2.76%
Travel Maps Limited ⁽⁶⁾	4,971,100	2.60%
Emerald Joy Limited	4,268,794	2.23%
Seagull Limited.....	3,897,596	2.04%
Hua Yuan International Limited	3,870,264	2.03%
Cowin Tongcheng Limited	3,508,469	1.84%
Luxuriant Holdings Limited	2,733,227	1.43%
Top Yield Co-Stone Investment Co., Ltd.	2,068,797	1.08%
Other shareholders ⁽⁷⁾	15,476,661	8.09%

- (1) Tencent held 31,089,902 ordinary shares in our Company through TCH Sapphire, 15,836,573 ordinary shares through Image Frame, and 695,099 ordinary shares through Elite Strength Limited. Each of TCH Sapphire Limited, Image Frame and Elite Strength Limited is a wholly-owned subsidiary of Tencent.
- (2) Ctrip held 28,827,319 ordinary shares in our Company through C-Travel, and 14,896,659 ordinary shares in our Company through Ctrip (Hong Kong). Each of C-travel and Ctrip (Hong Kong) is a wholly-owned subsidiary of Ctrip.
- (3) Huafan Runhe held 15,381,525 ordinary shares in our Company directly, and 1,257,918 ordinary shares through Huafan Runhe Limited, a wholly-owned subsidiary of Huafan Runhe.
- (4) Ocean General Partners Limited holds 6,833,066 ordinary shares in our Company through Ocean BT L.P., and 3,027,306 ordinary shares in our Company through Ocean Imagination L.P..
- (5) Wonderful Holidays Limited is an employee shareholding vehicle established for holding shares issued to our employees and issued under the 2016 Share Incentive Plan on behalf of certain employees of our Group.
- (6) Travel Maps Limited is wholly-owned by Mr. Wu Zhixiang, an executive Director.
- (7) Other institutional and individual shareholders holding equity interests in our Company of less than 1% include:
- (a) Green Journey Limited, which held 0.90% equity interest in our Company.
 - (b) China RongPei Emerging Investment Limited, which held 0.87% equity interest in our Company.
 - (c) Flora Fairyland Limited, which held 0.72% equity interest in our Company.
 - (d) Trip Consultants Limited, which held 0.72% equity interest in our Company.
 - (e) Wonderful Journey Limited, which held 0.72% equity interest in our Company.
 - (f) Kinetic Creation Global Investments Limited, which held 0.56% equity interest in our Company.
 - (g) Adventure Together Limited, which held 0.50% equity interest in our Company.
 - (h) CR Leading Future Ltd., which held 0.43% equity interest in our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (i) SIP Oriza ChongYuan M&A Co. Limited, which held 0.37% equity interest in our Company.
- (j) Perfect Spirit Limited, which held 0.32% equity interest in our Company.
- (k) Oasis Limited, which held 0.29% equity interest in our Company.
- (l) Cowin Wan Sheng Limited, which held 0.27% equity interest in our Company.
- (m) Shengtang Tongcheng Limited, which held 0.27% equity interest in our Company.
- (n) Wonderful Land Limited, which held 0.27% equity interest in our Company.
- (o) Cheerful Fishes Limited, which held 0.27% equity interest in our Company.
- (p) Great Long Tour Limited, which held 0.27% equity interest in our Company.
- (q) Golden Trip Capital Ltd., which held 0.17% equity interest in our Company.
- (r) CMFHK Alternative Opportunity Investment I Limited, which held 0.06% equity interest in our Company.
- (s) Reiz Trip Capital Ltd., which held 0.04% equity interest in our Company.
- (t) Dongyi Jiacheng Limited, which held 0.03% equity interest in our Company.
- (u) Mr. Zhou Rong, who held 0.03% equity interest in our Company.

2. Principal terms of the [REDACTED] Investments

The below table summarizes the principal terms of the [REDACTED] Investments:

	eLong Privatization		Restructuring Agreement		Wanda Transaction
[REDACTED] Investors.....	Rollover Shareholders	eLong Privatization Sponsors	Tongcheng Investors	Image Frame	Huafan Runhe; Kinetic Creation Global Investments Limited and City Legend International Limited
Date of agreement	May 31, 2016		December 28, 2017		May 10, 2018
Date on which investment/ transaction was settled	May 31, 2016		March 9, 2018		June 5, 2018
Cost per share paid by the investors ⁽¹⁾	US\$0.900 ⁽²⁾	US\$0.898	N/A ⁽³⁾	US\$0.890	RMB11.09
Discount to the [REDACTED].....	[REDACTED]	[REDACTED]	N/A	[REDACTED]	[REDACTED]
Use of Proceeds from the [REDACTED] Investments	The proceeds served as the general working capital of our Group and were utilized for the development and operation of the businesses of our Group. As at the Latest Practicable Date, the net proceeds from the [REDACTED] Investments had not yet been fully utilized.				
Lock-up.....	The [REDACTED] Investors are not subject to any lock-up as set out in the Shareholders' Agreement.				
Strategic benefits of the [REDACTED] Investors brought to our Company.....	At the time of the [REDACTED] Investments, our Directors were of the view that our Company could benefit from the [REDACTED] Investor's commitment to our Company as their investment demonstrates their confidence in the operations of our Group and serves as an endorsement of our Company's performance, strength and prospects.				

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (1) For the purpose of calculating the cost per share paid, it is assumed that the Capitalization Issue has been completed.
- (2) As the Shares were issued to the Rollover Shareholders in lieu of their right to receive payment of US\$9.00 per share in eLong Cayman pursuant to the eLong Cayman Merger, the cost per share paid by the Rollover Shareholders is taken to be US\$9.00.
- (3) The Tongcheng Investors and the Tongcheng Employee Vehicles were issued in aggregate 96,721,818 ordinary shares in consideration for their signing of a series of contractual arrangements under which our Group obtains the control, and receives the economic benefit of, Tongcheng Network and its subsidiaries.

3. Rights of the [REDACTED] Investors

In addition to the terms described above, the Shareholders' Agreement was entered into among our Company and our Shareholders on May 31, 2016 and later amended, restated and superseded on March 9, 2018. Pursuant to the Shareholders' Agreement, the [REDACTED] Investors were granted certain special rights such as information rights, right to elect directors, pre-emptive right, right of first offer and drag-along right in relation to our Company. Pursuant to a termination agreement dated June 13, 2018 entered into among our Company and our Shareholders, the Shareholders' Agreement and such special rights are expected to terminate upon the [REDACTED].

4. Public Float

TCH Sapphire, Image Frame and Elite Strength are wholly-owned subsidiaries of Tencent and are therefore controlled by Tencent. TCH Sapphire, Image Frame and Elite Strength Limited collectively hold approximately [REDACTED]% of the issued share capital of our Company immediately upon completion of the Capitalization Issue and the [REDACTED]. As such, each of Tencent, TCH Sapphire, Image Frame and Elite Strength Limited will be considered a core connected person of our Company under the Listing Rules. Accordingly, the Shares held by TCH Sapphire, Image Frame and Elite Strength Limited will not be considered as part of the public float.

C-Travel and Ctrip (Hong Kong) are wholly-owned subsidiaries of Ctrip and are therefore controlled by Ctrip. C-Travel and Ctrip (Hong Kong) collectively hold approximately [REDACTED]% of the issued share capital of our Company immediately upon completion of the Capitalization Issue and the [REDACTED]. As such, each of Ctrip, C-Travel and Ctrip (Hong Kong) will be considered a core connected person of our Company under the Listing Rules. Accordingly, the Shares held by C-Travel and Ctrip (Hong Kong) will not be considered as part of the public float.

Travel Maps Limited is wholly-owned by Mr. Wu Zhixiang, who is an executive Director. Accordingly, the Shares held by Travel Maps Limited will not be considered as part of the public float.

To the best of our Company's knowledge, Seagull Limited is a close associate of Mr. Liang Jianzhang, who is a non-executive Director. Accordingly, the Shares held by Seagull Limited will not be considered as part of the public float.

Adventure Together Limited is wholly-owned by Mr. Ma Heping, who is an executive Director. Accordingly, the Shares held by Adventure Together Limited will not be considered as part of the public float.

Oasis Limited is wholly-owned by Mr. Jiang Hao, who is an executive Director. Accordingly, the Shares held by Oasis Limited will not be considered as part of the public float.

To our Company's knowledge, the Shares held by the other [REDACTED] Investors will be counted towards the public float.

5. Information on the [REDACTED] Investors

(a) Rollover Shareholders

TCH Sapphire is a limited liability company incorporated under the laws of BVI, and is an investment vehicle and wholly-owned subsidiary of Tencent. Tencent is a leading provider of Internet value added services in China, including media, entertainment, payment systems, value-added services

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and online advertising services, and its shares are listed on the Main Board of the Stock Exchange with stock code 700. For details on our relationship with Tencent, see “Relationship with our Largest Shareholders” of this [REDACTED]

C-Travel is a limited liability company incorporated under the laws of Cayman Island, and is wholly-owned by Ctrip. Ctrip (Hong Kong) is a limited liability company incorporated under the laws of Hong Kong, and is wholly-owned by Ctrip. Ctrip is a leading provider of travel related services including accommodation reservation, transportation ticketing, packaged-tour, corporate travel management services in the PRC, and its American Depositary Shares are listed on the NASDAQ (stock symbol: CTRP). For details on our relationship with Ctrip, see “Relationship with our Largest Shareholders” of this [REDACTED].

Ocean Imagination L.P. and Ocean BT L.P. are exempted limited partnerships formed and registered under the laws of the Cayman Islands. Ocean BT GP, Ltd. is the general partner of Ocean BT L.P.. Ocean Voyage L.P. is the general partner of Ocean Imagination L.P., and wholly-owns Ocean BT GP, Ltd.. Ocean General Partners Limited is the general partner of Ocean Voyage L.P..

EP II Investment Fund L.P. is an exempted limited partnership formed and registered under the laws of the Cayman Islands, and Earthly Paradise Investment Fund GP, Ltd. is the general partner of EP II Investment Fund L.P..

Luxuriant Holdings Limited is a limited liability company incorporated under the laws of Cayman Islands, and is an investment holding company.

(b) eLong Privatization Sponsors

For details on TCH Sapphire, C-Travel and Ocean Imagination L.P., see “— (a) Rollover Shareholders” in this subsection.

Seagull Limited is a limited liability company incorporated under the laws of the BVI. To the best of our Company’s knowledge, Seagull Limited is a close associate of Mr. Liang Jianzhang, who is a non-executive Director.

Oasis Limited is a limited liability company incorporated under the laws of BVI, and is wholly-owned by Mr. Jiang Hao, our Director.

(c) Tongcheng Investors

Image Frame is a limited liability company incorporated under the laws of Hong Kong, and Elite Strength is a limited liability company incorporated under the laws of BVI. Image Frame and Elite Strength are investment vehicles and wholly-owned subsidiaries of Tencent. For details on Tencent, see “— (a) Rollover Shareholders” in this subsection.

For details on C-Travel, see “— (a) Rollover Shareholders” in this subsection.

Tongda Travel is a limited liability company incorporated under the laws of BVI, and is an investment vehicle wholly-owned by Wancheng Shengda, which in turn is a limited liability company incorporated under the laws of PRC and an investment vehicle wholly-owned by Wanda. Wanda is a wholly-owned subsidiary of Dalian Wanda Group Co., Ltd. (大連萬達集團股份有限公司), a multinational conglomerate headquartered in the PRC, with investments across a variety of industries including cinema operator and culture and tourism.

Huafan Runhe Limited is a limited liability company incorporated under the laws of BVI and is wholly-owned by Huafan Runhe. Huafan Runhe is a limited partnership, the general partner of which is Suzhou Industrial Park Tiancheng Jiahua Investment Management Co., Ltd. (蘇州工業園區天程嘉華投資管理有限公司), which is in turn 20% owned by each of the Tongcheng Network Founders.

Sky Journey Limited is a limited liability company incorporated under the laws of BVI and is an investment company wholly owned by Suzhou Industrial Park Tiancheng Zhiyuan Chuangye Investment L.P. (Limited Partnership) (蘇州工業園天程致遠創業投資合夥企業(有限合夥)).

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Travel Maps Limited is a limited liability company incorporated under the laws of BVI, and is wholly-owned by Mr. Wu Zhixiang, our executive Director. Trip Consultants Limited is a limited liability company incorporated under the laws of BVI, and is wholly-owned by Mr. Wang Zhuan. Flora Fairyland is a limited liability company incorporated under the laws of BVI, and is wholly-owned by Ms. Wu Jian. Wonderful Journey Limited is a limited liability company incorporated under the laws of BVI, and is wholly-owned by Mr. Zhang Hailong. Adventure Together Limited is a limited liability company incorporated under the laws of BVI, and is wholly-owned by Mr. Ma Heping, our executive Director. Mr. Wu Zhixiang, Mr. Wang Zhuan, Ms. Wu Jian, Mr. Zhang Hailong and Mr. Ma Heping are the Tongcheng Network Founders.

Emerald Joy Limited is a limited liability company incorporated under the laws of the Cayman Islands, and is an investment company wholly owned by Guokai Boyu Phase I (Shanghai) Shareholding Investment L.P. (Limited Partnership) (國開博裕一期(上海)股權投資合夥企業(有限合夥)).

Hua Yuan International Limited is a limited liability company incorporated under the laws of Hong Kong, and is an investment company wholly-owned by China Singapore Suzhou Industrial Park Ventures Co., Ltd. (中新蘇州工業園區創業投資有限公司).

Cowin Tongcheng Limited is a limited liability company incorporated under the laws of BVI, and is an investment company wholly-owned by Ningbo FTZ Kaicheng Shareholding Investment L.P. (Limited Partnership) (寧波保稅區凱程股權投資合夥企業(有限合夥)).

Top Yield Co-Stone Investment Co., Ltd. is a limited liability company incorporated under the laws of BVI, and is an investment company wholly-owned by Suzhou Tongyou Cornerstone Shareholding Investment L.P. (Limited Partnership) (蘇州同佑基石股權投資合夥企業(有限合夥)).

Green Journey Limited is a limited liability company incorporated under the laws of BVI, and is an investment company wholly-owned by Suzhou Industrial Park Tiancheng Jialv Chuangye Investment L.P. (Limited Partnership) (蘇州工業園區天程嘉旅創業投資合夥企業(有限合夥)).

China RongPei Emerging Investment Limited is a limited liability company incorporated under the laws of BVI and is an investment company wholly-owned by Suzhou Rongpei Xinxing Shareholding Investment Management L.P. (Limited Partnership) (蘇州融沛新興股權投資管理合夥企業(有限合夥)).

CR Leading Future Ltd. is a limited liability company incorporated under the laws of BVI and is an investment company wholly-owned by Shenzhen Huasheng Ruijin Investment L.P. (Limited Partnership) (深圳華晟銳金投資合夥企業(有限合夥)).

SIP Oriza ChongYuan M&A Co. Limited is a limited liability company incorporated under the laws of BVI and is an investment company wholly-owned by Suzhou Industrial Park Yuanhe Zhongyuan M&A Shareholding Investment Fund L.P. (Limited Partnership) (蘇州工業園區元禾重元併購股權投資基金合夥企業(有限合夥)).

Perfect Spirit Limited is a limited liability company incorporated under the laws of Hong Kong and is an investment company wholly-owned by Beijing Junlian Mingde Shareholding Investment L.P. (Limited Partnership) (北京君聯名德股權投資合夥企業(有限合夥)).

Cowin Wan Sheng Limited is a limited liability company incorporated under the laws of Cayman Islands and is an investment company wholly-owned by Suzhou Kaifeng Wansheng Chuangye Investment L.P. (Limited Partnership) (蘇州凱風萬盛創業投資合夥企業(有限合夥)).

Shengtang Tongcheng Limited is a limited liability company incorporated under the laws of BVI and is an investment company wholly-owned by Chengdu Shengtang Yinke Chuangye Investment L.P. (成都晟唐銀科創業投資企業(有限合夥)).

Golden Trip Capital Ltd. is a limited liability company incorporated under the laws of BVI and is an investment company wholly-owned by Tianjin Youtou Jinding Intelligent Travel Asset Management Center (Limited Partnership) (天津優投金鼎智慧旅遊資產管理中心(有限合夥)).

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CMFHK Alternative Opportunity Investment I Limited is a limited liability company incorporated under the laws of Cayman Islands and is wholly-owned by CMFHK Alternative Opportunity Investment SPC.

Reiz Trip Capital Ltd. is a limited liability company incorporated under the laws of BVI and is an investment company wholly-owned by Suzhou Runze Jinding Investment Center (Limited Partnership) (蘇州潤澤金鼎投資中心(有限合夥)).

Dongyi Jiacheng Limited is a limited liability company incorporated under the laws of BVI and is an investment company wholly-owned by Ningbo Meishan FTZ Dongyi Jiacheng Investment Management L.P. (Limited Partnership) (寧波梅山保稅港區東義佳程投資管理合夥企業(有限合夥)).

(d) Image Frame

For details on Image Frame, see “— (c) Tongcheng Investors” in this subsection.

(e) Wanda Transaction

For details on Huafan Runhe, see “— (c) Tongcheng Investors” in this subsection.

City Legend International Limited is a limited liability company incorporated under the laws of Hong Kong and is an investment holding company wholly-owned by Overseas Chinese Town (Asia) Holdings Limited. Overseas Chinese Town (Asia) Holdings Limited is principally engaged in the comprehensive development business and the manufacture and sale of cartons and paper products, and its shares are listed on the Main Board of the Stock Exchange with stock code 3366.

Kinetic Creation Global Investments Limited is a limited liability company incorporated under the laws of Hong Kong and is an investment holding company wholly-owned by China Construction Bank Corporation. China Construction Bank Corporation is principally engaged in the commercial banking business in the PRC, and its shares are listed on the Main Board of the Stock Exchange with stock code 0939.

6. Compliance with Interim Guidance

Under the Interim Guidance on Pre-IPO Investments issued by the Stock Exchange on October 13, 2010 and as updated in March 2017, where the consideration for completion or divestment of the last pre-IPO investment is settled within 28 clear days before the date of first submission of the listing application form, the Stock Exchange will generally delay the first day of trading until 120 clear days after the later of the completion or divestment of the last pre-IPO Investments. The Wanda Transaction was completed on June 5, 2018. On the basis that (i) the [REDACTED] is expected to take place in or around October 2018, and will be more than 120 clear days after the completion of the Wanda Transaction, and (ii) the special rights granted to the [REDACTED] Investors will terminate prior to the [REDACTED], the Joint Sponsors have confirmed that the investments of the [REDACTED] Investors are in compliance with the Interim Guidance on Pre-IPO Investments issued by the Stock Exchange on October 13, 2010 and as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

Historically, our business operations were conducted through subsidiaries and entities owned or controlled by us. The following diagram depicts the corporate and shareholding structure of our Group and immediately prior to the Reorganization of our Group in preparation for the REORGANIZATION.



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Notes:

- (1) Tencent held approximately 18.29%, 6.27% and 0.36% of our equity interest through Image Frame, TCH Sapphire and Elite Strength, respectively.
- (2) Ctrip held approximately 15.08% and 7.8% of our equity interest through C-Travel and Ctrip (Hong Kong), respectively.
- (3) Huafan Runhe held approximately 8.04% of our equity interest directly, and approximately 0.66% of our equity interest through Huafan Runhe Limited, its wholly-owned subsidiary. Huafan Runhe is a limited partnership, the general partner of which is Suzhou Industrial Park Timcheng Jiahua Investment Co., Ltd. (蘇州工業區天程嘉華投資管理有限公司), which in turn 20% owned by each of the Tongcheng Network Founders.
- (4) City Legend International Limited is wholly-owned by Overseas Chinese Town (Asia) Holdings Limited whose shares are listed on the Main Board of the Stock Exchange with stock code 3366.
- (5) Ocean General Partners Limited held approximately 3.58% and 1.58% of our equity interest through Ocean BT L.P. and Ocean Imagination L.P., respectively.
- (6) EP II Investment Fund L.P. is controlled by Earthly Paradise Investment Fund GP, Ltd., its general partner.
- (7) Sky Journey Limited is wholly owned by Suzhou Industrial Park Tiancheng Zhiyuan Chuangye Investment L.P. (Limited Partnership) (蘇州工業園天程致遠創業投資合夥企業(有限合夥)).
- (8) The entire equity interest of Travel Maps Limited is held by Mr. Wu Zhixiang, our executive Director.
- (9) eLong Overseas Investment Co., Ltd. is an employee shareholding vehicle which held shares issued under the 2016 Share Incentive Plan on behalf of certain employees of our Group.
- (10) The entire interest of Emerald Joy Limited is held by Guokai Boyu Phase I (Shanghai) Shareholding Investment L.P. (Limited Partnership) (國開博裕一期(上海)股權投資合夥企業(有限合夥)).
- (11) Seagull Limited is a company incorporated and organized under the laws of BVI and, to our Company's knowledge, a close associate of Mr. Liang Jianzhang, a non-executive Director.
- (12) Hua Yuan International Limited is wholly-owned by China Singapore Suzhou Industrial Park Ventures Co., Ltd. (中新蘇州工業園區創業投資有限公司).
- (13) Cowin Tongcheng Limited is wholly-owned by, Ningbo FTZ Kaicheng Shareholding Investment L.P. (Limited Partnership) (寧波保稅區凱程股權投資合夥企業(有限合夥)).
- (14) Luxuriant Holdings Limited is an investment holding company with limited liability incorporated under the laws of the Cayman Islands and based in the PRC.
- (15) Wonderful Holidays Limited is wholly owned by Khorgas Lecheng Tianxia Shareholding Investment Management L.P. (Limited Partnership) (霍爾果斯樂程天下股權投資管理合夥企業(有限合夥)) and is an employee shareholding vehicle which held shares on behalf of certain employees.
- (16) Top Yield Co-Stone Investment Co., Ltd. is wholly-owned by Suzhou Tongyou Cornerstone Shareholding Investment L.P. (Limited Partnership) (蘇州同佑基石股權投資合夥企業(有限合夥)).

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- (17) Other Shareholders include:
- (a) Green Journey Limited, which held approximately 0.90% equity interest in our Company and is wholly owned by Suzhou Industrial Park Tiancheng Jialv Chuangye Investment L.P. (Limited Partnership) (蘇州工業園區天程嘉旅創業投資合夥企業 (有限合夥)).
 - (b) China RongPei Emerging Investment Limited, which held approximately 0.87% equity interest in our Company and is wholly owned by Suzhou Rongpei Xinxing Shareholding Investment Management L.P. (Limited Partnership) (蘇州融沛新興股權投資管理合夥企業 (有限合夥)).
 - (c) Flora Fairyland Limited, which held approximately 0.72% equity interest in our Company and is wholly owned by Ms. Wu Jian.
 - (d) Trip Consultants Limited, which held approximately 0.72% equity interest in our Company and is wholly owned by Mr. Wang Zhuan.
 - (e) Wonderful Journey Limited, which held approximately 0.72% equity interest in our Company and is wholly owned by Mr. Zhang Hailong.
 - (f) Kinetic Creation Global Investments Limited, which held approximately 0.56% equity interest in our Company, and is indirectly wholly-owned by China Construction Bank Corporation.
 - (g) Adventure Together Limited, which held approximately 0.50% equity interest in our Company and is wholly owned by Mr. Ma Heping, our executive Director.
 - (h) CR Leading Future Ltd., which held approximately 0.43% equity interest in our Company and is wholly owned by Shenzhen Huasheng Ruijin Investment L.P. (Limited Partnership) (深圳華晟銳金投資合夥企業 (有限合夥)).
 - (i) SIP Oriza ChongYuan M&A Co. Limited, which held approximately 0.37% equity interest in our Company and is wholly owned by Suzhou Industrial Park Yuanhe Zhongyuan M&A Shareholding Investment Fund L.P. (Limited Partnership) (蘇州工業園區元禾重元併購股權投資基金合夥企業 (有限合夥)).
 - (j) Perfect Spirit Limited, which held approximately 0.32% equity interest in our Company and is wholly owned by Beijing Junlian Mingde Shareholding Investment L.P. (Limited Partnership) (北京君聯明德股權投資合夥企業 (有限合夥)).
 - (k) Oasis Limited, which held approximately 0.29% equity interest in our Company and is wholly owned by Mr. Jiang Hao, our executive Director.
 - (l) Cowin Wan Sheng Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Suzhou Kaifeng Wansheng Chuangye Investment L.P. (Limited Partnership) (蘇州凱風萬盛創業投資合夥企業 (有限合夥)).
 - (m) Shengtang Tongcheng Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Chengdu Shengtang Yinke Chuangye Investment L.P. (成都晟唐銀科創業投資合夥企業 (有限合夥)).
 - (n) Wonderful Land Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Suzhou Industrial Park Techeng Wanli Investment Management Co., Ltd. (蘇州工業園區特程萬里投資管理有限公司) and is an employee shareholding vehicle which held shares on behalf of certain employees.
 - (o) Cheerful Fishes Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Khorgas Qingcheng Shareholding Investment Management L.P. (霍爾果斯青程股權投資管理合夥企業 (有限合夥)) and is an employee shareholding vehicle which held shares on behalf of certain employees.
 - (p) Great Long Tour Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Khorgas Yecheng Shareholding Investment Management L.P. (霍爾果斯萊程股權投資管理合夥企業 (有限合夥)) and is an employee shareholding vehicle which held shares on behalf of certain employees.
 - (q) Golden Trip Capital Ltd., which held approximately 0.17% equity interest in our Company and is wholly owned by Tianjin Youtou Jinding Intelligent Travel Asset Management Center (Limited Partnership) (天津優投金鼎智慧旅遊資產管理中心 (有限合夥)).
 - (r) CMFHK Alternative Opportunity Investment I Limited, which held approximately 0.06% equity interest in our Company and is wholly owned by CMFHK Alternative Opportunity Investment SPC.
 - (s) Reiz Trip Capital Ltd., which held approximately 0.04% equity interest in our Company and is wholly owned by Suzhou Runze Jinding Investment Center (Limited Partnership) (蘇州潤澤金鼎投資中心 (有限合夥)).

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- (t) Dongyi Jiacheng Limited, which held approximately 0.03% equity interest in our Company and is wholly owned by Ningbo Meishan FTZ Dongyi Jiacheng Investment Management L.P. (Limited Partnership) (寧波梅山保税港区東義佳程投資管理合夥企業(有限合夥)).
- (u) Mr. Zhou Rong who held approximately 0.03% equity interest in our Company.
- (18) Other shareholders of Beijing Zhuzhe Information Technology Co., Limited include Mr. Peng Jinhui, Mr. Song Quanzhang, Mr. Wu Deping, Mr. Fang Shiwen and Ms. Song Liping.
- (19) Other shareholders of Shenzhen JL-Tour include Ms. Li Wen, Ms. Song Yingxue and Shenzhen Xiaozhi Network Technology Co., Ltd. (深圳市曉峙網絡科技有限公司)
- (20) Other shareholders of Hong Kong Jielv International Co., Limited include Ms. Yu Lai Wan, Ms. Li Wen and Ms. Song Yingxue.
- (21) Tianjin eLong Union Information Technology Co., Ltd. also holds 100% equity interest in eLong International Travel (Hong Kong) Limited, a limited liability company incorporated under the laws of Hong Kong.
- (22) E-dragon Beijing WFOE also holds 100% equity interest in eDraco Travel Limited, a limited liability company incorporated under the laws of Hong Kong.
- (23) Tongcheng Network also holds 100% equity interest in LY-USA Travel Inc., a limited liability company incorporated in the United States of America.
- (24) In May 2018 and April 2018 respectively, pursuant to the Reorganization, our Group reduced our shareholding in Suzhou Gongsu Network Technology Co., Ltd. (蘇州共信網絡科技有限公司) and Suzhou Chenglv Network Technology Co., Ltd. (蘇州程旅網絡科技有限公司) to less than 50% by selling the other equity interests to Independent Third Parties.
- (25) Our Company has transferred 100% equity interests in each of Shijiazhuang Feifan International Travel Agency Co., Ltd. (石家莊非凡國際旅行社有限公司), Suzhou Orange Technology Co., Ltd. (蘇州鮮橙科技有限公司) and Guangzhou Firefly Small Sum Lending Co., Ltd. (廣州螢火蟲小額貸款有限責任公司) to Tongcheng Holdings group.
- (26) We have commenced the administrative or internal process of dissolving these companies.
- (27) We expect to dissolve Shenyang Jiezhilv Business Consultancy Co., Ltd. (沈陽捷之旅商務諮詢有限公司) upon fulfilment of filing requirement pursuant to applicable PRC regulations, which is expected to take place in late 2018 subsequent to completion of the [REDACTED].

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In preparation for the [REDACTED] and in order to streamline our corporate structure, we underwent and will conduct the following Reorganization before the [REDACTED]:

1. Adjustment of the Contractual Arrangements

On March 21, 2018, Suzhou Chengyi was established under the laws of the PRC as a limited liability company. Mr. Wu Zhixiang and Mr. Ma Heping respectively holds 51% and 49% equity interest in Suzhou Chengyi. On April 13, 2018, Longyue Tiancheng WFOE, Suzhou Chengyi, Wu Zhixiang, and Mr. Ma Heping entered into a series of contractual arrangements, pursuant to which Longyue Tiancheng WFOE acquired effective control over the financial and operational policies of Suzhou Chengyi and became entitled to all the economic benefits derived from its operations.

In April 2018, E-dragon Beijing WFOE exercised its right under the share purchase option agreement entered into among Mr. Jiang Hao, Mr. Zhou Rong, Beijing E-dragon, E-dragon Beijing WFOE and eLong, Inc. Pursuant to the then existing contractual arrangements, under which Mr. Jiang Hao and Mr. Zhou Rong transferred 37.5% and 12.5% equity interest in Beijing E-dragon respectively to E-dragon Beijing WFOE.

In April 2018, Longyue Tiancheng WFOE exercised its right under the share purchase option agreement entered into among the then existing shareholders of Tongcheng Network, Tongcheng Network and Longyue Tiancheng WFOE. Pursuant to the then existing contractual arrangements, under which the then existing shareholders of Tongcheng Network, other than the Tongcheng Network Registered Shareholders, transferred in aggregate 50% and 17.72% equity interest in Tongcheng Network to Longyue Tiancheng WFOE and Mr. Wu Zhixiang, respectively. The equity transfer is subject to the approval of local MOFCOM and is expected to be completed by September 2018. Upon completion of the above-mentioned transfers, our Group will indirectly hold 50% of the shareholding in Beijing E-dragon and Tongcheng Network through E-dragon Beijing WFOE and Longyue Tiancheng WFOE respectively.

On April 2, 2018, Longyue Tiancheng WFOE and E-dragon Beijing WFOE respectively entered into a series of contractual arrangements with, among others, Tongcheng Network and Beijing E-dragon, and the Registered Shareholders of Tongcheng Network and Beijing E-dragon, pursuant to which our Group acquired effective control over the financial and operational policies of Tongcheng Network and Beijing E-dragon respectively and became entitled to 50% the economic benefits derived from their operations.

For further details on the Contractual Arrangements, see “Contractual Arrangements” of the [REDACTED].

2. Transfer of shares to E-dragon Beijing WFOE and Longyue Tiancheng WFOE

From April to May 2018, we transferred to E-dragon Beijing WFOE certain interest in our subsidiaries and controlled entities, the particulars of which are set out below:

- We transferred 100% equity interest in Tianjin eLong Union Information Technology Co., Ltd. (天津藝龍互聯信息技術有限公司) from Beijing E-dragon at a consideration of approximately RMB10 million;
- We transferred 30% and 70% equity interest in Beijing eLong International Travel Co., Ltd. (北京藝龍國際旅行社有限公司) from Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司) and Beijing E-dragon, respectively, at a consideration of approximately RMB1.5 million in aggregate;
- We transferred 93.04% and 6.96% equity interest in Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司) from Beijing E-dragon and Beijing Asia Interactive Advertisement Broadcast Co., Ltd. (北京亞洲互動廣告傳播有限公司), respectively, at a consideration of approximately RMB23 million;
- We transferred 98.33% equity interest in Beijing Asia Interactive Advertisement Broadcast Co., Ltd. (北京亞洲互動廣告傳播有限公司) from Beijing E-dragon, and exercised our

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

share purchase option under the existing contractual arrangements to acquire 1.67% equity interest of this company from Mr. Jiang Hao. The consideration was approximately RMB30 million in aggregate.

In May 2018, E-dragon Beijing WFOE acquired from Zhenjiang Longshou Economic Information Consultancy Center L.P. (鎮江龍首經濟信息諮詢中心(有限合夥)) and Zhenjiang Dehong Information Technology Co., Ltd. (鎮江德弘信息技術有限公司) approximately 99.81% and 0.19% equity interest, respectively, in eLong (Tianjin) Technology Co., Ltd. (藝龍(天津)科技有限公司) at nil consideration.

Upon Completion of these acquisitions, our 9% equity interest in Shanghai Qingnianhui Investment Management Co. Ltd. (上海青年匯投資管理股份有限公司) will be indirectly under E-dragon Beijing WFOE.

In addition, we are in the process of transferring our 49.02% equity interest in Beijing Zhuzhe Information Technology Co., Ltd. (北京住哲信息技術有限公司) to E-dragon Beijing WFOE at a consideration of RMB18.75 million and 2.58% equity interest to Beijing Zhuzhe Huihuang Information Technology Center, L.P. (北京住哲輝煌信息技術中心(有限合夥)) at nil consideration, which is expected to be completed by July 2018. As at the Latest Practicable Date, the transfer is pending approval by the shareholders of Beijing Zhuzhe Information Technology Co., Ltd. and passing of the amended memorandum and articles of association.

From April to May 2018, we transferred to Longyue Tiancheng WFOE certain interest in our subsidiaries and controlled entities, the particulars of which are set out below:

- We transferred 100% equity interest in Beijing Tongcheng Huading International Travel Agency Co., Ltd. (北京同程華鼎國際旅行社有限公司) from Tongcheng Network, at nil consideration;
- We transferred 100% equity interest in Suzhou Changlv Tianxia Information Technology Co., Ltd. (蘇州暢旅天下信息技術有限公司) from Tongcheng Network, at a consideration of approximately RMB900,000;
- We transferred 100% equity interest in Suzhou Tongcheng E-dragon Network Technology Co., Ltd. (蘇州同程藝龍網絡科技有限公司) from Tongcheng Network, at nil consideration;
- We transferred 100% equity interest in Suzhou Chuanglv Tianxia Information Technology Co., Ltd. (蘇州創旅天下信息技術有限公司) from Suzhou Industrial Park Qinchen Investment Management Co., Ltd. (蘇州工業園區欽辰投資管理有限公司), at a consideration of approximately RMB100,000;

We intend to transfer our 100% equity interest in Nanjing Tongyou Tianxia Car Rental Co., Ltd. (南京同遊天下汽車租賃有限公司) from Tongcheng Network to Longyue Tiancheng WFOE at nil consideration upon completion of our application for car-hailing services license. As at the Latest Practicable Date, we have submitted our application for the online car-hailing services license, and is awaiting approval by the competent authority.

3. Transfer of shares to Suzhou Chengyi and Tongcheng Network

From April to June 2018, we transferred to Suzhou Chengyi certain interest in our subsidiaries and controlled entities, the particulars of which are as follows:

- We transferred 100% equity interest in Tianjin Jiushi Technology Development Co., Ltd. (天津九思科技發展有限公司) from Beijing Asia Interactive Advertisement Broadcast Co., Ltd. (北京亞洲互動廣告傳播有限公司), at a consideration of approximately RMB29 million;
- We transferred 100% equity interest in Tianjin Chengmei Technology Development Co., Ltd. (天津成美科技發展有限公司) from Beijing Asia Interactive Advertisement Broadcast Co., Ltd. (北京亞洲互動廣告傳播有限公司), at a consideration of approximately RMB15 million;

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- We transferred 100% equity interest in Suzhou Industrial Park Qinchen Investment Management Co., Ltd. (蘇州工業園區欽辰投資管理有限公司) from Tongcheng Network, at a consideration of approximately RMB1.0 million;

We transferred 100% equity interest in Suzhou Ruheng Intelligent Technology Co., Ltd. (蘇州如亨智能科技有限公司) from Tongcheng Network to Suzhou Chengyi, at a consideration of approximately RMB1.0 million.

We transferred 50.02% equity interest in Tianyuan Difang from Tongcheng Network to Suzhou Chengyi, at a consideration of approximately RMB34.1 million.

We transferred 2% equity interest in Shenzhen JL-Tour from Tianjin Jiushi Technology Development Co., Ltd. to Shenzhen JL-Tour Management Consultancy, L.P. (深圳市捷之旅管理諮詢合伙企業(有限合伙)) at a consideration of approximately RMB48,000.

We are in the process of transferring 50% and 50% equity interest in Hefei Yiqu Information Technology Co., Ltd. (合肥藝趣信息技術有限公司) from Mr. Jiang Hao and Mr. Zhou Rong, respectively, to Suzhou Chengyi, at nil consideration. The transfer is expected to be completed by July 2018.

Upon completion of these acquisitions, our 7.30% equity interest in Changzhou Putike Information Technology Company Limited (常州璞緹客信息技術有限公司), 9.20% equity interest in Chengdu Yihua Interactive Technology Company Limited (成都移花互動科技有限責任公司), 5.05% equity interest in Nanjing Xici Information Technology Company Limited (南京西祠信息技術股份有限公司) (“**Nanjing Xici**”) and 46.50% equity interest in Beijing Mitianxia Technology Company Limited (北京米天下科技股份有限公司) will be held indirectly under Suzhou Chengyi.

In April 2018, Tongcheng Network acquired from Beijing eLong Air Service Co., Ltd. (北京藝龍航空服務有限公司) 100% equity interest in Hangzhou E-dragon at a consideration of approximately RMB1.5 million.

4. Disposal/dilution of rights of certain entities within our Group

In April 2018, Tongcheng Network transferred 100% equity interest in Suzhou Gongsu Network Technology Co., Ltd (蘇州共宿網絡科技有限公司) (“**Suzhou Gongsu**”) to Longyue Tiancheng WFOE. Following the transfer, Suzhou Gongsu issued additional shares to Mr. Liu Kai, upon the completion of which Mr. Liu held approximately 60% equity interest in Suzhou Gongsu. Tongcheng Network also transferred 100% equity interest in Suzhou Chenglv Network Technology Co., Ltd. (蘇州程旅網路科技有限公司) (“**Suzhou Chenglv**”) to Longyue Tiancheng WFOE in April 2018, and in May 2018, Longyue Tiancheng WFOE transferred 60% equity in Suzhou Chenglv to an Independent Third Party at a consideration of approximately RMB1.0 million.

Tongcheng Network transferred its 100% equity interest in each of Shijiazhuang Feifan International Travel Agency Co., Ltd. (石家莊非凡國際旅行社有限公司), Suzhou Orange Technology Co., Ltd. (蘇州鮮橙科技有限公司) and Guangdong Firefly Small Sum Lending Co., Ltd. (廣州螢火蟲小額貸款有限責任公司) to Tongcheng Holdings at a consideration of approximately RMB300,000, RMB1.0 million and RMB198 million, respectively.

On June 11, 2018, Tongcheng Network and eLong Cayman entered into a share transfer agreement, pursuant to which Tongcheng Network transferred its 100% equity interest in LY-USA Travel Inc. to eLong Cayman at nil consideration.

Save as disclosed under this subsection, our PRC legal advisor has confirmed that the applicable PRC approvals, filings and registration in relation to the Reorganization as described above has been obtained or the applicable procedures involved (including without limitation the approvals of, registrations and/or filings with local MOFCOM and SAIC) will be carried out in accordance with applicable PRC laws and regulations. Our PRC legal advisor has further confirmed that there is no material legal impediment to complete the share transfers involved in the Reorganization in accordance with the above procedures before the [REDACTED].

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5. Reorganization of eLong Overseas

On June 8, 2018, eLong Overseas Investment Co., Ltd. transferred (i) 3,363,680 ordinary shares of our Company held by it to Wonderful Holidays Limited and (ii) 1,054,911 ordinary shares of our Company held by it to Mr. Zhou Rong, in each case for nil consideration as part of the reorganization of our employee incentive plans. Such transfer was completed on June 8, 2018 and each of Wonderful Holidays Limited and Mr. Zhou Rong will continue to hold such shares on behalf of certain employees of our Group pursuant to the 2016 Share Incentive Plan.

RECENT ACQUISITIONS

Tianjin eLong Union Investment Management Co., Ltd. (天津藝龍互聯投資管理有限公司) (“**Tianjin eLong**”), a company which is incorporated in the PRC and a wholly owned subsidiary of our Company, proposes to enter into an investment agreement (the “**Banlanjia Investment Agreement**”) with, among others, Shanghai Banlanjia Commercial Management Co., Ltd. (上海斑斕家商業管理有限公司), a company which is incorporated in the PRC (“**Banlanjia**”), pursuant to which Tianjin eLong agreed to subscribe for additional registered capital in Banlanjia for a total consideration of RMB12,500,000 (the “**Banlanjia Acquisition**”). Banlanjia is principally engaged in the provision of high-quality bed services. The Banlanjia Acquisition is expected to be completed before the end of June 2018, upon which our Company will hold, through Tianjin eLong, approximately 15% of the enlarged registered capital of Banlanjia.

Tianjin eLong also proposes to enter into a capital increase agreement (the “**Qingyu Investment Agreement**”) with, among others, Suzhou Qingyu Intelligent Technology Co., Ltd. (蘇州晴雨智能科技有限公司), a company which is incorporated in the PRC (“**Suzhou Qingyu**”), pursuant to which Tianjin eLong agreed to make a capital injection of RMB20,000,000 into Suzhou Qingyu (the “**Qingyu Investment**”). Suzhou Qingyu is principally engaged in the development and production of intelligent vending machines. The Qingyu Investment is expected to be completed before the end of June 2018, upon which our Company will hold, through Tianjin eLong, approximately 5% of the enlarged registered capital of Suzhou Qingyu.

THE CAPITALIZATION ISSUE

Subject to the share premium account of our Company being credited as a result of the issue of the [REDACTED] pursuant to the [REDACTED], our Company will, on the [REDACTED] allot and issue a total of 1,719,906,084 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of our Company on the day preceding the [REDACTED] in proportion to their then existing shareholdings in our Company by capitalizing the relevant sum from the share premium account of our Company. The Shares allotted and issued pursuant to the above capitalization issue will rank *pari passu* in all respects with the existing issued Shares.

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The following diagram illustrates the corporate and shareholding structure of our Group after completion of the Reorganization immediately prior to the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] and the options granted under the Share Incentive Plans are not exercised):



- (1) Tencent held approximately 18.29%, 6.27% and 0.36% of our equity interest through Image Frame, TCH Sapphire and Elite Strength, respectively.
- (2) Citrip held approximately 15.08% and 7.8% of our equity interest through C-Travel and Citrip (Hong Kong), respectively.

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- (3) Huafan Runhe held approximately 8.04% of our equity interest directly, and approximately 0.66% of our equity interest through Huafan Runhe Limited, its wholly-owned subsidiary. Huafan Runhe is a limited partnership, the general partner of which is Suzhou Industrial Park Tincheng Jiahua Investment Co., Ltd. (蘇州工業區天程嘉華投資管理有限公司), which in turn 20% owned by each of the Tongcheng Network Founders.
- (4) City Legend International Limited is wholly-owned by Overseas Chinese Town (Asia) Holdings Limited whose shares are listed on the Main Board of the Stock Exchange with stock code 3366.
- (5) Ocean General Partners Limited held approximately 3.58% and 1.58% of our equity interest through Ocean BT L.P. and Ocean Imagination L.P., respectively.
- (6) EP II Investment Fund L.P. is controlled by Earthly Paradise Investment Fund GP, Ltd., its general partner.
- (7) Wonderful Holidays Limited is wholly owned by Khorgas Lecheng Tianxia Shareholding Investment Management L.P. (Limited Partnership) (霍爾果斯樂程天下股權投資管理合夥企業 (有限合夥)) and is an employee shareholding vehicle which held shares on behalf of certain employees and shares issued under the 2016 Share Incentive Plan.
- (8) Sky Journey Limited is wholly owned by Suzhou Industrial Park Tincheng Zhiyuan Chuangye Investment L.P. (Limited Partnership) (蘇州工業區天程致遠創業投資合夥企業 (有限合夥)).
- (9) The entire equity interest of Travel Maps Limited is held by Mr. Wu Zhixiang, our executive Director.
- (10) The entire interest of Emerald Joy Limited is held by Guokai Boyu Phase I (Shanghai) Shareholding Investment L.P. (Limited Partnership) (國開博裕一期 (上海) 股權投資合夥企業 (有限合夥)).
- (11) Seagull Limited is a company incorporated and organized under the laws of BVI and, to our Company's knowledge, a close associate of Mr. Liang Jianzhang, a non-executive Director.
- (12) Hua Yuan International Limited is wholly owned by China Singapore Suzhou Industrial Park Ventures Co., Ltd. (中新蘇州工業園區創業投資有限公司).
- (13) Cowin Tongcheng Limited is wholly owned by Ningbo FTZ Kaicheng Shareholding Investment L.P. (Limited Partnership) (寧波保稅區凱程股權投資合夥企業 (有限合夥)).
- (14) Luxuriant Holdings Limited is an investment holding company with limited liability incorporated under the laws of the Cayman Islands and based in the PRC.
- (15) Top Yield Co-Stone Investment Co., Ltd. is wholly owned by Suzhou Tongyou Cornerstone Shareholding Investment L.P. (Limited Partnership) (蘇州同佑基石股權投資合夥企業 (有限合夥)).
- (16) Other Shareholders include:
 - (a) Green Journey Limited, which held approximately 0.90% equity interest in our Company and is wholly owned by Suzhou Industrial Park Tincheng Jiahua Chuangye Investment L.P. (Limited Partnership) (蘇州工業區天程嘉華創業投資合夥企業 (有限合夥)).
 - (b) China Rongpei Emerging Investment Limited, which held approximately 0.87% equity interest in our Company and is wholly owned by Suzhou Rongpei Xinxing Shareholding Investment Management L.P. (Limited Partnership) (蘇州融沛新興股權投資管理合夥企業 (有限合夥)).
 - (c) Flora Fairyland Limited, which held approximately 0.72% equity interest in our Company and is wholly owned by Ms. Wu Jian.
 - (d) Trip Consultants Limited, which held approximately 0.72% equity interest in our Company and is wholly owned by Mr. Wang Zhuan.
 - (e) Wonderful Journey Limited, which held approximately 0.72% equity interest in our Company and is wholly owned by Mr. Zhang Hailong.
 - (f) Kinetic Creation Global Investments Limited, which held approximately 0.56% equity interest in our Company, and is indirectly wholly-owned by China Construction Bank Corporation.
 - (g) Adventure Together Limited, which held approximately 0.50% equity interest in our Company and is wholly owned by Mr. Ma Heping, our executive Director.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (h) CR Leading Future Ltd., which held approximately 0.43% equity interest in our Company and is wholly owned by Shenzhen Huasheng Ruijin Investment L.P. (Limited Partnership) (深圳華晟銳金投資合夥企業 (有限合夥)).
- (i) SIP Oriza ChongYuan M&A Co. Limited, which held approximately 0.37% equity interest in our Company and is wholly owned by Suzhou Industrial Park Yuanhe Zhongyuan M&A Shareholding Investment Fund L.P. (Limited Partnership) (蘇州工業園區元禾重元併購股權投資基金合夥企業 (有限合夥)).
- (j) Perfect Spirit Limited, which held approximately 0.32% equity interest in our Company and is wholly-owned by Beijing Junlian Mingde Shareholding Investment L.P. (Limited Partnership) (北京君聯名德股權投資合夥企業 (有限合夥)).
- (k) Oasis Limited, which held approximately 0.29% equity interest in our Company and is wholly owned by Mr. Jiang Hao, our executive Director.
- (l) Cowin Wan Sheng Limited, which held approximately 0.27% equity interest in our Company and is wholly-owned by Suzhou Kaifeng Wansheng Chuangye Investment L.P. (Limited Partnership) (蘇州凱風萬盛創業投資合夥企業 (有限合夥)).
- (m) Shengtang Tongcheng Limited, which held approximately 0.27% equity interest in our Company and is wholly-owned by Chengdu Shengtang Yinke Chuangye Investment L.P. (成都晟唐銀科創業投資合夥企業 (有限合夥)).
- (n) Wonderful Land Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Suzhou Industrial Park Techeng Wanli Investment Management Co., Ltd. (蘇州工業園區特程萬裡投資管理有限公司) and is an employee shareholding vehicle which held shares on behalf of certain employees.
- (o) Cheerful Fishes Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Khorgas Qingcheng Shareholding Investment Management L.P. (霍爾果斯青程股權投資合夥企業 (有限合夥)) and is an employee shareholding vehicle which held shares on behalf of certain employees.
- (p) Great Long Tour Limited, which held approximately 0.27% equity interest in our Company and is wholly owned by Khorgas Yecheng Shareholding Investment Management L.P. (霍爾果斯業程股權投資合夥企業 (有限合夥)) and is an employee shareholding vehicle which held shares on behalf of certain employees.
- (q) Golden Trip Capital Ltd., which held approximately 0.17% equity interest in our Company and is wholly owned by Tianjin Youtou Jinding Intelligent Travel Asset Management Center (Limited Partnership) (天津優投金鼎智慧旅遊資產管理中心 (有限合夥)).
- (r) CMFHK Alternative Opportunity Investment I Limited, which held approximately 0.06% equity interest in our Company and is wholly owned by CMFHK Alternative Opportunity Investment SPC.
- (s) Reiz Trip Capital Ltd., which held approximately 0.04% equity interest in our Company and is wholly owned by Suzhou Runze Jinding Investment Center (Limited Partnership) (蘇州潤澤金鼎投資中心 (有限合夥)).
- (t) Dongyi Jiacheng Limited, which held approximately 0.03% equity interest in our Company and is wholly owned by Ningbo Meishan FTZ Dongyi Jiacheng Investment Management L.P. (Limited Partnership) (寧波梅山保稅港區東義佳程投資管理合夥企業 (有限合夥)).
- (u) Mr. Zhou Rong who held approximately 0.03% equity interest in our Company.
- (17) Other shareholders of Shenzhen JL-Tour include Ms. Li Wen, Ms. Song Yingxue and Shenzhen Xiaozhi Network Technology Co., Ltd. (深圳市曉峙網絡科技有限公司) and Shenzhen JL-Tour Management Consulting, L.P. (深圳市捷之旅管理諮詢合夥企業 (有限合夥))
- (18) Other shareholders of Beijing Zhuzhe Information Technology Co., Limited include Mr. Peng Jinhui, Mr. Song Quanqiang, Mr. Wu Deping, Mr. Fang Shiwen and Ms. Song Liping and Beijing Zhuzhe Huihuang Information Technology Center, L.P. (北京住哲輝煌信息技術中心 (有限合夥)).
- (19) Other shareholders of Hong Kong Jielv International Co., Limited include Ms. Yu Lai Wan, Ms. Li Wen and Ms. Song Yingxue.
- (20) Tianjin eLong Union Information Technology Co., Ltd. also holds 100% equity interest in eLong International Travel (Hong Kong) Limited, a limited liability company incorporated under the laws of Hong Kong.
- (21) E-dragon Beijing WFOE also holds 100% equity interest in eDraco Travel Limited, a limited liability company incorporated under the laws of Hong Kong.
- (22) We expect to dissolve Shenyang Jiezhilv Business Consultancy Co., Ltd. (沈陽捷之旅商務諮詢有限公司) upon fulfilment of filing requirement pursuant to applicable PRC regulations, which is expected to take place in late 2018 subsequent to completion of the [REDACTED].

The following diagram illustrates the corporate and shareholding structure of our Group immediately following the completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] and the options granted under the Share Incentive Plans are not exercised):



HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRC REGULATORY REQUIREMENTS

According to the M&A Rules jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAR, the CSRC, SAIC and the SAFE on August, 2006, effective as of September 8, 2006 and amended on June 22, 2009, mergers and acquisitions of domestic enterprises by foreign investors shall be subject to the approval of the MOFCOM or its delegates at provincial level. In the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person, the merger and acquisition applications shall be submitted to the MOFCOM for approval and any circumvention on the requirement including domestic re-investment of a foreign invested enterprise is not allowed. In addition, the M&A Rules purport, among other things, to require that offshore special purpose vehicles, or SPVs, that are controlled by PRC companies or individuals and that have been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

Our PRC Legal Advisor is of the opinion that prior CSRC approval for this [REDACTED] is not required because (i) our PRC subsidiaries were incorporated as wholly foreign-owned enterprises by means of direct investment rather than by merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are our beneficial owners; and (ii) no provision in the M&A Rules clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules. However, there is uncertainty as to how the M&A Rules may be interpreted or implemented or whether the relevant authorities would promulgate further requirements.

SAFE REGISTRATION IN THE PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”), promulgated by SAFE and which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 75**”) became effective on July 14, 2014, PRC residents (including PRC institutions and individuals) must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with SAFE when there is a change to the basic information of the SPV, such as changes of a PRC resident individual shareholder, the name or operating period of the SPV, or when there is a significant change to the SPV, such as changes of the PRC individual resident’s increase or decrease of its capital contribution in the SPV, or any share transfer or exchange, merger, division of the SPV. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”), promulgated by SAFE and became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisor, Mr. Wu Zhixiang, Mr. Wang Zhuan, Ms. Wu Jian, Mr. Zhang Hailong and Mr. Ma Heping (as PRC Residents as defined under the applicable provisions under SAFE Circular 37) have completed the registration under the SAFE Circular 37 on February 3, 2018. As of the Latest Practicable Date, certain of our indirect individual shareholders was preparing for the registration under SAFE Circular 37 and SAFE Circular 13. However, we cannot assure you that he will be able to complete the relevant registration. See the paragraph headed “Risk Factors — Risks Relating to Conducting Business in China — Failure by the shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing profits and could expose us and our PRC resident shareholders to liability under the PRC laws.”

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OUR MISSION

Our mission is to make travel easier and more joyful.

OVERVIEW

We are an innovator and market leader in China’s online travel industry. We are the combined business resulting from the merger of Tongcheng and eLong, which was completed in March 2018. As two independently successful businesses founded in 2004 and 1999, Tongcheng and eLong had each been a leading OTA in China with innovative business models and longstanding relationships with a wide array of TSPs. Following the merger, benefiting from the years of experience and technological development of Tongcheng and eLong and their complementary resources, we have achieved greater economies of scale, solidified our market leadership, and accomplished a stronger ability to provide comprehensive travel products and services offerings. According to iResearch, we ranked third in terms of GMV in China’s online travel market in 2017 with the highest year-over-year growth from 2015 to 2017 in the number of online transportation ticketing and accommodation reservation transactions in China’s OTA travel market. Through our in-depth understanding of the user experience and advanced technological capabilities, we have been revolutionizing what consumers expect from the online travel industry, making the entire travel process more convenient, personalized and enjoyable than ever.

We are a one-stop shop for users’ travel needs. We offer a comprehensive and innovative selection of products and services covering nearly all aspects of travel, including transportation ticketing, accommodation reservation and various ancillary value-added products and services designed to meet users’ evolving travel needs throughout their trips. As of December 31, 2017, the online platforms of Tongcheng and eLong offered over 6,400 domestic routes and over 594,000 international routes operated by 306 domestic and international airlines, over 1 million hotels and alternative accommodation options, approximately 450,000 bus routes, and over 300 voyage routes. We have established extensive long-term strategic partnerships and alliances with TSPs to support our product innovation efforts and develop more innovative ancillary value-added products and services.

We have a large, fast-growing and engaged user base, which we believe is a key factor for our success. The average MAUs of Tongcheng and eLong combined increased from 88.7 million in 2015 to 121.2 million in 2017, representing a CAGR of 16.9%. During the same period, the average MPUs of Tongcheng and eLong combined increased from 3.9 million in 2015 to 15.6 million in 2017, representing a CAGR of 99.6%. Leveraging on the mutually beneficial partnership between us and Tencent and our effective sales and marketing strategies, we are able to reach an extensive and diversified user base in a cost-effective manner. We retain our users and increase their stickiness by delivering an excellent user experience and capture nearly all available revenue streams throughout the travel process, which we believe provides us an avenue towards greater continued growth.

As a technology-driven company, we prioritize the development of our information technology. By leveraging our big data and AI capabilities, we can not only better understand the preferences and behaviors of our users and provide them with customized products and services, but also offer insights to our TSPs and enhance our value proposition to them.

We have achieved substantial growth over the Track Record Period. Our Group’s total revenue grew from RMB1,026.1 million in 2015 to RMB2,204.6 million in 2016 and further to RMB2,518.6 million in 2017, representing a CAGR of 56.7%, and the total revenue of Tongcheng Online Business grew from RMB580.5 million in 2015 to RMB1,435.0 million in 2016 and further to RMB2,707.5 million in 2017, representing a CAGR of 116.0%. Our Group had losses of RMB963.0 million and RMB2,160.6 million in 2015 and 2016, respectively, and a profit of RMB194.4 million in 2017, and Tongcheng Online Business had losses of RMB335.1 million and RMB91.1 million in 2015 and 2016, respectively, and a profit of RMB491.3 million in 2017.

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OUR STRENGTHS

We believe the following strengths differentiate us from our competitors.

Innovator and leader in China’s online travel industry

We are an industry innovator. Standing at the forefront of industry evolution, from the PC to mobile platforms, and further to the emerging super app, the managements of both Tongcheng and eLong have stayed abreast of market developments and innovated business models to capture growth opportunities.

PC era to mobile era. Before mobile Internet began to gain momentum, both Tongcheng and eLong had acutely recognized the tremendous potential that mobile Internet could bring as it enabled travelers to purchase travel products and services on the go. Guided by this insight, since 2013, leveraging on their deep cooperation with TSPs, Tongcheng and eLong have each developed a marketing model through which they offered promotional location-based travel products and services, such as attraction tickets and hotel coupons, on mobile platforms at competitive rates. This model has achieved win-win results for all the participants — it not only allowed users to buy products and services at significant discounts, but also increased traffic for TSPs and built large, loyal mobile user bases for both Tongcheng and eLong.

Mobile era to super app era. More recently, Chinese mobile users have been rapidly shifting towards Tencent’s Weixin and Mobile QQ. Weixin and Mobile QQ are two of the largest super apps in China in terms of user base, according to iResearch. We collaborate with Tencent and are currently the sole operator of the “Rail & Flight” and “Hotel” portals in “Wallet”, the mobile payment interface of Weixin, and “QQ Wallet”, the mobile payment interface of Mobile QQ, provided that we remain a market leader with the ability to deliver good user experience. Such collaboration enables us to effectively tap into their vast user bases. The average MAUs of the Tencent-based platforms of Tongcheng and eLong combined grew from 7.6 million in 2015 to 79.6 million in 2017, representing a CAGR of 223.6%.

We are a leader in China’s online travel market. Before the business combination, Tongcheng and eLong had each been a leading OTA in China with longstanding relationships with a wide array of TSPs. By combining two market leaders with complementary businesses, the Tongcheng-eLong Merger has created even greater economies of scale, resulting in further strengthened market leadership. According to iResearch, on a combined basis, we ranked third in China’s online travel market in terms of GMV in 2017.

Benefitting from strong innovation capability and market leadership, both Tongcheng and eLong have created strong brand awareness, which is demonstrated by the numerous awards and recognitions they have received. For example, in 2017, Tongcheng was awarded China Travel Brand with Greatest Growth Potential (最具成長力中國旅遊品牌) by Hurun Research Institute. After the business combination, our new brand “Tongcheng-eLong” enjoys even broader consumer appeal and stronger brand equity. According to a survey conducted by iResearch in April 2018, “Tongcheng-eLong” ranked 2nd in China’s online travel industry in terms of brand awareness. According to the China Travel Brand Influence Report 2018 released by the Chinese Academy of Social Sciences in May 2018, “Tongcheng-eLong” ranked 4th in terms of brand influence among China’s online and offline travel brands.

Extensive and cost-effective user reach

We leverage complementary channels to strategically reach an extensive and diversified user base in a cost-effective manner.

We have established a long-term, mutually beneficial relationship with Tencent, which we believe has enabled seamless platform integration and created significant business synergies. It not only allows Tencent to better serve its users’ travel needs but also helps us broaden our user reach cost effectively. We operate the “Rail & Flight” and “Hotel” portals in the mobile payment interface of Weixin and Mobile QQ and certain other portals on Mobile QQ. In addition, we operate our

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Weixin-based mini programs, which are light features connecting service providers and Weixin users. These Tencent-based platforms enable users to access and purchase our wide-range portfolio of products and services from within Tencent apps without leaving these apps or downloading additional apps. The convenience of accessing our Tencent-based platforms has made them the natural go-to choice for many Weixin and Mobile QQ users, especially those with on-demand travel booking needs.

We also operate our proprietary mobile apps and websites. Through effective sales and marketing, these platforms have generated substantial traffic and achieved a high penetration among leisure and business travelers in high-tier cities. Driven by their extensive travel needs and significant consumption power, these user groups will continue to present a large growth potential for us. Accordingly, we have targeted these user groups strategically with our mobile apps and websites.

By employing these complementary channels, we are uniquely positioned to reach a broad audience of diversified demographics and travel needs and preferences, which will further fuel our business growth and expansion.

Large and attractive user base

We have built a large, fast-growing and engaged user base. From 2015 to 2017, the average MAUs of Tongcheng and eLong combined grew at a CAGR of 16.9% from 88.7 million to 121.2 million, and the average MPUs of Tongcheng and eLong combined increased at a CAGR of 99.6% from 3.9 million to 15.6 million. In 2015, 2016 and 2017, GMV from repeat orders accounted for 39.1%, 50.1% and 64.7%, respectively, of Tongcheng and eLong’s total GMV.

The demographic profile of our user base presents tremendous growth opportunities. As of December 31, 2017, 85.1% of the registered users of Tongcheng and eLong resided in non-first-tier cities in China. According to iResearch, the total travel spending of residents in non-first-tier cities accounted for 89.7% of total travel spending in China in 2017 and is expected to grow at a CAGR of 11.7%, outpacing that of 6.3% for first-tier cities, from 2017 to 2022. We believe that Weixin’s strong presence across China including non-first-tier cities enables us to further penetrate into and monetize users in these cities. Additionally, according to iResearch, people between 19 and 35 years old generally are more willing to spend on travel and demand quality and customized products more than other demographics. According to a survey conducted by iResearch in April 2018, approximately 69.4% of our users belonged to this age group, which is the highest among the four largest OTAs in China in terms of GMV from 2015 to 2017. We believe that this gives us a larger opportunity to build lifetime loyalty and relationship with them as their spending power grows.

Superior user experience

User experience is at the core of our business. We deliver an excellent user experience in the following ways:

Comprehensive and innovative product offerings. We believe providing users with the most comprehensive and innovative choice of products drives positive user experience. Benefitting from our extensive TSP base, we have become a one-stop shop for a vast variety of travel products and services. As of December 31, 2017, the online platforms of Tongcheng and eLong in the aggregate offered over 6,400 domestic routes and over 594,000 international routes operated by 306 domestic and international airlines, over 1 million hotels and alternative accommodation choices, approximately 450,000 bus routes, over 300 voyage routes, as well as various ancillary value-added services. This is augmented by a rich repository of informative and useful user reviews, as well as recommendations and travel guides that are generated by users or developed by us in-house. Furthermore, we have developed various innovative ancillary value-added products to meet user needs that are not typically addressed by customary travel products, such as ticket delivery, airport/train station lounge access, as well as services that allow users to transfer their accommodation reservations to other users.

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Engaging and customized interfaces. We offer engaging and easy-to-use interfaces and innovative, user-oriented tools to our users to foster a customized purchase experience. We provide personalized landing pages to individual users as we believe they are more likely to engage with a platform that reflects their personal preferences. We also continue to advance our technologies and optimize our product design to help users find desired products and make informed travel decisions more efficiently. We also analyze users’ historical transaction data to understand their travel preferences and help them better plan their itineraries by recommending routes and transfer options that we believe best suit their needs.

Best-in-class user services. We enhance communication with our users and deliver best-in-class user services. Our user service capabilities include automated online support and live customer service support by representatives through our online platforms and user service hotlines. We are among the first OTAs in China that invite users to act as chief experience officers with cash reward, a role dedicated to identifying weaknesses in user services and helping us develop solutions. We have also adopted an AI-based tool to analyze users’ queries and complaints submitted by voice input.

Leading information technology and data capabilities

We are a technology-driven company. We have made substantial investments in building a dedicated and experienced team of technology professionals. As of December 31, 2017, Tongcheng and eLong had a total of 2,567 IT employees. We have also built a proprietary technology infrastructure that supports every aspect of our business, including platform operations, data gathering and analytics, product development and user services.

Speedy and accurate processing capability is key to online booking services. Through cloud computing and storage, we deliver a massive amount of search results to our users in milliseconds with no compromise in accuracy. Our highly scalable technology infrastructure can be easily re-modularized to accommodate a rapidly growing user base and increasingly complex product offerings. Automation, another focus of our information technology, enables us to build direct connect with our TSPs, which integrates their own systems into our platforms to manage pricing and inventory and confirm bookings in real time. In 2017, transactions executed automatically through direct connect accounted for approximately 96.2% of the combined air ticket orders and approximately 60.0% of combined accommodation room nights of Tongcheng and eLong.

We have accumulated a vast amount of data from user behavior and transactions completed on our platforms and have made significant efforts in analyzing such data to better understand user preferences and behaviors. This enables us to develop user-oriented products and to assist users in making informed decisions, while identifying potential targeted marketing and cross-selling opportunities. We are able to identify frequent business travelers through analysis of air ticketing data and send such travelers targeted push notifications of accommodation options at their destinations. Our key word database utilizes an intelligent machine-learning technology, which automatically records users’ search history and improves search experience.

Our data strength and insight have also increased our value proposition to TSPs by assisting them in making more informed product development and marketing decisions. We work closely with TSPs to design products addressing a traveler’s unique needs and leverage our proprietary data-based pricing model to find the most optimal prices for these products. Moreover, leveraging our massive user database, we assist TSPs in predicting future demands so as to reduce inventory risks and increase margins.

Management team with extensive industry experience and entrepreneurial culture

The capability of our management benefits from the Tongcheng-eLong Merger as it brings together two best-in-class executive teams in the industry with complementary knowledge and a shared passion for excellence. The management of Tongcheng and eLong are mostly veterans of China’s Internet or travel industries with an average of over ten years’ experience. Our management team has a clear vision for our future growth and a strong execution capability, as demonstrated by the successful Tongcheng-eLong Merger, the fruitful strategic collaboration with Tencent and other

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initiatives that we have successfully implemented. Following the announcement of the Tongcheng-eLong Merger, we substantially completed the system integration of Tongcheng’s “Rail & Flight” portal and eLong’s “Hotel” portal on Weixin in just one month.

We also benefit enormously from our management team’s entrepreneurship which drives innovation and a high level of responsibility across the company. Our management team is open to embracing innovative ideas and is dedicated to fostering a firm-wide atmosphere of entrepreneurship where employees are encouraged to take on more responsibilities and providing them with support to successfully turn these ideas into actions. For example, we have recently launched our internal incubator program to encourage and invest in product development or marketing projects designed by employees.

OUR STRATEGIES

With today’s technological developments, travelers are increasingly demanding seamless and personalized travel services before, during and after their trips. To meet these growing demands, we plan to implement the following strategies to meet these demands and deliver a more seamless travel experience to our users.

Expand product and service offerings

Product and service offerings are fundamental to how we serve our users. Expanding product and service offerings helps us attract more users, enhances user engagement and increases our monetization opportunities. We will continue to increase the breadth and depth of our product and service offerings to cover every step of travel through further developing direct relationships with TSPs and launching customized and innovative services.

We will strengthen our partnerships and alliances with key TSPs and global OTA partners to provide more travel options. By further collaborating with our existing TSPs on product development, cost reduction and inventory optimization, we will be able to provide broader and more customized product offerings.

We will establish cooperation with various emerging TSPs such as bed-and-breakfast properties, apartments, short-term rental and car hailing to fulfill users’ diversified travel needs. With increasing outbound travel demand, we will continue to expand our global network to serve outbound Chinese travelers and the overseas Chinese community.

We will continue to launch customized and innovative products and services to cover more scenarios throughout the entire travel process and explore additional monetization opportunities. One example is our plan to use mini programs to connect groups of same destination travelers to tour guides which is expected to make the travel experience more convenient, enjoyable and increasingly social.

Grow user base and enhance user engagement

The growth of our user base and user engagement is critical to our success. We will continue to seek the most effective and cost-efficient ways to expand our user base through a diverse range of traffic acquisition channels. Specifically, we plan to adopt the following strategies:

Increase user awareness of Tencent-based platforms. We aim to convert more Weixin users to our users by increasing awareness of our Tencent-based platforms through online and offline marketing campaigns. For example, we recently launched a marketing campaign on our Weixin-based mini programs where a Weixin user can receive discounts if he or she can invite a sufficient number of their Weixin connections to engage with our platform. We expect that by promoting similar marketing campaigns, as well as collaborative promotions with Tencent, we can further tap into Tencent’s massive user base.

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Enhance our brand equity. We will further enhance our own brand awareness through marketing and promotional activities across various media formats. Given our targeted user base and the growing impact of social media, we plan to both attract more new users and increase referrals from existing users by further leveraging our advantage among social networks.

Acquire traffic efficiently for our proprietary mobile apps. We will continue to distribute and promote our proprietary mobile apps through various distribution channels including app stores, smartphone original equipment manufacturers (OEMs) and other super apps. We will also leverage our user data insights to optimize traffic acquisition.

Along with the growth of our user base, we also aim to enhance users’ engagement by fulfilling their social and emotional needs:

Connection to the wider community. People have a need for a sense of belonging. We will seek to create a travel-focused social community and encourage our users to share personal travel experiences within their own social network, which is significantly more impactful for attracting traffic to our platform and enhancing user loyalty.

A sense of status. People tend to enjoy the recognition of their own value and status within the group or community that they belong to. We plan to design a number of programs to satisfy this specific need of our users to drive user loyalty and stickiness. For example, we will further enhance our membership loyalty program to reward committed users with more exclusive options.

Personal care and attention. People need to be taken care of and paid attention to on a personal level. We intend to provide a more personalized user experience with smart travel solutions to meet our users’ evolving needs, such as recommending hotels with a gym for fitness-minded clients or hotels near excellent restaurants for food connoisseurs.

Deepen cooperation with TSPs

Our success relies on our productive and meaningful partnership with TSPs. As a result, we must find ways to deepen our cooperation with our TSPs and strengthen our value proposition to them.

We plan to leverage our data insights to help our TSPs grow their businesses and enhance their operational efficiency. For example, leveraging our data strengths, we will continue to provide recommendations to accommodation TSPs on their inventory management and provide sales management services to transportation ticketing TSPs to help them find out the most profitable routes and optimal pricing and booking ratios. Additionally, leveraging our strategic relationship with Tencent, we plan to provide our TSPs with more opportunities to expand their user reach through marketing campaigns and initiatives within the Tencent ecosystem, such as through our Weixin public accounts and Weixin-based mini programs. For example, we plan to offer co-branded promotions with selected TSPs and achieve targeted press coverage through Tencent’s various marketing channels. We will also continue to offer TSPs more advertising opportunities through our Tencent-based platforms as well as our own mobile apps and websites.

We also intend to leverage our technology to help our TSPs offer more innovative and customized travel products and services. For example, through our mobile apps, we plan to enable accommodation suppliers to self-design products and services. We also plan to offer a greater variety of SaaS solutions to different types of TSPs and increase their adoption of as well as integration into our SaaS system, to enable TSPs to offer more customized travel products and services on our platforms.

Strengthen big data and AI innovations

Travel has become increasingly technology driven. Strengthening technology innovations is one of our key strategic focuses to enhance user experience.

By further leveraging our growing data base and strong data analytics capabilities, we are able to more precisely analyze user behavior and intent, so as to provide personalized matching of services and help users make quick and smart decisions. In addition, we plan to further deepen our

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collaboration with Tencent to enrich the breadth and depth of our user insights. We also plan to utilize our users’ social graphs which depict their personal profiles and connections to provide more engaging travel experiences and more customized products and services.

We also plan to focus our research and development efforts on optimizing our AI technologies. By leveraging our AI technologies, we will continue to provide customized travel solutions to our users and introduce virtual personal assistant functions throughout the trip to make travel easier and more joyful. As technologies and means for human-machine interactions continue to advance, we will strive to adapt to new technologies and formats.

To strengthen and sustain our technology innovation, we will continue to attract, train and retain more talent in technology, research and development. New talent will continue to support our technology and will be offered advancement through performance-based compensation packages, on-the-job training programs and promotion opportunities.

Pursue strategic alliances, acquisitions and investments

Building on our strong track record of acquiring and integrating a number of businesses including the most recent integration of Tongcheng and eLong, and as part of our growth strategies, we plan to selectively pursue acquisitions, investments, joint ventures and partnerships that we believe are highly strategic and complementary to our business and operations.

In particular, we may consider acquisition of other online platforms that complement our existing products and service offerings. We will also seek minority investments in TSPs across different travel verticals and strategic partnerships with content providers to further expand our partner network. In an effort to further improve our technological infrastructure and capabilities, we may also consider investing in and establishing strategic partnerships with technology companies that could improve our data collection and analysis, platform performance and user experience.

OUR ONLINE PLATFORMS

We deliver our travel products and services offerings primarily through our online platforms, which consist of our Tencent-based platforms, our mobile apps and our websites. We connect our users through our online platforms to a wide array of our travel products and services, with technologies that help them efficiently find desired products and services in a user-friendly and customized format.

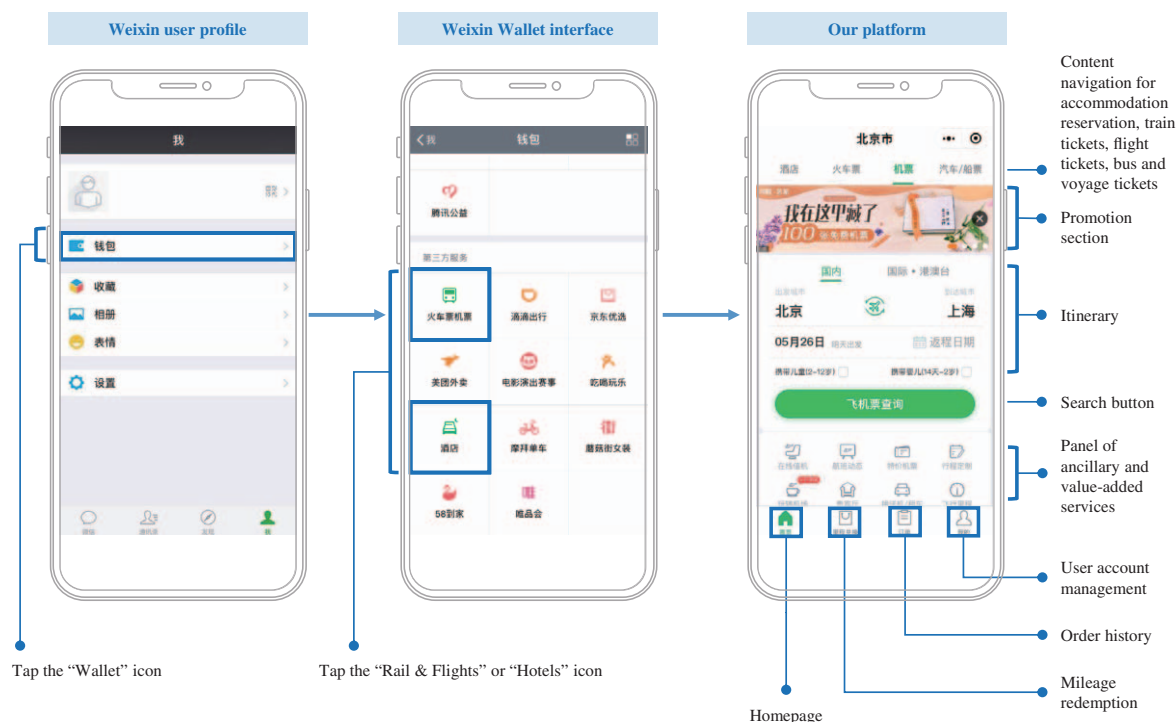
Our Tencent-based platforms

We currently operate: (i) the “Rail & Flight” and “Hotel” portals in “Wallet”, the mobile payment interface of Tencent’s Weixin; (ii) the “Rail & Flight” and “Hotel” portals in “QQ Wallet”, the mobile payment interface of Tencent’s Mobile QQ and certain other portals in Mobile QQ; and (iii) our proprietary Weixin-based mini programs. Weixin and Mobile QQ are two of the largest super apps in China in terms of user base, according to iResearch.

Our Tencent-based portals and mini programs direct Tencent users to our interfaces where they can browse, compare and purchase our wide portfolio of travel products and services, all within Weixin or Mobile QQ without leaving the app or downloading additional apps. To further streamline user experience, we allow Weixin or Mobile QQ users to access and make purchases on our Tencent-based platforms using their Weixin and/or Mobile QQ accounts. We believe that the simplicity of accessing our Tencent-based platforms not only grows our user traffic and engagement, but has also also enriches products and services offered for Weixin and Mobile QQ users.

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The below screenshots illustrate how users can reach our portals on Weixin:



The below screenshots illustrate how users can reach our Weixin-based mini programs:



Benefiting from Tencent’s extensive Weixin and Mobile QQ user bases, our Tencent-based platforms have significantly driven our user traffic in a cost-effective manner. In 2017, the average MAUs of Tencent-based platforms of Tongcheng and eLong combined were 79.6 million.

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Our mobile apps and websites

Users can reach our products and services through our mobile apps which are available on both Android and iOS operating systems and our proprietary websites, ly.com and elong.com. Both of our mobile apps and websites are built to enable access to our full travel product offerings with clear and functional interfaces. We also allow mobile users to visit our websites via a mobile-optimized WAP page to enjoy a similar level of functionality as mobile apps without installation. We offer certain location-based features that are only available on mobile apps, such as push notifications of nearby promotions or places of interest when the mobile app detects that the user is visiting a new place.

In 2017, the average MAUs of Tongcheng and eLong’s mobile apps and WAP pages were 27.9 million, and the average MAUs of Tongcheng and eLong’s websites was 13.7 million.

The Interface of Our Online Platforms

We use similar search and display interfaces across our online platforms. A transaction on our online platforms typically involves the following steps:

- ***Browse & search.*** Users search by initially entering a text-based query, which supports searches across a broad range of user-defined parameters, and then refine the search results by including more nuanced filters. As users browse and search, we display on the platforms information about travel products and services that we believe users may be interested in, based on our analysis of their search and purchase history. We also offer personalized landing pages based on geolocation and other user data, which we believe make it easier for users to find their desired travel products and services.
- ***Place an order.*** After selecting a particular product and services, users are prompted to confirm purchase details before placing an order. At this point, we often offer users the option to customize their trips by combining two or more travel products and services that come with competitive package prices or to purchase ancillary value-added travel products and services, such as travel insurance, car rental or hotel coupons as the user sees fit.
- ***Payment.*** Users typically pay directly through our platforms. We accept major third-party online payment services in China such as Tenpay and Alipay, and banking services such as Union Pay, bank transfer and credit cards.
- ***Itinerary management & review.*** We offer proprietary itinerary management tools that enable users to view and manage their orders and itineraries. We encourage users to submit ratings, reviews, recommendations and travel stories, including photos, to our platforms after they return from their trips. We believe that this increases transparency of product information, assists other users in making informed travel decisions and helps create a virtual travel community on our platforms that drives user engagement and stickiness.

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TRAVEL PRODUCTS AND SERVICES WE OFFER

We offer a comprehensive suite of travel products and services catering to travelers’ needs throughout their trips. The below table sets forth the details for each product type:

Product	Revenue Model
Transportation Ticketing	
Air ticket	We generate revenue primarily by (i) charging commissions from air ticket suppliers on air tickets; (ii) charging commissions from suppliers of travel insurance; and (iii) charging users service fees for certain ancillary value-added travel products and services, such as our airport VIP lounge and priority boarding services.
Train ticket	We generate revenue primarily by (i) charging users service fees for certain ancillary value-added travel products and services, such as VIP lounge services; and (ii) charging commissions from suppliers of travel insurance.
Bus ticket	We generate revenue primarily by (i) charging users service fees for certain ancillary value-added travel products and services, such as ticket pick-up; and (ii) charging commissions from suppliers of travel insurance.
Voyage ticket	We generate revenue primarily by charging commissions from voyage ticket suppliers on the voyage tickets sold through us and suppliers of travel insurance.
Accommodation Reservation	
Accommodation reservation	We generate revenue from accommodation reservation by receiving commissions from accommodation suppliers for each room night booked through us, except for room nights prepurchased by us for which we take inventory risk where we record revenue (namely, the amount billed to the users for the room nights sold) on a gross basis and record the price we prepurchase such room nights from the accommodation suppliers as cost of revenue.

The below table sets forth a breakdown of our Group’s revenue by product type during the Track Record Period:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Transportation ticketing	89,378	86,650	61,295
Accommodation reservation	907,649	2,094,050	2,361,625

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We offer a substantial portion of the travel products and services through the online platforms of Tongcheng Network, which merged into our Group in March 2018. The below table sets forth a breakdown of the revenue of Tongcheng Online Business by product type for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Transportation ticketing	509,819	1,348,374	2,468,398
Accommodation reservation	70,243	82,398	101,379

We sell travel products and services primarily through our online platforms, which mainly consist of our Tencent-based platforms, our mobile apps and our websites. See “— Our Online Platforms.” We also make travel products and services available through third-party online marketplaces and other sales channels, including the online platforms of Ctrip, one of our largest shareholders, as well as its affiliates, pursuant to certain business cooperation arrangements between us and Ctrip. To cater to users’ various consumption needs and preferences, we also give users an option to make bookings through our in-house user service hotlines.

Transportation Ticketing

We provide reservations for air tickets, train tickets, bus tickets and voyage tickets, as well as travel insurance and other ancillary value-added travel products and services. In 2015, 2016 and 2017, the transportation ticketing GMV of Tongcheng and eLong combined was RMB22,553.7 million, RMB50,525.1 million and RMB80,037.7 million, respectively. During the same period, our Group’s revenue from transportation ticketing was RMB89.4 million, RMB86.7 million and RMB61.3 million, respectively, accounting for approximately 8.7%, 3.9% and 2.4%, respectively, of our total revenue, and Tongcheng Online Business’ revenue from transportation ticketing was RMB509.8 million, RMB1,348.4 million and RMB2,468.4 million, respectively, accounting for approximately 87.8%, 94.0% and 91.2%, respectively, of its total revenue.

Air Tickets

We sell air tickets for substantially all Chinese airlines and major international airlines. As of December 31, 2017, the air ticket suppliers of Tongcheng and eLong comprised 306 airlines and 298 air tickets agents, covering over 6,400 domestic routes and over 220 airports in China and over 594,000 air routes and over 2,220 destinations outside China. In 2015, 2016 and 2017, on a combined basis, we sold approximately 17.9 million, 35.4 million and 48.5 million air segments, respectively. According to iResearch, on a combined basis, we ranked third in China’s online travel industry in terms of air ticket GMV in 2017.

Built upon our proprietary search algorithms, we allow users to narrow search results by specifying a preference such as departure or arrival time, direct flights, airlines and refundable fares, and leverage our data capability to help them book flights that best suit their travel needs. We also offer our users a clear, intuitive format to make air ticket purchase easier. For example, we add an “Express Ticketing” label to search results from suppliers that respond to ticket issuing requests more quickly than others, which we believe is useful information for travelers with a less certain travel plan.

Our air ticket booking engines source real-time availability and pricing information from “direct connects” to airlines’ booking systems and GDS. We generally receive commissions (i) of a fixed amount depending on the air segment and, in some cases, discretionary incentives, for flights operated by domestic airlines, and (ii) of a fixed amount or as a percentage of the ticket price, with discretionary rebates and/or incentives, for flights operated by international airlines. Typically, users pay airfare directly through our platforms and we deduct our commissions from the proceeds before remitting them to air ticket suppliers. We generally do not assume inventory risks relating to our air tickets business.

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In addition to selling air tickets, we also offer users various options and services to help them travel with ease. Our users can customize their trips by combining two or more of our core travel products, such as air ticket and hotels, which are typically offered as a package at discounted rates. We also market to our users travel insurance products and various ancillary value-added travel products and services built around their air travel needs, such as priority boarding and airport VIP lounge services. We generate revenues from these ancillary value-added travel products and services by receiving from the service suppliers commissions as a percentage of the GMV generated or receiving service fees directly from the users purchasing such services.

Train Tickets

We provide train ticket purchase service in the PRC sourced from www.12306.com, the official online booking platform of China Railway Corporation, or CRC, as well as offline ticket sales agencies. On our online platforms, we also offer train tickets for railway routes connecting more than 15,000 destinations in Europe. Through our platforms, users can view train timetables and ticket availability, and search railway routes based on various parameters, such as departure time, destinations, budgets, as well as class of travel.

In addition to providing train ticket purchase services, we also offer travel insurance and various other ancillary value-added travel products and services that are designed to streamline the ticket booking process and make rail travel hassle-free in conjunction with their bookings. For example, we offer users a service that monitors ticket availability and automatically purchases tickets at time slots and price ranges specified by our users as soon as they become available. Moreover, in collaboration with CRC and its regional divisions, we give users the ability to order meals when purchasing train tickets and have them delivered on board directly at their seats. We generate revenue from these ancillary value-added travel products and services by charging the suppliers who provide such services commissions as a percentage of the GMV or by receiving service fees directly from the users.

We do not prepurchase train tickets and consequently do not assume inventory risk from our train ticket business.

Bus Tickets

We began to sell tickets of long-distance buses in 2015 to capture the growing demands for intercity transport in China, as we believe that it represents an attractive alternative to railways and flights. Users can search bus schedules by departure dates, locations and destinations. Our bus ticket suppliers primarily include regional bus ticket information aggregators and provincial bus service operators in China. As of December 31, 2017, Tongcheng and eLong offered intercity coach and charter bus services provided by 40 bus operators, covering approximately 450,000 routes and 2,000 destinations in the PRC.

We do not prepurchase bus tickets and consequently do not assume inventory risk from our bus ticket business.

Voyage Tickets

As of December 31, 2017, we provided our users with access to voyage tickets for 273 domestic routes covering a total of 75 destinations operated by 64 voyage carriers. We source voyage tickets directly from voyage carriers or through travel agencies and travel information aggregators. We generate our revenue from selling voyage tickets primarily by charging TSPs commissions as a percentage of the GMV generated. We also offer users travel insurance and various other ancillary value-added travel products and services, such as expedited ticket issuing, in connection with their voyage ticket bookings.

We do not prepurchase voyage tickets and consequently do not assume inventory risk from our voyage ticket business.

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Accommodation Reservation

We provide a large range of accommodation offerings to cater to users’ varying lodging budgets and preferences. In December 2017, we sold an average of over 183,000 room nights per day through our platforms. According to iResearch, on a combined basis, we ranked third in China’s online travel industry in terms of accommodation GMV in 2017. In 2015, 2016 and 2017, the accommodation GMV of Tongcheng and eLong was RMB14,277.8 million, RMB17,270.5 million, and RMB22,300.2 million, respectively. During the same period, our Group’s revenue from accommodation reservation was RMB907.6 million, RMB2,094.1 million and RMB2,361.6 million, respectively, accounting for approximately 88.5%, 95.0% and 93.8% of our total revenue, and the revenue of Tongcheng Online Business from accommodation reservation was RMB70.2 million, RMB82.4 million and RMB101.4 million, respectively, accounting for approximately 12.1%, 5.7% and 3.7% of its total revenue.

Our online platforms currently cover approximately 390,000 hotels and alternative accommodation choices in over 380 cities in China and approximately 790,000 hotels and alternative accommodation choices in more than 50,000 destinations overseas. Users can search, compare and book accommodations on our platforms based on their destination and desired check-in and check-out dates, with search results shown in the form of a listing or on a digital interactive map. Users may further filter and sort search results by selecting star categories, locations, hotel chains, and amenities. We also offer technologies designed to streamline users’ booking and lodging experience, such as our proprietary algorithm that enables searches using nature language or colloquial names. In order to provide better accommodation information to users and help us and our TSPs improve product quality, we also augment our accommodation offerings with a wide library of user ratings, reviews, recommendations and tour guides. As of December 31, 2017, the online platforms of Tongcheng and eLong featured approximately 67.0 million reviews generated by users and shared by Ctrip and its affiliates, covering about 370,000 accommodations in China and globally.

We divide accommodation offerings into the following two categories: (i) hotels, which can be further divided into luxury hotels, high-end hotels, mid-end hotels, and economy hotels, and (ii) alternative accommodations, which, depending on the architecture layout, comfort level and amenities, can be further divided into lodges, bed-and-breakfast properties, apartments, and others (such as youth hostels and campsites).

We procure our accommodations supplies primarily through: (i) contracting directly with accommodation suppliers; (ii) accommodation inventory of Ctrip, our shareholder, as well as its affiliates, sold through our online platforms; and (iii) contracting with regional travel agents and wholesalers. These channels accounted for approximately 79.6%, 16.3% and 4.1% of the room nights booked through Tongcheng and eLong in 2017. In recent years, we have invested substantially in building direct connections with accommodation suppliers, whereby our online platforms are linked directly to the accommodation suppliers’ own booking systems, enabling them to manage inventory and pricing information and confirm bookings made through our online platforms on a real-time basis. This direct connect model has effectively improved the level of automation in accommodation reservation transactions made through our online platforms.

To secure more quality room night inventory, we prepurchase room nights from accommodation suppliers for resale to our users. With respect to a portion of the room nights we prepurchase, we have no contractual rights to return to the accommodation suppliers the room nights that remain unsold after a specified time period, and we therefore are subject to inventory risk. We generate revenue from accommodation reservation by receiving commissions from accommodation suppliers for each room night booked through us, except for room nights prepurchased by us for which we take inventory risk where we record revenue (namely, the amount billed to the users for the room nights sold) on a gross basis and record the price we prepurchase such room nights from the accommodation suppliers as cost of revenue. We have in place internal rules and policies regarding the management of inventory risk; see “— Risk Management and Internal Control — Inventory Risk Management.”

We maintain “guaranteed allotment” arrangements with the suppliers of a substantial portion of our non-prepurchased accommodations. Under such arrangements, we are guaranteed a specified

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number of available rooms per day, which allows us to confirm bookings instantly, thereby increasing user confidence and engagement. Additionally, we are not subject to inventory risk under such arrangements.

Our accommodation suppliers are paid by one of two methods: namely “pre-pay” or “pay at destination.” Under the “pre-pay” model, a user pays us at the time of booking and we pay the accommodation suppliers, after the user checks out, the full amount (in which case the accommodation suppliers will pay commissions to us separately) or an amount net of the commissions to which we are entitled. Under the “pay-at-destination” model, the user pays the accommodation suppliers directly upon checkout and we receive our commission from the accommodation suppliers.

In addition to accommodation bookings, we also provide users with innovative solutions and services to ensure an easy, comfortable lodging experience, driven by our strong product development and data analytics capabilities. We leverage our massive amount of user and transaction data to identify users with good credit records and allow them to check in without a deposit. Additionally, in collaboration with hotel partners, we have recently introduced a pilot program that allows users to check in quickly using face recognition technology instead of over the counter.

OTHER BUSINESSES

In addition to offering accommodation reservation and transportation ticketing on our online platforms, we also generate a small portion of our revenue from the following businesses:

- the provision of our online platforms as a sales channel for attraction ticketing, packaged tours, and other travel products and services operated by Tongcheng Holdings, in exchange for commissions of a percentage of the GMV generated, pursuant to an online platform service agreement entered into between Tongcheng Network and Tongcheng Holdings;
- travel-related advertising services, for which we charge on a revenue-per-thousand-impressions basis for promotional links displayed on our online platforms; and
- the provision of various value-added services, such as online e-commerce marketplace where users can spend their miles and loyalty points for merchandise, as well as premium membership services that give users various benefits and privileges, to our users that are designated to augment their travel experience.

In 2015, 2016 and 2017, our Group’s revenue from other businesses was RMB29.1 million, RMB23.9 million and RMB95.7 million, respectively, accounting for approximately 2.8%, 1.1% and 3.8% of our total revenue. During the same period, Tongcheng Online Business generated revenue from other businesses of RMB0.5 million, RMB4.2 million and RMB137.7 million, respectively, accounting for approximately 0.1%, 0.3% and 5.1% of its total revenue.

OUR USERS AND USER SERVICES

We have a large, fast-growing user base. From 2015 to 2017, the average MAUs of Tongcheng and eLong combined increased from 88.7 million to 121.2 million, representing a CAGR of 16.9%. During the same period, the average MPUs of Tongcheng and eLong combined increased from 3.9 million in 2015 to 15.6 million in 2017, representing a CAGR of 99.6%. Our user base is increasingly loyal and engaged. In 2015, 2016 and 2017, GMV from repeat orders accounted for 39.1%, 50.3% and 64.7%, respectively, of the total GMV of Tongcheng and eLong.

Our user base has an attractive demographic profile. As of December 31, 2017, 85.1% of our registered users resided in non-first-tier cities in China. This is a highly sought-after demographic with great potential, given their rising travel spending and need for quality travel products and information. According to iResearch, the total travel spending of residents in non-first-tier cities accounted for 89.7% of total travel spending in China in 2017 and is expected to grow at a CAGR of 11.7%, outpacing that of 6.3% for first-tier cities, from 2017 to 2022. Additionally, according to

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iResearch, people between 19 and 35 years old are generally more willing to spend on travel than other demographics, and according to a survey conducted by iResearch in April 2018, approximately 69.4% of our users are of that age group, which is the highest among the four largest OTAs in China.

User experience is at the core of our business. While our strong brand awareness, effective online and mobile user acquisition efforts and comprehensive product offerings have all contributed to our fast user growth, we believe that our ability to deliver best-in-class user services is the key to driving user growth in the long run. We are dedicated to providing 24/7 support to our users through the following channels:

- our AI-powered, web- and mobile app-based automated support;
- our user service representatives team, which consisted of 141 members as of December 31, 2017 based in Suzhou, Jiangsu Province and Hefei, Anhui Province that engage with our users through web- or mobile app-based interactive live chat; and
- our in-house user service hotlines and outsourced call centers.

To ensure that user complaints and queries are dealt with in a timely, professional and consistent manner, we have also carried out various initiatives, which primarily include the following:

- we generally require a user complaint or query to be resolved within 24 hours upon receipt. In 2017, over 90% of user complaints and queries were resolved within 24 hours of receipt, which we believe is market-leading;
- with respect to accommodation reservation, where a TSP is unable to fulfil a user’s booking for reasons not attributable to the user, we will promptly find the user alternative lodging options of comparable quality or compensate the user for reasonably incurred losses; and
- we closely monitor media and online social platforms for negative publicity relating to us or our industry and, where appropriate, respond to such negative publicity to clarify.

OUR TRAVEL SERVICE PROVIDERS

We have a large and diverse TSP base covering a wide range of travel segments, including airlines and other air ticket suppliers, train ticket suppliers, bus operators, voyage carriers, hotels and alternative accommodation providers, other OTAs from whom we source travel products and services, as well as suppliers of various ancillary value-added travel products and services, such as insurance companies and car rental companies. During the course of 2017, Tongcheng and eLong together have transacted with approximately 200,000 TSPs. We generate revenues from our TSPs primarily by charging commissions or receiving an agreed portion of their revenues from the products and services sold for facilitating the sales of TSPs’ products and services through our platforms. We seek to build and maintain long-term, strategic relationships with our TSPs.

- **TSP selection.** We carry out a rigorous TSP selection process. When determining whether to introduce a prospective TSP to our platforms, we take into account various factors, including reputation, industry expertise and know-how, price competitiveness, and a history of delivering high-quality products and services.
- **Travel product procurement.** Our product procurement team works closely with our TSPs to ensure that our users are provided with high-quality travel products. We also frequently conduct price comparisons for TSPs’ travel products to assess the competitiveness of our pricing. Additionally, we host periodic large procurement events and present our major TSPs with our estimated product demand.
- **Travel product development.** We strive to provide our TSPs with industry and user insight based on the massive data we have accumulated over the years. As part of the ancillary

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value-added services we provide to our TSPs, we use our data analytic capabilities to help them develop innovative services to meet travelers’ evolving needs and to optimize the pricing of such products. We believe this helps us build stronger ties with existing TSPs and attract potential TSPs.

- ***Relationship maintenance.*** We interact with our TSPs mainly through our dedicated customer service teams, which actively communicate with our TSPs by various means. We encourage our accounting and technical staff to communicate directly with their counterparts at the TSPs to ensure the issues arising in these areas can be resolved in a timely manner.

Additionally, we have developed proprietary technologies and systems to interact with our TSPs and assist them in managing, pricing and marketing their supply. These systems primarily include:

- a customer management system, or CRM, which enables us to gather and analyze numerous types of behavior and transaction data of TSPs, including sales volume, user satisfaction, conversion rates, and user acquisition costs. We use data gathered through this CRM in budgeting and procurement planning, as well as designing our marketing and promotional campaigns; and
 - an e-booking system, a platform accessible via web and mobile, that offers TSPs the ability to manage inventory, pricing and other product information, on a real-time basis without our direct involvement.
- ***Quality control.*** To ensure that we deliver high-quality products, we have in place service protocols and guidelines for TSPs to follow, and maintain dedicated teams to monitor the TSPs and engage with TSPs in responding to queries and user feedback and reviews. We offer TSPs, who maintain positive user feedback, an optimized listing in the search results on our platforms, and impose sanctions on TSPs who violate the service protocols or constantly receive user complaints.

We generally enter into non-exclusive contracts with our TSPs. The commissions that we are entitled to receive from the TSPs (or, in circumstances where we prepurchase travel products and services from TSPs for resale to our users, the purchase prices that we pay to the TSPs) pursuant to such contracts are usually negotiated on a case-by-case basis and may vary, depending on a number of factors, such as the type and price competitiveness of the travel products and services, our relationships with the TSPs, and the TSPs’ ability of delivering high-quality user services. The agreements between us and our TSPs typically provide for a credit term of approximately 30 days, which is generally in line with market practice. Under our contracts with TSPs, TSPs are generally responsible for the accuracy of the descriptions of travel products and services displayed on our online platforms and compensating us for claims and liabilities arising from allegation of inaccurate product descriptions.

OUR CUSTOMERS

Our customers consist primarily of TSPs, as we generate a substantial portion of our revenue by facilitating the sales of TSPs’ travel products and services through our online platforms and, in exchange, charging TSPs commissions. For more information about our TSPs, including key terms of our contracts with TSPs, see “— Our Travel Service Providers.” Our customers also include (i) users who purchase from us travel products (primarily including accommodation) that we prepurchase from TSPs; (ii) users who purchase ancillary value-added travel products and services, such as airport VIP lounge and priority boarding services, and pay us service fees ; and (iii) advertisers who post advertisement of their products and services on our online platforms. Generally, we grant credit terms of 30 days to our customers.

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We maintain long-term partnerships with our largest customers. Our Group had business relationships with its five largest customers in 2017 (in terms of revenue contribution) ranging from one to six years.

Our Group’s five largest customers in 2015, 2016 and 2017 primarily consist of accommodation suppliers, providers of travel insurance and air ticket suppliers. In 2015, 2016 and 2017, the Group’s five largest customers in the aggregate accounted for 12.3%, 6.5% and 13.4%, respectively, of its revenue.

Ctrip and its affiliates, which as a group represented one of our Group’s five largest customers in each of 2015, 2016 and 2017, were also among our Group’s largest suppliers for the same periods. In 2015, 2016 and 2017, Ctrip and its affiliates as a group accounted for approximately 1.3%, 3.9% and 9.7%, respectively, of our Group’s total revenue and accounted for approximately 4.4%, 17.0% and 35.9%, respectively, of its total purchases. Our transactions with Ctrip and its affiliates during the Track Record Period were conducted mainly pursuant to certain business cooperation arrangements between us and Ctrip, under which we and Ctrip make available travel products and services through each other’s online platforms. We believe that these transactions expand and complement the scope of travel products and services offered on our and Ctrip’s respective online platforms and strengthen the long-term, mutually beneficial relationship between us and Ctrip. For more information about our relationship with Ctrip, see “Our Relationship with our Largest Shareholders — Ctrip.” Except as disclosed herein, during the Track Record Period, none of our Directors, their associates or any Shareholder of our Company (who, to the knowledge of our Directors, owned 5% or more of our issued shares) has any interest in any of our five largest customers during the Track Record Period. For details of the continuing connected transaction between our Group and its connected persons, see “Connected Transactions.”

OUR SUPPLIERS

Our suppliers primarily consist of (i) user acquisition channels; (ii) online and mobile payment services; (iii) advertising and marketing service providers; (iv) data storage, server hosting and bandwidth providers; (v) suppliers of room nights that we prepurchase for resale to users; and (vi) third-party sales channels, including the online platforms of Ctrip, one of our largest shareholders, and its affiliates, through which we make available travel products and services that we source from TSPs.

We usually enter into annual non-exclusive supply contracts with our suppliers based on our estimated demand for products and/or services for the year. Our supply contracts usually set out the pricing policy for the products and services provided. The payment terms granted by our suppliers may vary, depending on a number of factors, including our relationships with the suppliers and the transaction volume, among others. The agreements between us and our suppliers typically provide for a credit term of approximately 30 days, which is generally in line with market practice. We normally settle our payables to suppliers by bank transfer.

Our Group’s five largest suppliers in 2015, 2016 and 2017 primarily consist of advertising and marketing service providers. In 2015, 2016 and 2017, our Group’s five largest suppliers in the aggregate accounted for 33.0%, 26.5% and 46.6%, respectively, of its total purchases. Our Group had business relationships with its five largest suppliers in 2017 (in terms of the amount of total purchases) ranging from one to seven years.

In 2015, 2016 and 2017, Ctrip and its affiliates were among our Group’s five largest suppliers, accounting for approximately 4.4%, 17.0% and 35.9% of its total purchases, respectively. Except as disclosed herein, during the Track Record Period, none of our Directors, their associates or any Shareholder of our Company (who, to the knowledge of our Directors, owned 5% or more of our issued shares) has any interest in any of our five largest suppliers during the Track Record Period. Other than as disclosed herein, all of our remaining top five suppliers were Independent Third Parties. During the Track Record Period, we did not have any material disputes with or any material operation interruptions caused by our suppliers. During the Track Record Period, we did not have any material disputes with or any material operation interruptions caused by our suppliers. For details of the continuing connected transactions between our Group and its connected persons, see “Connected Transactions.”

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Tencent, one of our largest shareholders, together with its affiliates, represents one of our largest suppliers. We operate our Tencent-based platforms and procure mobile payment services for purchases made by our users through these Tencent-based platforms. See “— Our Online Platforms — Our Tencent-based Platforms.” In particular, we generate substantial traffic through the “Rail & Flight” and “Hotel” portals (the “**Tencent Portals**”) in the mobile payment interfaces of Weixin and Mobile QQ. Pursuant to certain business cooperation agreement between us and Tencent, Tencent has given us the right to solely operate the Tencent Portals provided that we remain a market leader with the ability to deliver good user experience, and we carry out, and are principally responsible for, the day-to-day operations of such portals. In addition, Tencent has agreed that after the expiry of the initial term of such agreement and until July 31, 2026, if any multi-products trading platform is introduced on Weixin and Mobile QQ which includes online travel products, it will consider cooperating with us in priority to other providers if the terms and quality of products offered by us are comparable to those offered by such other providers. The above-mentioned business cooperation agreement between us and Tencent will expire on July 31, 2021. For more details, see “Connected Transactions — Summary of Our Continuing Connected Transactions — A. Fully-exempt continuing connected transactions — Tencent Cooperation Agreement.”

MARKETING AND BRANDING

We believe brand recognition is critical to our ability to attract users and drive traffic and transactions on our platforms. We use a combination of online and offline campaigns to market our services and increase brand awareness.

We purchase key words from major search engines in China and enhance the likelihood of attracting visitors using search engine optimization techniques and monitor end-to-end performance metrics of our search engine marketing channels continuously. We also put advertisements on popular mobile apps to generate premium traffic and maximize return from mobile marketing channels. We also operate branded Weixin public accounts to raise awareness of our brand and increase user traffic and engagement on the Weixin platform.

In addition to online marketing, we also engage in various forms of offline branding activities to augment our overall marketing and branding strategies. We place public advertisements at elevators, railway stations and airports in major cities in China, in order to enhance our presence and user awareness in these markets. Since 2016, we have increased our offline marketing efforts in non-first-tier cities, which we believe represent a fast-growing market with a huge untapped potential audience. In addition, from time to time, we engage celebrities as our brand ambassadors to market our brands, which helps to promote our brand image and drive our user awareness, particularly among the younger generations in China.

INFORMATION INFRASTRUCTURE AND TECHNOLOGY

We have built a high-performance, reliable, scalable and secure IT infrastructure to support nearly every aspect of our business, including platform operations, data gathering and analytics, product development, and user services, and to accommodate demands for new features and functionalities. This infrastructure is maintained by our dedicated, experienced IT employees. As of December 31, 2017, Tongcheng and eLong had 2,567 IT employees.

As an online booking service provider, we have made substantial investments in building the ability to process a massive number of transactions swiftly and accurately. Through cloud computing and storage services provided by Tencent and other service providers, we are able to deliver search results to our users in milliseconds with no compromise to accuracy.

Our technology infrastructure is highly scalable and can be easily re-modularized to accommodate our fast-growing user base and increasingly complex product offerings. Over the years, we have continued to focus on automation by, for example, enabling our TSPs to manage their inventory, pricing and confirm bookings made by users on a real-time basis through our e-booking systems.

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We are a data-driven company, having accumulated a vast amount of data from user and TSP behavior, as well as the transactions completed on our platforms. We have been making significant investments in collecting, analyzing and using such data, which has significantly enhanced our progress in a wide range of areas, including search algorithms, natural language processing, big data and data analytics, and AI.

- ***Advanced search algorithms.*** Our search engine is empowered by algorithms specifically designed for online travel agency business that allow us to efficiently retrieve, filter and rank products and services for our users.
- ***Natural language processing.*** As part of our data collection, we continually capture Chinese expressions and phrases as our users interact with our platforms, which enables us to build a comprehensive, up-to-date vocabulary library. This has greatly enhanced our ability to process, analyze, and understand natural language text, especially in users’ search queries, while improving the effectiveness of our target marketing efforts.
- ***User tagging and profiling.*** We have built strong user tagging and profiling capabilities based on our massive user behavior data and our continual analysis of such data. This has enabled us to target potential audience more accurately.
- ***Data analytics and AI.*** We have dedicated personnels who are responsible for developing and refining our proprietary, AI-powered algorithms and programs and leveraging the latest AI technology for applications in our operations. Our investments in these areas help us and our TSPs project the returns of new travel products and services, and make marketing decisions accordingly. Additionally, our AI-powered image recognition technology has enabled us to detect illegal or improper content faster and more accurately, thus enhancing user service capability and cutting costs.

Our data analytics and AI capability is supported by our robust big data infrastructure, which features clusters composed of computing machines with over 100TB of daily data throughput capacity to support the gathering, storage and analysis of the massive volume of user and transaction data we have accumulated.

INTELLECTUAL PROPERTY

Our brands, trade names, trademarks, trade secrets, copyright, designs and other intellectual property rights are crucial to our business. To protect our proprietary rights, we rely upon a combination of copyright, trademark and other intellectual property laws, trade secrets, and confidentiality agreements with both employees and third parties. In general, our employees must enter into confidentiality and non-use agreements that transfer to us any intellectual property rights they may have to their working products. In addition, prior to discussing business and technologies with third parties, we require them to enter into a nondisclosure agreement with us. If these discussions result in a license or other business relationship, we also require them to include provisions protecting our intellectual property rights in definitive agreements. Despite our precautions, however, third parties may obtain and use intellectual properties that we own or license without our consent. Unauthorized use of our intellectual properties by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business, financial condition and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — We may not be able to prevent third-party infringements of our intellectual property rights, which may harm our business and expose us to litigations.”

As of the Latest Practicable Date, Tongcheng and eLong owned 119 registered domain names in PRC, including ly.com and elong.com. We generally renew our domain name registrations annually, and applications for their renewal are usually made one to three months prior to their expiration. The domain name registrations typically take effect immediately after the payment of renewal fees. As of the Latest Practicable Date, all of our registered domain names were in effect. If any of our domain name registrations cannot be renewed for any reason, the domain name registrar may deregister the relevant domain name.

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As of the Latest Practicable Date, Tongcheng and eLong had registered 186 software copyrights and ten other copyrights in China. As of the same date, Tongcheng and eLong had registered 662 trademarks in various categories in China. In addition, Tongcheng and eLong had two trademark applications pending in Hong Kong and five registered trademarks outside China as of the Latest Practicable Date. As of the same date, we had 25 patents registered in China.

Details of our intellectual property rights registered which we consider to be or may be material to our business are set out in “Appendix V — Statutory and General Information — Further Information About our Business — Intellectual Property Rights.”

AWARDS AND RECOGNITIONS

We have received recognition for the quality and popularity of our products and services. The following table sets forth some of the awards and recognition we have received.

Year	Award/Recognition	Awarding Institution/Authority
2018	China Annual Influential Brand (中國年度影響力品牌) Top 100 Most Influential Chinese Brands Top 100 China Brand Influence (中國品牌影響力100強)	China Enterprise News China Reform Newspaper China International Brand Strategy Research Center — UIBE ICIF China International Corporate Brand Culture Exposition Organizing Committee <i>Discovery Brand</i> program
2018	Top four most influential brands among China’s online and offline travel brands	Chinese Academy of Social Sciences
2017	Outstanding Brands Most Liked by Consumers (消費者點贊傑出品牌獎)	China Consumer Journal Chinese Consumer Network
2017	China Travel Brand with Greatest Growth Potential (最具成長力中國旅遊品牌)	Hurun Research Institute
2017	Red Coral Award of Asia Tourism — The Best Travel Service Provider (亞洲旅遊“紅珊瑚”獎—最佳旅遊服務商)	21st Century Business Herald / Nankai University
2017	Tourism Industry Influential Brand Award (旅遊行業影響力品牌獎)	The 6th Finance Summit
2016	Top Five China Travel Groups (中國旅遊集團前五強)	China Tourism Association / China Tourism Academy
2016	China Best Customer Contact Center — Customer Service Award (中國最佳客戶聯絡中心—客戶服務獎)	China Federation of IT Promotion Customer Relationship Management Professional Committee CCCS Customer Contact Center Standards Committee
2015	China Travel Innovation Award (中國旅遊創新獎)	People.cn

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Year	Award/Recognition	Awarding Institution/Authority
2015	Fastest Growing Travel Service Application (增速最快旅行服務應用)	Tencent Global Partner Conference

COMPETITION

China’s online travel industry is highly competitive. We compete primarily with other online travel agencies, as well as traditional travel agencies and travel service suppliers. As China’s online travel market continues to evolve, we may be faced with increased competition from new domestic travel agencies or international players that seek to expand into China. We may also face increasing competition from hotels and airlines as they increase their direct selling efforts or engage in alliances with other online travel service providers.

We compete based on a number of factors, including, among other things, brand recognition, price, ease of use, accessibility of information, breadth of services offered, convenience, and user service and satisfaction. We believe that we are well-positioned to effectively compete on the basis of the factors listed above. However, some of our current or future competitors may have longer operating histories, greater brand recognition, larger user and TSP bases or strong financial, technical or marketing resources than we do. See “Risk Factors — Risks Relating to Our Business and Industry — We operate in a highly competitive industry and may face increased competition” and “Industry Overview” for more information about the market where we operate and the competition we face.

EMPLOYEES

As of December 31, 2017, Tongcheng and eLong had a total of 6,444 full-time employees. As of the same date, approximately 56.7% and 18.1% of our full-time employees were based in Suzhou and Beijing, respectively, while the remaining 25.2% of them were based in the rest of the PRC and overseas.

The following table sets forth the number of full-time employees of Tongcheng and eLong by team as of December 31, 2017:

Team	Number of Employees	% of Total
User and TSP services.....	2,140	33.2%
Sales and marketing.....	459	7.1%
Product management.....	735	11.4%
Information technology.....	2,567	39.9%
Administrative management.....	543	8.4%
Total.....	6,444	100.0%

We primarily recruit our employees through on-campus job fairs, recruitment agencies and online channels, including our corporate websites and social networking platforms. We have adopted robust internal training policies, pursuant to which management, technology and other training is regularly provided to our employees by in-house trainers or third-party consultants.

As required by PRC laws, we participate in various statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan, a maternity insurance plan, and a housing provident fund. We are required under PRC laws to contribute to employee benefit plans at specified percentages of salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local governments from time to time.

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None of our employees is currently represented by labor unions. We believe that we maintain good working relationship with our employees and we did not experience any significant labor disputes or any material difficulty in recruiting employees for our operations during the Track Record Period.

INSURANCE

In line with general market practice, we do not maintain any insurance to cover our main business operations or business interruption insurance. We also do not maintain insurance policies covering damages to our network infrastructures or information technology systems.

LICENSES AND PERMITS

We conduct our business mainly in the PRC and are therefore subject to applicable PRC legal and regulatory requirements. Our Directors and our PRC legal advisors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements and guidelines in all material respects and we have obtained all material approvals, licenses and permits necessary for our operations in the PRC in accordance with the PRC laws and regulations. The table below sets forth the approvals, licenses and permits that are necessary for our businesses operations:

No.	Name of licenses, permits, and approvals	Holding entity	Expiry Date/ Registration Status
1.....	Certificate for sales agents of air transport (Type 1 passenger transport)	Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司)	April 4, 2019
2.....	Certificate for sales agents of air transport (Type 2 passenger transport)	Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司)	March 13, 2019
3.....	Certificate for sales agents of air transport (Type 1 passenger transport)	Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司)	November 10, 2019
4.....	Certificate for sales agents of air transport (Type 2 passenger transport)	Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司)	November 10, 2019
5.....	Insurance agency business operation license	Tianyuan Difang	May 7, 2019
6.....	Certificate for sales agents of air transport (Type 1 passenger transport)	Suzhou Chenghuiwan	January 23, 2021
7.....	Certificate for sales agents of air transport (Type 2 passenger transport)	Suzhou Chenghuiwan	January 23, 2021
8.....	Certificate for sales agents of air transport (Type 1 passenger transport)	Hangzhou E-dragon	June 7, 2020

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No.	Name of licenses, permits, and approvals	Holding entity	Expiry Date/ Registration Status
9.....	Certificate for sales agents of air transport (Type 2 passenger transport)	Hangzhou E-dragon	January 25, 2021
10....	Telecommunications and information services business license	Beijing E-dragon	November 3, 2020
11	Value-added telecommunications business license	Beijing E-dragon	February 7, 2023
12	Value-added telecommunications business license	Tongcheng Network	May 16, 2019
13	Concurrent-business insurance agency business license	Tongcheng Network	October 31, 2018
14	Certificate for sales agents of air transport (Type 1 passenger transport)	Tongcheng Network	November 15, 2019
15	Certificate for sales agents of air transport (Type 2 passenger transport)	Tongcheng Network	November 25, 2019

RISK MANAGEMENT AND INTERNAL CONTROL

We devote ourselves to establishing and maintaining risk management and internal control systems consisting of policies, procedures and risk management methods that we consider appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations, such as financial reporting, information systems, internal control, human resources and investment management.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statement preparation policies and financial department and staff management policies. We have various procedures in place to implement accounting policies, and our financial department reviews our management accounts based on such procedures. We also provide regular training to our financial department staff to ensure that they understand our accounting policies.

As of December 31, 2017, the finance departments of Tongcheng and eLong consisted of 351 employees. These departments are currently supervised by Mr. Fan Lei, who has more than eight years of experience in financial reporting.

Information System Risk Management

Sufficient maintenance, storage and protection of user data and other related information is critical to our success as an online travel agency. We have implemented relevant internal procedures and control to ensure that user data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

Our IT team is responsible for ensuring that the usage, maintenance and protection of user data comply with our internal rules and applicable laws and regulations. The majority of our information

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technology managers has more than eight years of past work experience in IT. We provide regular training to our IT team and hold regular meetings to review our information technology operations, discussing any issues or necessary updates. As of December 31, 2017, Tongcheng and eLong had a total of 2,567 IT employees.

Our user data protection procedures are set forth in our internal data back-up manual and policies. We collect, use and store our user data in a centralized data center and back up such data in separate and various secured data back-up systems to minimize the risk of user data loss or leakage. We also conduct frequent reviews of our data center and back-up systems to ensure that they function properly and are well maintained.

In addition, we implement a set of internal control procedures to mitigate the risks involved in the management of our day-to-day operation data and information. Procedures such as regular systems checks, password policy, user authorization review and approval and data back-up, as well as data recovery tests, are adopted to safeguard our information assets and ensure the proper management of our operational data.

We also implement a set of system development and change management policy to mitigate the risks of unauthorized system changes. We have established control measures during the system development life cycle and adopted a version control policy to ensure that all the changes to the system are tested and only the latest approved system versions are implemented in our IT system’s production environment.

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with relevant laws and regulations.

Our internal audit team, which consists of six employees with an average of seven years of experience in internal control, works closely with our business units to (i) perform risk assessments and advise on risk management strategies, and (ii) improve business efficiency and monitor internal control effectiveness. In addition, in accordance with these procedures, our in-house legal department, which consists of 11 employees with an average of eight years of experience, performs the basic function of reviewing and updating the form of contracts we enter into with our users, customers and suppliers. Our legal department reviews the contract terms, licenses and permits obtained by the counterparties to perform their obligations under our business contracts and due diligence materials, before we enter into any contracts or business arrangements.

We also have in place detailed internal procedures to ensure that our legal department reviews our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our legal department is responsible for obtaining any requisite governmental approvals or consents, including filings with relevant government authorities within the prescribed regulatory timelines.

We continually review the implementation of our risk management policies and measures to ensure that our policies and the implementation thereof are effective and sufficient.

Human Resources Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. We also frequently organize internal training sessions hosted by senior employees or third-party consultants on topics of interest.

We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practices, work ethics, anti-fraud mechanisms, negligence and corruption. We provide employees with regular training and resources to explain the guidelines contained in the employee handbook.

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We also have in place an anti-corruption policy to safeguard against any corruption within our Group. The policy explains potential corruption conduct and our anti-corruption measures. We make our internal channel available to all our staff to report any corruption, and our staff can also make anonymous reports to our internal audit department. Our internal audit department is responsible for investigating the reported incidents and taking appropriate measures.

Investment Risk Management

Our investment strategy is to invest in or acquire businesses that are complementary to our business. We have formulated an annual investment plan according to our business strategies and input from various business departments. Our strategic investment department is responsible for investment project sourcing, screening, execution and post-investment risk management.

Audit Committee Experience and Qualification and Board Oversight

We will establish an audit committee to monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Wu Haibing, Lin Haifeng and Han Yuling, and each of them is an independent non-executive Director or a non-executive Director. Wu Haibing is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see “Directors and Senior Management — Board of Directors.”

We also maintain an internal audit department which is responsible for preparing and implementing risk management policies, reviewing the effectiveness of such policies and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to resolve such issues. The internal audit department reports to the audit committee to ensure that any major issues identified are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

Information Control Policy

We have established robust internal information control measures. We require TSPs to represent that the information, including the description of their travel products and services, that they provide to us is true, accurate and complete in their agreements with us, which also stipulate that we have full right and authority to use such information for business purposes. If there are any changes to the information provided by TSPs, they are required to notify us as soon as possible. Moreover, TSPs are responsible for any loss or damage that occurs as a result of false or incomplete information provided by them.

Our internal team screens accommodation related information from accommodation suppliers to ensure that our users benefit from authentic and meaningful information. Firstly, we cross-reference pictures of the accommodation suppliers with other third-party websites to check for accuracy of the accommodation’s name, possible photo editing, and wrong or misleading appearances. Secondly, we follow user feedback closely and cross check user reviews against booking data to ensure that false or misleading reviews are identified and removed. We are committed to offering legitimate user reviews. We continuously monitor the user reviews on our online platforms and investigate and remove reviews that are spam or false. Finally, we carefully screen descriptions of accommodations to ensure that no misleading information or overly exaggerated language is used to describe the accommodations.

Inventory Risk Management

We are subject to inventory risk arising from the room nights prepurchased by us to the extent that we cannot return the unsold room nights to the accommodation suppliers. See “— Travel Products and Services We Offer — Accommodation Reservation.” We have established comprehensive inventory risk management rules and policies. We regularly run tests to ensure that our inventory risk is within a balanced latitude. When identifying inventory risk, we review the sales of the inventory

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after a certain period of time following the signing of the sales agreement to assess whether the specified sales targets have been fulfilled. In the event that the sales target is not met, we examine whether this is due to market conditions or other causes. Upon determining the cause, we implement corresponding solutions, such as adjusting the sales price, increasing our sales and marketing efforts and closely assessing the effectiveness of such measures.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Our business model generally involves online sales of travel products and services to our users. Therefore, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, our human resources department would, if necessary and after consultation with our PRC legal advisor, adjust our human resources policies from time to time to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any material fines or other penalties due to non-compliance with health, safety or environmental regulations.

PROPERTIES

As of the Latest Practicable Date, we occupied various leased and self-owned properties in the PRC. These properties are used for non-property activities as defined under Rule 5.01 (2) of the Listing Rules and are primarily used as our office premises for our operations.

As of December 31, 2017, none of the properties owned or leased by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this [REDACTED] is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group’s interests in land or buildings.

Self-owned Properties

As of the Latest Practicable Date, we had acquired one building in Beijing, China with a total gross floor area, or GFA, of 13,028.65 square meters, which is expected to be used as office space. As of the Latest Practicable Date, the developer of the building we acquired was in the process of obtaining a master building ownership certificate for the real estate that encompasses such building. As advised by our PRC legal advisor, provided that such master building ownership certificate is duly issued, there is no material legal impediment for us to obtain the building ownership certificate for such building. In addition, as of the Latest Practicable Date, we had obtained the land use right certificate with an expiration date of October 23, 2066 with respect to a parcel of land with a total gross site area of 20,280.44 square meters in Suzhou, Jiangsu Province, China.

As of the Latest Practicable Date, we were in the process of constructing a building which is expected to be used as our data research and development center on the above-mentioned parcel of land in Suzhou, Jiangsu Province, China. We have obtained all relevant permits and approvals, including the construction permits, the construction planning permits, the planning approvals, the construction land use planning permits, and the construction environmental protection approval from relevant governing authorities with respect to such construction in progress.

Leased Properties

As of the Latest Practicable Date, we operated our businesses predominantly through a total of 19 leased properties in China with a total GFA of approximately 52,936.4 square meters, each ranging from a GFA of approximately 50 square meters to approximately 27,671.48 square meters. These properties are principally used as office premises for our business operations.

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As of the Latest Practicable Date, the lessors of all of these 19 properties have provided us with building ownership certificates or other documentation proving their right to lease such properties to us.

As of the Latest Practicable Date, we have not obtained registration with competent government authorities for 18 out of such 19 leased properties. Our PRC legal advisor has advised us that the lack of registration of the lease agreements will not affect the validity of the lease agreements under PRC law, and that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. As of the Latest Practicable Date, we were not aware of any regulatory or governmental actions, claims or investigations being contemplated or any challenges by third parties to our use of our leased properties the lease agreements of which have not been registered with the government authorities.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

We have been in the past, and may be from time to time in the future, involved in legal proceedings arising in the ordinary course of our business. Most of the legal proceedings involve litigation based on allegations of infringement or other violations of intellectual property rights and contract disputes. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation, and compliance with applicable laws and regulations.

CONTRACTUAL ARRANGEMENTS

BACKGROUND TO THE CONTRACTUAL ARRANGEMENTS

We offer a comprehensive and innovative selection of products and services covering nearly all aspects of travel, including transportation ticketing, accommodation reservation, and various other value-added services designed to meet users’ evolving travel needs throughout their trips. Our Company also intends to operate a call center business. The provision of online information services, online data and transaction services, air ticketing services, insurance agency services and/or call center services (the “**Relevant Businesses**”) are subject to foreign investment restrictions under PRC law.

Our Contractual Arrangement Entities consist of Tongcheng Network, Beijing E-dragon and Suzhou Chengyi, which were all established under the laws of the PRC. Upon completion of the acquisitions of 50% equity interest in Tongcheng Network and Beijing E-dragon by Longyue Tiancheng WFOE and E-dragon Beijing WFOE, respectively, the ownership of equity interest in our Contractual Arrangement Entities are as follows:

Contractual Arrangement Entity	Equity interest directly or indirectly held by our Company	Equity interest not held by our Company
Beijing E-dragon	E-dragon Beijing WFOE holds 50% equity interest	Mr. Jiang Hao holds 50% equity interest
Tongcheng Network.....	Longyue Tiancheng WFOE holds 50% equity interest	The Tongcheng Network Registered Shareholders together hold 50% equity interest
Suzhou Chengyi	—	Mr. Wu Zhixiang and Mr. Ma Heping holds 51% and 49% equity interest respectively (together, the “ Suzhou Chengyi Registered Shareholders ”)

The Registered Shareholders are all PRC nationals, PRC domestic companies or PRC domestic limited partnership enterprises.

Beijing E-dragon

Beijing E-dragon was established on November 28, 2000. The main business of Beijing E-dragon is the provision of hotel accommodation reservation services through, among others, its website www.elong.com and its mobile-based application Elong Travel (藝龍旅行). On June 12, 2018, Beijing E-dragon has obtained the Decision on Foreign-Invested Telecommunication Operation (《外商投資經營電信業務審定意見書》) from the MIIT, pursuant to which Beijing E-dragon was approved to hold an ICP License for foreign-invested telecommunications enterprise with E-dragon Beijing WFOE holding 50% equity interest in Beijing E-dragon.

In early 2015, we effected a series of changes with a view to consolidating our interest in Beijing E-dragon and attract further investments to support our growing business. In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintain effective control over all of our operations, on September 7, 2015, E-dragon Beijing WFOE entered into a series of contractual arrangements with Beijing E-dragon and its shareholders (the “**Old Beijing E-dragon Contractual Arrangements**”). The effect of the Old Beijing E-dragon Contractual Arrangements was to consolidate the operations and the financial results of Beijing E-dragon with those of our Group.

CONTRACTUAL ARRANGEMENTS

Tongcheng Network

Tongcheng Network was established on March 10, 2004. The main business of Tongcheng Network is the provision of transportation ticketing and ancillary value-added travel-related products and services through its website www.ly.com, its mobile-based application Tongcheng Travel (同程旅遊), its portal on Tencent-based mobile payment platforms and its proprietary “mini programs” embedded in Weixin. On June 12, 2018, Tongcheng Network has obtained the Decision on Foreign-Invested Telecommunication Operation from the MIIT, pursuant to which Tongcheng Network was approved to hold an ICP License for foreign-invested telecommunications enterprise with Longyue Tiancheng WFOE holding 50% equity interest in Tongcheng Network.

In late 2017, we entered into a restructuring agreement with a view to acquire the businesses under Tongcheng Network and further enable the growth of our business. Please see “History, Reorganization and Corporate Structure — Major Shareholding Changes of Our Company — Merger with Tongcheng Network” of this [REDACTED] for details on the restructuring. On September 7, 2017, eLong Cayman established Longyue Tiancheng WFOE, our wholly-owned subsidiary. In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintain effective control over all of our operations, on February 23, 2018, Longyue Tiancheng WFOE entered into a series of contractual arrangements with Tongcheng Network and its shareholders (the “**Old Tongcheng Network Contractual Arrangements**”). The effect of the Old Tongcheng Network Contractual Arrangements was to consolidate the operations and the financial results of Tongcheng Network in our consolidated financial statements. For details on the history of Tongcheng Network, see “History, Reorganization and Corporate Structure — History of our Business — Tongcheng Network” of this [REDACTED].

Suzhou Chengyi

Suzhou Chengyi was established on March 21, 2018. The main business of Suzhou Chengyi and its subsidiaries is the provision of insurance agency services through online platforms operated under Beijing E-dragon and Tongcheng Network, the intended call center business and other business subject to foreign investment restrictions under PRC law. Suzhou Chengyi also serves as an investment holding company for our equity interest in non-wholly owned subsidiaries operating in industries with foreign investment restrictions.

The Contractual Arrangements

As outlined below, since the Relevant Businesses are classified as foreign investment restricted under the applicable PRC laws, regulations or rules and there is no clear guidance or interpretation on any applicable qualification requirements, we cannot hold any direct interest in Suzhou Chengyi, and can only hold up to 50% interest in Tongcheng Network and Beijing E-dragon. Tongcheng Network, Suzhou Chengyi and Beijing E-dragon and their respective subsidiaries currently hold and will hold certain licenses and permits required for the operation of the Relevant Businesses.

In order to reflect our reorganization and comply with PRC laws and regulations and the Listing Rules and maintain effective control over all of our operations, (i) we have entered into the Contractual Arrangements on April 2, 2018 with respect to Tongcheng Network and Beijing E-dragon, which superseded the Old Beijing E-dragon Contractual Arrangements and the Old Tongcheng Network Contractual Arrangements and (ii) we have entered into the Contractual Arrangements on April 13, 2018, with respect to Suzhou Chengyi. Under the Contractual Arrangements:

- a) In addition to directly holding 50% equity interest in Beijing E-dragon, E-dragon Beijing WFOE has acquired effective control over the financial and operational policies of Beijing E-dragon and has become entitled to all the economic benefits derived from their operations;

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- b) In addition to directly holding 50% equity interest in Tongcheng Network, Longyue Tiancheng WFOE has acquired effective control over the financial and operational policies of Tongcheng Network and has become entitled to all the economic benefits derived from their operations; and
- c) Longyue Tiancheng WFOE has acquired effective control over the financial and operational policies of Suzhou Chengyi and has become entitled to all the economic benefits derived from their operations.

We believe that the Contractual Arrangements are narrowly tailored as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC. Our Directors believe that the Contractual Arrangement are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between E-dragon Beijing WFOE and Longyue Tiancheng WFOE on the one hand, and the Contractual Arrangement Entities and their respective shareholders on the other hand, (ii) by entering into the Exclusive Technology Consulting and Services Agreement with E-dragon Beijing WFOE and Longyue Tiancheng WFOE respectively, the Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED], and (iii) a number of other companies whose shares are listed on the Stock Exchange use similar arrangements to accomplish the same purpose.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Catalogue which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Catalogue divides industries into four categories in terms of foreign investment, namely “encouraged,” “restricted” and “prohibited,” and all industries not listed under any of these categories are deemed to be “permitted.” Our Company, through the Consolidated Affiliated Entities, operates or intends to operate the Relevant Businesses, which are subject to foreign investment restrictions under PRC law.

Restrictions on foreign ownership in information services

Our Group operates its key business of providing users with travel related services, including transportation ticketing services, hotel and accommodation reservation services and insurance agency services, through our websites and our mobile applications (the “**Online Platforms**”). The provision of services on the Online Platforms falls within the scope of information services business (the “**Information Services Business**”) under the Guiding Catalogue of Telecommunications Business (電信業務分類目錄), a business segment under value-added telecommunications business in the Catalogue and is thus considered as “restricted” businesses. Consequently, foreign investors are restricted from holding more than 50% equity interests in companies providing such services. As advised by our PRC Legal Advisor, the provision of Information Services Business by our Group requires the holding of an ICP License, which is a VAT License specifically for the provision of information services. Therefore, these services are provided by Tongcheng Network and Beijing E-dragon, both of which have previously obtained such ICP Licenses and are currently in the process of obtaining new ICP Licenses for foreign-invested telecommunications enterprise as a result of the acquisitions of 50% equity interest in Tongcheng Network and Beijing E-dragon by Longyue Tiancheng WFOE and E-dragon Beijing WFOE, respectively. We operate these businesses under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with applicable laws and regulations for the following reasons:

1. Each of Tongcheng Network and Beijing E-dragon is applying for a new ICP License for foreign-invested telecommunications enterprise required to carry out the Relevant Business;
2. According to our consultation in March 2018 with the MIIT, which is the department in charge of accepting applications for the operation of Internet information services by a sino-foreign equity joint venture in accordance with PRC laws and regulations, given that (i) Tongcheng Network and Beijing E-dragon are held as to 50% by wholly foreign owned

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enterprises held by foreign investors, namely Longyue Tiancheng WFOE and E-dragon Beijing WFOE, respectively; and (ii) eLong Cayman, which holds the relevant domain names and has relevant overseas operating experience in the provision of value-added telecommunications services, will be able to satisfy the Qualification Requirements (as defined below), the MIIT believes that the application for ICP License by Tongcheng Network and Beijing E-dragon shall be approved in principle. Our PRC Legal Advisor is of the view that the MIIT is the competent authority to give the relevant confirmation and the officer we consulted is of the appropriate ranking to provide such confirmation. On June 12, 2018, Tongcheng Network and Beijing E-dragon obtained the Decision on Foreign-Invested Telecommunication Operation (《外商投資經營電信業務審定意見書》) respectively.

For further details of the limitations on foreign ownership in PRC companies conducting value-added telecommunications services and the Information Services Business, and the applicable licensing and approval requirements under PRC laws and regulations, please see “Regulatory Overview — Regulation on Value-added Telecommunications Services and Foreign Investment Restrictions.”

Accordingly, we can only hold a direct controlling interest of up to 50% in Tongcheng Network and Beijing E-dragon, respectively, both of which hold the licenses and permits required for the operation of the Information Services Business.

Restrictions on foreign ownership in online data and transaction processing services

In addition, the facilitation of transaction processing between our third-party service provider partners and consumers through the Online Platforms falls within the scope of online data processing and transaction processing services (the “**Third Party Transaction Platform Business**”) under the Guiding Catalogue of Telecommunications Business. The operation of the Third Party Transaction Platform Business by our Group requires the holding of a VAT License specifically for the provision of online data processing and transaction processing services (the “**EDI License**”). As advised by our PRC Legal Advisor, the Third Party Transaction Platform Business is a business segment under value-added telecommunications business, and thus is categorized as a “restricted” business under the Catalogue. Consequently, foreign investors are restricted from holding more than 50% equity interests in companies providing such services. However, pursuant to the Circular of the MIIT on Liberalizing the Restrictions on Foreign Shareholding Percentages in Online Data Processing and Transaction Processing Business (For-profit E-Commerce Business) (《工業和信息化部關於放開線上資料處理與交易處理義務(經營類電子商務)外資股比限制的通告》) issued and became effective on June 19, 2015, the foreign shareholding percentages of companies that engage in the Third Party Transaction Platform Business can be up to 100%.

We operate the Third Party Transaction Platform Business under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with applicable laws and regulations for the following reasons:

1. Tongcheng Network currently conducts the Information Services Business and the Third Party Transaction Platform Business through the same domain (www.ly.com) that it owns (the “**LY Domain**”), as the provision of the Information Services Business and the Third Party Transaction Platform Business are inseparable in practice. According to the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《關於加強外商投資經營增值電信業務管理的通知》) issued by the MIIT in July 2006, the service provider of the Third Party Transaction Platform Business must directly own the domain name through which it operates such business. As advised by our PRC Legal Advisor, since the operation of the Third Party Transaction Platform Business is required to be conducted by an entity that owns the LY Domain, i.e. Tongcheng Network, the Third Party Transaction Platform Business should also be conducted by Tongcheng Network.

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2. According to our consultation in March 2018 with the MIIT, the application for any VAT Licenses to conduct businesses (including but not limited to the Information Services Business and the Third Party Transaction Platform Business) on a particular domain, the LY Domain in this case, can only be made through the registered user of that particular domain, i.e. Tongcheng Network, and application by any company other than Tongcheng Network for VAT Licenses to conduct business on the LY Domain will not be accepted or approved. Our PRC Legal Advisor is of the view that the MIIT is the competent authority to give the relevant confirmation and the officer we consulted is of the appropriate ranking to provide such confirmation. From the perspective of operating our existing business in a manner that is in compliance with the applicable PRC laws and regulations, based on the current policies of the relevant PRC government authorities and as advised by our PRC Legal Advisor, we cannot transfer our Third Party Transaction Platform Business to another wholly foreign owned entity within our Group, as its application for VAT License to carry out the Third Party Transaction Platform Business on the LY Domain will not be approved.

Accordingly, we will operate our Third Party Transaction Platform Business under Tongcheng Network, and will only hold a direct controlling interest of up to 50% in Tongcheng Network, which holds the licenses and permits required for the operation of the Third Party Transaction Platform Businesses.

Restrictions on foreign ownership in air ticketing services

Air Ticketing Agency Business

Our Group also conducts the business of sales of air tickets to consumers as an agent of our airline partners through the Online Platforms. (the “**Air Ticketing Agency Business**”), which is not an industry listed in the Catalog. As advised by our PRC Legal Advisor, the Air Ticketing Agency Business falls under “permitted” businesses in the Catalog. According to our consultation in March 2018 with the China Air Transportation Association (中國航空運輸協會) (the “**CATA**”), companies that carry out the Air Ticketing Agency Business in Beijing and the Pilot Free Trade Zone (自由貿易試驗區) (the “**PFTZ**”) can be held up to 100% by foreign investors, and companies that carry out the Air Ticketing Agency Business outside of Beijing and the PFTZ can only be held up to 50% by foreign investors. Our PRC Legal Advisor is of the view that the CATA is the competent authority to give the relevant confirmation and the officer we consulted is of the appropriate ranking to provide such confirmation. In addition to our wholly-owned subsidiaries in Beijing which operate the Air Ticketing Agency Business, we also operate part of our Air Ticketing Agency Business under the Contractual Arrangements through Tongcheng Network and Hangzhou E-dragon and Suzhou Changhuiwan, each a wholly-owned subsidiary of Tongcheng Network, and are of the view that the Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with applicable laws and regulations for the following reasons:

1. Tongcheng Network and Hangzhou E-dragon carry out the Air Ticketing Agency Business outside of Beijing and the PFTZ. Thus, each of Tongcheng Network and Hangzhou E-dragon may only be held up to 50% by foreign investors. We are of the view that it would be unduly burdensome and impractical to transfer the Air Ticketing Agency Business currently operating by these two entities to our wholly-owned subsidiaries in Beijing for the following reasons:
 - (a) *Long-term cooperation with airlines* — Tongcheng Network and Hangzhou E-dragon both maintain strong partnerships with airlines in the PRC through their established presence in the Air Ticketing Agency Business for more than 10 years. The continued increase in annual trade volumes from both Tongcheng Network and Hangzhou E-dragon enables them to solicit favorable prices from airlines so as to compete with other service providers in the industry. Given Tongcheng Network’s and Hangzhou E-dragon’s long-term partnerships with airlines in regions of the PRC outside of Beijing and PFTZ, such as Suzhou and Hangzhou, we are of the view that we will face

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significant decline in business and financial performance if there is an abrupt change in the operating subsidiaries for the Airline Ticketing Agency Business from Tongcheng Network and Hangzhou E-dragon to our wholly-owned subsidiaries in Beijing.

- (b) *Access to fare discounts* — Airline operators in the PRC allow their regional offices some degree of flexibility in the provision of additional discounts, which, based on our past dealings with the airline operators, could only be obtained by companies within the same geographical location registered with the CATA. In order to obtain these discounts, Tongcheng Network and Hangzhou E-dragon applied to the CATA to set up “certified qualification accounts” (資質號) for their respective subsidiaries and local offices. As of the Latest Practicable Date, Tongcheng Network and Hangzhou E-dragon respectively have 17 and 1 certified qualification account(s) with the CATA, all of which are in regions of the PRC outside of Beijing and the PFTZ. In contrast, Beijing Tongcheng Huading International Travel Agency Company Limited and Beijing eLong Air Services Co., Ltd., our wholly-owned subsidiaries in Beijing which operate the Air Ticketing Agency Business, each hold only one certified qualification account. These certified qualification accounts, under the policy of the CATA, are not transferrable across entities within our Group, and are crucial to our Group’s ability to secure discounted prices from the regional offices. Hence, a transfer of the Airline Ticketing Agency Business of Tongcheng Network and Hangzhou E-dragon to our wholly-owned subsidiaries in Beijing would limit our Group’s access to only those discounts available in Beijing, and would cause us to lose our competitive edge and weaken the attractiveness of the Online Platforms of our Group.
2. Suzhou Chenghuiwan is indirectly held by our Company as to 50% of its equity interest, which is the maximum percentage of foreign ownership permitted for companies that carry out Air Ticketing Agency Business in Suzhou according to our consultation in March 2018 with CATA. The local government where Suzhou Chenghuiwan operates has also indicated that it wishes us to continue operate Air Ticketing Agency Business through Suzhou Chenghuiwan. The revenue contribution of Suzhou Chenghuiwan to our Group is immaterial. For the year ended December 31, 2017, both the revenue and net profit of Suzhou Chenghuiwan accounted for less than 0.5% of the total revenue and net profit of our Group, respectively.

For further details of the limitations on foreign ownership in PRC companies conducting Airline Ticketing Agency Business under the PRC laws and regulations, please see “Regulatory Overview — Regulations on Online Air Ticketing Transaction.”

Accordingly, we will hold a direct controlling interest of up to 50% interest in Tongcheng Network, Hangzhou E-dragon and Suzhou Chenghuiwan, which together hold the licenses and permits required for the operation of the Airline Ticketing Agency Business outside of Beijing and PFTZ.

Online Air Ticketing Trading Business

Our Group also maintains and offers online transaction platforms to enable airlines and air ticket sales agents to sell their services and products to users of our Online Platforms (the “**Online Air Ticketing Trading Business**”). These services involve our Group’s maintaining, offering and transaction on the Internet, and are not listed in the Catalogue. Thus, it is deemed as falling under “permitted” business under the Catalogue as advised by our PRC Legal Advisor. However, pursuant to the Measures on the Administration of Online Air Ticketing Transactions (For Trial Implementation) (網路機票交易管理辦法(試行)) issued by CATA, companies operating the Online Air Ticketing Trading Business must be a holder of VAT License, which is subject to restrictions on percentage of foreign ownership of not more than 50%.

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According to our consultation with the CATA in March 2018, (i) companies providing services under the Online Air Ticketing Trading Business can only be held up to 50% by foreign investors, and (ii) companies providing services under the Online Air Ticketing Business must hold an ICP License and make a filing with the CATA under the same authority. Our PRC Legal Advisor is of the view that the CATA is the competent authority to give the relevant confirmation and the officer we consulted is of the appropriate ranking to provide such confirmation.

For further details of the limitations on foreign ownership in PRC companies conducting Online Air Ticketing Trading Business under PRC laws and regulations, see “Regulatory Overview — Regulation on Online Air Ticketing Transaction.”

We operate the Online Air Ticketing Trading Business through the “ly.com” and “elong.com” domains, owned by Tongcheng Network and Beijing E-dragon respectively, both of which also holds an ICP License. Each of Tongcheng Network and Beijing E-dragon is held as to 50% by foreign investors (namely Longyue Tiancheng WFOE and E-dragon Beijing WFOE, respectively) upon completion of the Reorganization. Accordingly, we will operate our Online Air Ticketing Trading Business under Tongcheng Network and Beijing E-dragon, and has completed the filing for the Online Air Ticketing Trading Business with CATA.

Restrictions on foreign ownership in insurance agency services

Our Group also provides insurance agency service (the “**Insurance Agency Business**”) on our Online Platform, contracting with insurance companies and offering services including sale of insurance products and other services as an agent of the insurance companies. This business is not an industry listed in the Catalogue, and is therefore deemed as falling under the “permitted” category under the Catalogue as advised by our PRC Legal Advisor. According to our consultation with the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) (the “**CBIRC**”) in April 2018, companies that carry out the Insurance Agency Business can only be held less than 25% by foreign investors. Our PRC Legal Advisor is of the view that the CBIRC is the competent authority to give the relevant confirmation and the officer we consulted is of the appropriate ranking to provide such information.

For further details of the limitations on foreign ownership in PRC companies conducting insurance agency service under PRC laws and regulations, see “Regulations — Regulations on Insurance Business.”

Accordingly, upon completion of the Reorganization, Tianyuan Difang, which engages in the Insurance Agency Business and holds the licenses and permits required for the operation of the Insurance Agency Business, will be held by Suzhou Chengyi as to 50.02%, and by Tongcheng Network as to 49.98%. As we hold an indirect equity interest in Tongcheng Network of 50% through Longyue Tiancheng WFOE upon completion of the Reorganization on a look-through basis, Tianyuan Difang will be held by foreign investors as to 24.99%.

Restrictions on call center services

Our Group also plans to provide call center service business, which falls within the scope of call center service (“**Call Center Service Business**”) under the Guiding Catalogue of Telecommunications Business. The operation of the Call Center Service Business by our Group requires the holding of a VAT License specifically for the provision of call center services (the “**Call Center License**”). As advised by our PRC Legal Advisor, the Call Center Service Business is a business segment under value-added telecommunications business, and thus is categorized as a “restricted” business under the Catalogue. Consequently, foreign investors are restricted from holding more than 50% equity interests in companies providing such services. Nevertheless, according to our consultation with the MIIT in March 2018, companies that carry out the Call Center Service Business shall be held 100% by domestic investors. Our PRC Legal Advisor is of the view that the MIIT is the competent authority to give the relevant confirmation and the officer we consulted is of the appropriate ranking to provide such information.

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For further details of the limitations on foreign ownership in PRC companies conducting call center service under PRC laws and regulations, see “Regulations — Regulations on Value-added Telecommunications Services and Foreign Investment Restrictions.”

Accordingly, we will not hold any direct interest in Suzhou Ruheng Intelligent Technology Company (蘇州如亨智能科技有限公司) (“**Suzhou Ruheng**”) and Hefei Yiqu Information Technology Company (合肥藝趣信息技術有限公司) (“**Hefei Yiqu**”), both of which will be wholly-owned subsidiaries of Suzhou Chengyi upon completion of the reorganization, and will engage in the Call Center Service Business. Suzhou Ruheng and Hefei Yiqu are currently preparing for the application for the Call Center Licenses. Suzhou Ruheng plans to submit the application by the end of July 2018, and Hefei Yiqu plans to submit the application in the second half of 2018. According to our consultation with the MIIT in March 2018, companies that carry out the Call Center Service Business shall be held 100% by domestic investors. As a result, our PRC Legal Advisor has advised that it is not possible to transfer the equity interests in Suzhou Ruheng and Hefei Yiqu to E-dragon Beijing WFOE or Longyue Tiancheng WFOE or another subsidiary of our Company, and that Suzhou Ruheng and Hefei Yiqu should continue to be held by Suzhou Chengyi.

Restrictions on foreign ownership in non-wholly owned subsidiaries

Our Group holds equity-interests in 5 companies, namely Changzhou Putike Information Technology Company Limited (常州璞緹客信息技術有限公司) (“**Changzhou Putike**”), Chengdu Yihua Interactive Technology Company Limited (成都移花互動科技有限責任公司) (“**Chengdu Yihua**”); Nanjing Xici Information Technology Company Limited (南京西祠信息技術股份有限公司) (“**Nanjing Xici**”, together with Changzhou Putike and Chengdu Yihua, the “**Minority Investment Companies**”), Beijing Mitianxia Technology Company Limited (北京米天下科技股份有限公司) (“**Beijing Mitianxia**”) and Shenzhen JL-Tour, a subsidiary of our Group. Our Group’s approximate equity interest and description of businesses are set out below:

Name of entities	Approximate aggregate equity interests held by our Group in these entities	Description of businesses of these entities
Changzhou Putike	7.30%	Marketing of boutique hotels via Weixin
Chengdu Yihua.....	9.20%	Air ticketing sales through mobile application; provision of online information services
Nanjing Xici	5.05%	Provision of online information services
Beijing Mitianxia	46.50%	Development of property management systems for small and medium hotels and provision of online information services
Shenzhen JL-Tour	54.00%	Provision of accommodation reservation services, Internet information services business, and other value-added services

The businesses of each of the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour involve the provision of Internet information services in the PRC directly or indirectly, and requires the holding of a VAT License. For further details of the limitations on foreign ownership in PRC companies conducting value-added telecommunications services and the licensing and approval requirements under PRC laws and regulations, see “Regulations — Regulations on Value-added

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Telecommunications Services and Foreign Investment Restrictions.” As described above, the holding of VAT License is subject to restrictions on percentage of foreign ownership of not exceeding 50%.

Pursuant to the Contractual Arrangements among Longyue Tiancheng WFOE, Suzhou Chengyi and the Suzhou Chengyi Registered Shareholders, our Group holds the equity interests in the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour through Suzhou Chengyi, in which we do not hold any equity interests. We are of the view that the Contractual Arrangements are narrowly tailored and we have demonstrated genuine efforts to comply with applicable laws and regulations for the following reasons:

1. *Passive minority investment in the Minority Investment Companies:* Our Company is only a passive minority investor in each of the Minority Investment Companies, and is not involved in their operations or management. As such, our Company is not in a position to reorganize the structure of the Minority Investment Companies and its subsidiaries in a flexible manner.
2. *Lack of Cooperation of third party shareholders in the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour:* Our PRC Legal Advisor advised that pursuant to the application procedures of the competent authorities and the applicable PRC laws and regulations, when any direct or indirect shareholders of a domestic enterprise holding a VAT License becomes a foreign investor, the current VAT Licenses held will lapse and cease to have effect, and the company must each apply for a new VAT License for foreign invested companies (外商投資《增值電信業務經營許可證》) (“**Foreign VAT License**”) from the MIIT. Thus, if our Company intends to hold our interests in the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour directly or indirectly so as to maximize their respective foreign ownership in accordance with the limit on foreign ownership, the VAT Licenses held by the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour will cease to have effect once they cease to be wholly owned by PRC investors, and they must each apply for a new Foreign VAT License from the MIIT.

Our Company would require the parties which hold the remaining interests in the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour to cooperate for the following reasons:

- a) the application for a Foreign VAT License must be made by the applicant company to the MIIT directly. As our Company holds only a minority interest in each of the Minority Investment Companies and does not participate in their operations and management, our Company does not exercise control over the board of these companies, and may only procure the application upon the consent and cooperation of other shareholders;
- b) upon the application for a Foreign VAT License by the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour, all shareholders of the applicant company must provide documents to the MIIT to demonstrate their investment qualifications. If the other shareholders of the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour refuse to provide such supporting documents or make disclosure of their shareholding structure, the Minority Investment Companies, Beijing Mitianxia or Shenzhen JL-Tour will be unable to complete the application for a Foreign VAT License; and
- c) as set out in the section headed “Regulatory Overview — Regulation on Value-added Telecommunications Services and Foreign Investment Restrictions,” companies providing value-added telecommunications services are subject to foreign investment restrictions, and can only be held up to 50% by foreign investors. Therefore, when the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour apply for a Foreign VAT License, all shareholders of each of the Minority Investment

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Companies, Beijing Mitianxia and Shenzhen JL-Tour are required to provide a confirmation to the MIIT that the shareholding of foreign investors in the applicant company does not exceed 50% of their issued share capital. If the other shareholders of the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour refuse to provide such confirmation, these companies will be unable to complete the application for a Foreign VAT License.

Our Company has contacted the relevant parties and they have refused to cooperate in the above process.

3. *Immaterial contributions to our Group:* during the Track Record Period, the Minority Investment Companies and Beijing Mitianxia were accounted for by our Company on our consolidated statements of financial position as investments measured at fair value through profit or loss and investments accounted for using the equity method, respectively, with an unaudited aggregate carrying value of approximately RMB10.1 million and RMB37.6 million, respectively, as of December 31, 2017, accounting for approximately 0.4% and 1.4%, respectively, of our Company’s total assets as of December 31, 2017, respectively, and approximately 0.2% and 0.7% of the aggregate total assets of our Company and the Tongcheng Online Business as of December 31, 2017, respectively. While our Company is the controlling shareholder of Shenzhen JL-Tour, Shenzhen JL-Tour accounted for less than 2% of our Company’s net income for the year ended December 31, 2017, and less than 1% of the aggregate net income of our Company and the Tongcheng Online Business for the year ended December 31, 2017. We are also of the view that the financial contributions of the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour and their respective subsidiaries will continue to be immaterial in the future within the three years immediately after [REDACTED]. Given their immaterial financial contributions to our Group, it would be unduly burdensome to require our Group to expend disproportionate time and financial resources to attempt to reorganize the structure of the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour and their respective subsidiaries in a way that fully complies with the Stock Exchange’s listing decision (HKEx-LD43-3) (“**LD43-3**”).

To ensure compliance with applicable PRC laws on foreign ownership restrictions, (i) we have obtained VAT License and/or the latest annual reporting in relation to VAT License of each of Beijing Mitianxia, Chengdu Yihua and Nanjing Xici showing that they are wholly-owned by PRC investors; (ii) to our Company’s knowledge, the major shareholder of Changzhou Putike is a PRC Investor and we have obtained an undertaking from such major shareholder of Changzhou Putike that he shall exercise his right of first refusal in Changzhou Putike to acquire the shareholding of other shareholders of Changzhou Putike in the event of actual or attempted transfer to foreign investors. In addition, Shenzhen JL-Tour is in the process of applying for such type of ICP License which requires that all its shareholders must be PRC investors.

Accordingly, we will not directly or indirectly hold the equity interests in the Minority Investment Companies, Beijing Mitianxia and Shenzhen JL-Tour, but will hold them through Suzhou Chengyi pursuant to the Contractual Arrangements among Longyue Tiancheng WFOE, Suzhou Chengyi and the Suzhou Chengyi Registered Shareholders.

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QUALIFICATION REQUIREMENTS UNDER FITE REGULATION

In addition to restrictions on foreign ownership, there are also regulatory requirements on the operational experience and proven track record of a foreign investor who intends to operate a value-added telecommunications business in the PRC (the “**Qualification Requirements**”) under Provisions on Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》)(the “**FITE Regulation**”). The Qualification Requirements are applicable to our operation of the value-added telecommunications business, including the Information Services Business, the Third Party Transaction Platform Business and the Call Center Service Business. Save as otherwise disclosed herein, our PRC Legal Advisor has advised us that there is no requirement on the operational experience and proven track record specifically related to a foreign investor who intends to operate the Air Ticketing Agency Business, the Online Air Ticketing Trading Business or the Insurance Agency Business under applicable PRC laws and regulations.

PRC law currently limits foreign ownership of companies that provide value-added telecommunications services (including Internet information services other than operating E-commerce business) in the PRC up to 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunications business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. Pursuant to publicly available information, the PRC government has issued value added telecommunications business operating licenses to only a limited number of foreign-invested companies.

As both Tongcheng Network and Beijing E-dragon have a foreign investor as its shareholder, such foreign investor must fulfill the aforementioned requirements and Tongcheng Network and Beijing E-dragon shall each apply for a new ICP License from the MIIT. The MIIT will have discretion as to whether to grant the license. According to our consultation with MIIT in March 2018, eLong Cayman, our offshore subsidiary, which holds the “*www.elong.com*” domain name and has relevant overseas experience in operating Internet information services overseas, currently satisfies the qualification requirement relating to value-added telecommunications businesses.

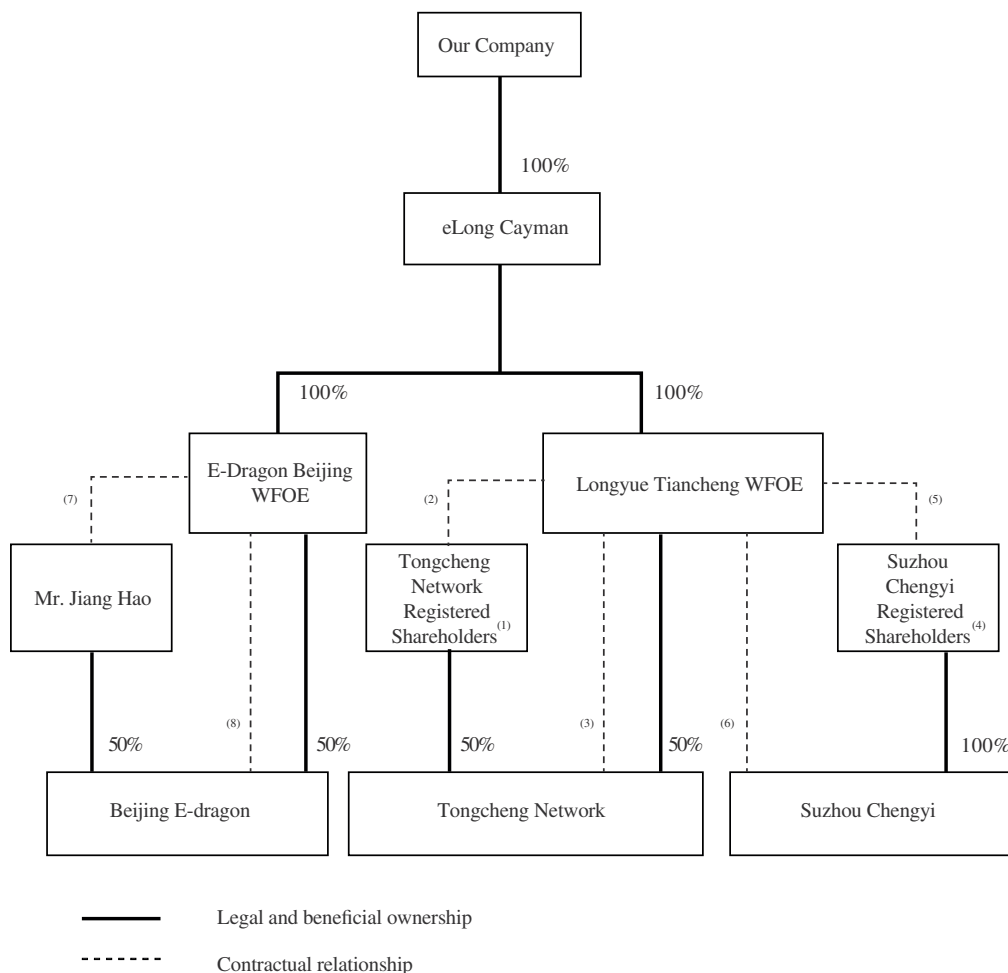
Circumstances under which we will unwind the Contractual Arrangements

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Businesses to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants the relevant licenses to sino-foreign equity joint ventures or wholly foreign owned enterprises to be established by our Company.

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The following simplified diagram illustrates the flow of economic benefits from our Contractual Arrangement Entities to our Group stipulated under the Contractual Arrangements upon completion of the Reorganization:



Notes:

- (1) The Tongcheng Network Registered Shareholders include:
- (a) Mr. Wu Zhixiang, who holds approximately 22.86% of the equity interests in Tongcheng Network;
 - (b) Mr. Wang Zhuan, who holds approximately 1.43% of the equity interests in Tongcheng Network;
 - (c) Ms. Wu Jian, who holds approximately 1.43% of the equity interests in Tongcheng Network;
 - (d) Mr. Zhang Hailong, who holds approximately 1.43% of the equity interests in Tongcheng Network;
 - (e) Mr. Ma Heping, who holds approximately 0.98% of the equity interests in Tongcheng Network;
 - (f) Kaifeng Chuangye Investment Co., Ltd. (凱風創業投資有限公司), which holds approximately 4.00% of the equity interests in Tongcheng Network;

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- (g) Khorgas Lecheng Tianxia Shareholding Investment Management L.P. (Limited Partnership) (霍爾果斯樂程天下股權投資管理合夥企業(有限合夥)), which holds approximately 2.67% of the equity interests in Tongcheng Network;
- (h) Suzhou Industrial Park Techeng Wanli Investment Management Co., Ltd. (蘇州工業園區特程萬里投資管理有限公司), which holds approximately 0.53% of the equity interests in Tongcheng Network;
- (i) Khorgas Qingcheng Shareholding Investment Management L.P. (霍爾果斯青程股權投資管理合夥企業(有限合夥)), which holds approximately 0.53% of the equity interests in Tongcheng Network;
- (j) Khorgas Yecheng Shareholding Investment Management L.P. (霍爾果斯業程股權投資管理合夥企業(有限合夥)), which holds approximately 0.53% of the equity interests in Tongcheng Network;
- (k) Shenzhen Tencent Industry Investment Fund Co., Ltd. (深圳市騰訊產業投資基金有限公司), which holds approximately 1.20% of the equity interests in Tongcheng Network;
- (l) Shenzhen Shiji Huixiang Technology Co., Ltd. (深圳市世紀匯祥科技有限公司), which holds approximately 0.59% of the equity interests in Tongcheng Network;
- (m) Shenzhen Litong Industry Investment Fund Co., Ltd. (深圳市利通產業投資基金有限公司), which holds approximately 11.69% of the equity interests in Tongcheng Network; and
- (n) Shenzhen Shiji Kaihua Investment Fund Co., Ltd. (深圳市世紀凱華投資基金有限公司), which holds approximately 0.13% of the equity interests in Tongcheng Network.

- (2) The Tongcheng Network Registered Shareholders executed powers of attorney in favor of Longyue Tiancheng WFOE, to exercise all their shareholders’ rights in Tongcheng Network. Please see “—Summary of the material terms of the Contractual Arrangements—Powers of Attorney” for further details.

The Tongcheng Network Registered Shareholders executed exclusive options in favor of Longyue Tiancheng WFOE, to acquire all or part of the equity interest in and/or assets of Tongcheng Network. Please see “—Summary of the material terms of the Contractual Arrangements—Exclusive Share Purchase Right Agreements” for further details.

The Tongcheng Network Registered Shareholders granted first priority security interest in favor of Longyue Tiancheng WFOE, over the 50% equity interest in Tongcheng Network held by the Tongcheng Network Registered Shareholders. Please see “—Summary of the material terms of the Contractual Arrangements—Share Pledge Agreement” for further details.

- (3) Tongcheng Network will pay services fees to Longyue Tiancheng WFOE in exchange for business support and technical and consulting services. Please see “—Summary of the material terms of the Contractual Arrangements— Exclusive Technology Consulting and Services Agreements” for further details.
- (4) The Suzhou Chengyi Registered Shareholders are Mr. Ma Heping and Mr. Wu Zhixiang holding 51% and 49% of the equity interests in Suzhou Chengyi, respectively.
- (5) The Suzhou Chengyi Registered Shareholders executed powers of attorney in favor of Longyue Tiancheng WFOE, to exercise all shareholders’ rights in Suzhou Chengyi. Please see “—Summary of the material terms of the Contractual Arrangements—Powers of Attorney” for further details.

The Suzhou Chengyi Registered Shareholders executed exclusive options in favor of Longyue Tiancheng WFOE, to acquire all or part of the equity interest in and/or assets of Suzhou Chengyi. Please see “—Summary of the material terms of the Contractual Arrangements—Exclusive Share Purchase Right Agreements” for further details.

The Suzhou Chengyi Registered Shareholders granted first priority security interest in favor of Longyue Tiancheng WFOE, over the entire equity interest in Suzhou Chengyi. Please see “—Summary of the material terms of the Contractual Arrangements—Share Pledge Agreement” for further details.

- (6) Suzhou Chengyi will pay services fees to Longyue Tiancheng WFOE in exchange for business support and technical and consulting services. Please see “—Summary of the material terms of the Contractual Arrangements— Exclusive Technology Consulting and Services Agreements” for further details.
- (7) Mr. Jiang Hao executed powers of attorney in favor of E-dragon Beijing WFOE, to exercise all his shareholders’ rights in Beijing E-dragon. Please see “—Summary of the material terms of the Contractual Arrangements—Powers of Attorney” for further details.

Mr. Jiang Hao executed exclusive options in favor of E-dragon Beijing WFOE, to acquire all or part of his equity interest in and/or assets of Beijing E-dragon. Please see “—Summary of the material terms of the Contractual Arrangements—Exclusive Share Purchase Right Agreements” for further details.

Mr. Jiang Hao granted equity pledge in favor of E-dragon Beijing WFOE, over the 50% equity interest in Beijing E-dragon held by Mr. Jiang Hao. Please see “—Summary of the material terms of the Contractual Arrangements—Share Pledge Agreement” for further details.

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Mr. Jiang Hao and E-dragon Beijing WFOE have entered into the loan agreement in relation to Beijing E-dragon. Please see “— Summary of the material terms of the Contractual Arrangements — Loan Agreement” below for details.

- (8) Beijing E-dragon will pay services fees to E-dragon Beijing WFOE in exchange for business support and technical and consulting services. Please see “—Summary of the material terms of the Contractual Arrangements— Exclusive Technology Consulting and Services Agreements” for further details.

Summary of the material terms of the Contractual Arrangements

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Exclusive Technology Consulting and Services Agreements

Each of (A) Tongcheng Network and Longyue Tiancheng WFOE; (B) Suzhou Chengyi and Longyue Tiancheng WFOE; and (C) Beijing E-dragon and E-dragon Beijing WFOE, entered into an exclusive technology consulting and services agreement on April 13, 2018, April 2, 2018 and April 2, 2018, respectively (together, the “**Exclusive Technology Consulting and Services Agreements**”). Each of our Contractual Arrangement Entities agreed to engage Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) as its exclusive provider of technical support, consulting services and other services in exchange for a fee. The services to be provided include:

- (i) development, maintenance and updating of server application software for the Contractual Arrangement Entities;
- (ii) development, maintenance and updating of Internet application software for the Contractual Arrangement Entities;
- (iii) provision of e-commerce technology services;
- (iv) provision of staff training services; and
- (v) other services requested by the Contractual Arrangement Entities.

Under the Exclusive Technology Consulting and Services Agreements, the service fee shall be an amount equivalent to 100% of the consolidated net profit of the respective Contractual Arrangement Entity in the financial year, less (i) net loss incurred by the respective Contractual Arrangement Entity in the immediately preceding financial year (if applicable); (ii) operational capital, expenses, taxes and other payments required under the PRC law in the same financial year; and (iii) any net profit distributed to Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) in the form of dividends. Notwithstanding the foregoing, Longyue Tiancheng WFOE and E-dragon Beijing WFOE are entitled to adjust the scope and amount of the service fees payable with reference to the tax obligations and operating capital needs of the Contractual Arrangement Entities.

In addition, absent the prior written consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), during the term of the Exclusive Technology Consulting and Services Agreements, each of the Contractual Arrangement Entities shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar cooperative relationships with any third party. Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) may appoint other parties, who may enter into certain agreements with the Contractual Arrangement Entities respectively, to provide the Contractual Arrangement Entities with the services under the Exclusive Technology Consulting and Services Agreements.

The Exclusive Technology Consulting and Services Agreements also provides that Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) has the exclusive proprietary rights to all intellectual property rights developed or created by the Contractual Arrangement Entities based on application software and other supportive means provided by Longyue Tiancheng WFOE or E-dragon WFOE (whichever applicable) during the performance of the Exclusive Technology Consulting and Services Agreements. The Contractual Arrangement Entities shall, upon so requested by Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), execute such

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agreements as is necessary to transfer the proprietary rights and interests in such intellectual property rights to Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), and to allow protection of the proprietary rights of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable).

Upon signing, the Exclusive Technology Consulting and Services Agreements shall remain effective for a term of 20 years, and shall be automatically renewed indefinitely upon expiration of each 20-year period. The Exclusive Technology Consulting and Services Agreement may be terminated in writing by Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable). The Contractual Arrangement Entities are not entitled to terminate the Exclusive Technology Consulting and Services Agreements unless Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) is dissolved, or the status of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) as a body corporate is terminated.

Exclusive Share Purchase Right Agreements

(A) The Suzhou Chengyi Registered Shareholders and Longyue Tiancheng WFOE; (B) the Tongcheng Network Registered Shareholders and Longyue Tiancheng WFOE; and (C) Mr. Jiang Hao and E-dragon Beijing WFOE, entered into exclusive share purchase right agreements on April 13, 2018, April 2, 2018 and April 2, 2018, respectively (the “**Exclusive Share Purchase Right Agreements**”), pursuant to which the Registered Shareholders granted Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) an irrevocable and exclusive right to purchase, or designate one or more persons (each, a “**designee**”) to purchase the equity interests then held by the Registered Shareholders in, and/or the assets of the Contractual Arrangement Entities (the “**Optioned Interest**”) once or at multiple times at any time in part or in whole at the sole and absolute discretion of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) to the extent permitted under the applicable laws of China. Where Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) chooses to purchase the Optioned Interest, the Registered Shareholders shall cause the Contractual Arrangement Entities to promptly convene a shareholders’ meeting, at which a resolution shall be adopted approving the Registered Shareholders’ transfer of the Optioned Interests to Longyue Tiancheng WFOE, E-dragon Beijing WFOE and/or their respective designees.

The purchase price for the purchase by Longyue Tiancheng WFOE of any Optioned Interests held by the relevant Registered Shareholders upon exercise of the option by Longyue Tiancheng WFOE shall be such lowest amount legally permissible under the applicable laws of China. Subject to the applicable laws of China, the relevant Registered Shareholders shall, transfer the balance of the purchase price received from Longyue Tiancheng WFOE, after deducting/withholding the relevant taxes (if any), to Longyue Tiancheng WFOE (or its designees) for free within 10 business days after Longyue Tiancheng WFOE (or its designees) so instructs the relevant Registered Shareholders after the Registered Shareholders receives the purchase price and pays/withholds the relevant taxes (if any). The purchase price for the purchase by E-dragon Beijing WFOE of any Optioned Interests held by Mr. Jiang Hao in Beijing E-dragon upon exercise of the option by E-dragon Beijing WFOE is RMB8,000,000 or any other amount as separately agreed among E-dragon Beijing WFOE and Mr. Jiang Hao. The purchase price received by Mr. Jiang Hao shall be used to offset his loan due to E-dragon Beijing WFOE under the Loan Agreement (as defined below), in which case such loan shall be deemed as the pre-paid purchase price. For details of the Loan Agreement, see “— Loan Agreement” below.

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Each of the Contractual Arrangement Entities and the Registered Shareholders, among other things, has covenanted that:

- (i) without the respective prior written consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it shall not in any manner supplement, change or amend its articles of association, increase or decrease its registered capital or number of shares, or change the structure of its registered capital in other manner;
- (ii) maintain its operation as a going concern, obtain all government permits and licenses necessary for its business, and prudently and effectively operate its business in accordance with sound financial and business practices;
- (iii) without the respective prior consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it shall not, and shall procure its subsidiaries not to sell, transfer, mortgage or dispose of in any manner any assets of more than RMB500,000, business, operation rights, legitimate interest in its income, or permit the creation of any secured interests thereon;
- (iv) without the respective prior consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it shall not change or remove any of its respective directors or senior management personnel;
- (v) without the respective prior consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it shall not incur, inherit, guarantee or assume any debt of more than RMB500,000, except for (i) debts incurred in the ordinary course of business other than through loans and (ii) debts disclosed to Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), the incurrence, inheritance, guarantee or assumption of which was consented to by Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable);
- (vi) it shall always operate all of its businesses during the ordinary course of business to maintain its asset value and refrain from any action/omission that may adversely affect its operating status and asset value; and
- (vii) without the respective prior consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it shall not execute any major contract with a value above RMB500,000, except for contracts executed in the ordinary course of business.

Further, each of the Registered Shareholders, among other things, has also covenanted that:

- (i) without the respective prior written consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it/he/she shall not sell, transfer, mortgage or dispose of in any other manner any legal or beneficial interest in the equity interests in the Contractual Arrangement Entities held by such shareholder, or allow the encumbrance thereon, except for the interest placed in accordance with the Contractual Arrangements;
- (ii) without the respective prior written consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it/he/she shall not, on any shareholders' meeting of the Contractual Arrangement Entities, vote in favor of, support or sign any shareholders' resolutions approving (i) the amendment of the articles of association or increase/decrease of registered share capital or number of shares, or in any manner change the share capital of the Contractual Arrangement Entities; or (ii) the sale, transfer, mortgage or disposal of any legal or beneficial interest in the Contractual Arrangement Entities, or the encumbrance thereon, except in favor of Longyue Tiancheng WFOE or E-dragon Beijing WFOE, as the case may be;
- (iii) without the respective prior written consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), it/he/she shall not, on any shareholders' meeting of

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the Contractual Arrangement Entities, vote in favor of, support or sign any shareholders' resolutions approving the merger or integration of the Contractual Arrangement Entities, or the acquisition of or investment in any parties;

- (iv) it/he/she shall immediately notify Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) upon the actual or potential occurrence of litigation, arbitration or administrative action;
- (v) upon the exercise by Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) (or their respective designees) of the irrevocable and exclusive right to purchase, or designate one or more persons to purchase the equity interests then held by it/him/her in, and/or the assets of the Contractual Arrangement Entities, it/he/she shall consent to such transfer or purchase of the equity interests and/or assets;
- (vi) it/he/she shall sign all necessary and applicable documents and take all necessary and applicable action to commence action or claim or defend any action or claim as is necessary or appropriate to safeguard the ownership rights in the Contractual Arrangement Entities; and
- (vii) it/he/she shall appoint any designee of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) as the director of the Contractual Arrangement Entities, at the respective request of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable).

The Exclusive Share Purchase Right Agreements shall remain effective for a period of 20 years, and automatically renewed upon expiration of the preceding 20 year-period unless the Exclusive Share Purchase Right Agreements are terminated by Longyue Tiancheng WFOE or E-dragon Beijing WFOE by written notice.

Our PRC Legal Advisor has advised us that the Exclusive Share Purchase Right Agreements are legal, valid and binding on the parties and is enforceable under applicable PRC laws and regulations, except for the provisions that (i) an arbitral body may grant injunctive relief or directly issue liquidation order against any of the Consolidated Affiliated Entities, and (ii) interim remedies or enforcement order may be granted by overseas courts such as the courts of Hong Kong and the Cayman Islands, which may not be enforceable under PRC laws.

Share Pledge Agreements

(A) The Suzhou Chengyi Registered Shareholders and Longyue Tiancheng WFOE; (B) the Tongcheng Network Registered Shareholders and Longyue Tiancheng WFOE; and (C) Mr. Jiang Hao and E-dragon Beijing WFOE, entered into equity pledge agreements on April 13, 2018, April 2, 2018 and April 2, 2018, respectively (the “**Share Pledge Agreements**”). Under the Share Pledge Agreements, the Registered Shareholders agreed to pledge all their respective equity interests in the Contractual Arrangement Entities that they own, including any interest or dividend paid for the shares, to Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts of the Contractual Arrangement Entities and the Registered Shareholders under the Exclusive Technology Consulting and Services Agreements, the Exclusive Share Purchase Right Agreements, the Powers of Attorney and the Loan Agreement (as defined below).

The pledge in respect of each of the Contractual Arrangement Entities takes effect upon the completion of registration with the competent SAIC and shall remain valid until the occurrence of the following events, whichever is earlier:

- (i) all outstanding contractual obligations under the Relevant Contractual Arrangements have been fully performed, all outstanding debts under the Contractual Arrangements have been fully paid, or achieved through other applicable means;

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- (ii) Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) exercises in full the equity pledge under the Share Pledge Agreements in accordance with the terms and conditions therein to exercise its entitled rights under the Contractual Arrangements; or
- (iii) Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) terminates the Share Pledge Agreements.

Upon the knowledge, or discovery of the occurrence of any circumstances or event that may lead to an event of default (as defined in the Share Pledge Agreements), the Registered Shareholders shall immediately notify Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) in writing. Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) shall be entitled to immediately exercise the pledge and may exercise any remedy measure under applicable PRC laws, the Contractual Arrangements, including but not limited to being paid in priority with the monetary valuation that the Registered Shareholders' equity interest is converted into or from the proceeds from auction or sale of the Registered Shareholders' equity interest. Neither Longyue Tiancheng WFOE nor E-dragon Beijing WFOE is liable for any loss incurred by its due exercise of such rights and powers.

We have registered the equity pledge contemplated under the Share Pledge Agreements in relation to Suzhou Chengyi and Beijing E-dragon, and will register the equity pledge contemplated under the Share Pledge Agreements in relation to Tongcheng Network upon completion of the Reorganization with the relevant PRC legal authority pursuant to PRC laws and regulations.

Powers of Attorney

(A) Longyue Tiancheng WFOE and each of the Suzhou Chengyi Registered Shareholders; (B) Longyue Tiancheng WFOE and each of the Tongcheng Network Registered Shareholders; and (C) E-dragon Beijing WFOE and Mr. Jiang Hao entered into a power of attorney on April 13, 2018, April 2, 2018 and April 2, 2018 respectively (the “**Powers of Attorney**”). Under the Powers of Attorney, each Registered Shareholder irrevocably appointed Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) respectively (as well as the successors, including a liquidator, if any, replacing Longyue Tiancheng WFOE or E-dragon Beijing WFOE) or their designee(s) (including their directors) as its sole exclusive agent to exercise on its behalf, certain powers, including without limitation: (i) exercise all shareholder's rights and shareholder's voting rights in accordance with law and the constitutional documents of the Contractual Arrangement Entities, including but not limited to the appointment, election or removal of directors, supervisors and senior management, the sale or transfer of any or all of the shares in the Contractual Arrangement Entities and the winding up of the Contractual Arrangement Entities, (ii) to call shareholders' meetings of the Contractual Arrangement Entities, to accept any notice on shareholders' meetings, and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder, and (iii) to file documents with the relevant companies registry.

Further, pursuant to the Powers of Attorney and to ensure the Powers of Attorney does not give rise to a conflict of interest, each of the individual Registered Shareholders of the Contractual Arrangement Entities irrevocably undertakes that, where such Registered Shareholder is also serving as a Director or senior management of our Company, such Registered Shareholder shall assign his interest under the Powers of Attorney to other Directors or senior management of our Company who does not have any conflict of interests.

Each of the Registered Shareholders of the Contractual Arrangement Entities, who are natural persons, irrevocably undertakes and acknowledges that in the event of his/her death, bankruptcy, divorce or any other circumstances resulting in a change in the ownership of the equity interest in the Contractual Arrangement Entities, (i) relevant Contractual Agreements shall be equally binding on his/her successor, and (ii) his/her will, divorce agreement, debt arrangements or any other legal documents and/or restructuring agreements shall, in respect of any disposal concerning the Contractual Arrangement Entities and their respective subsidiaries, unless otherwise agreed by Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) in written form, be subject to the terms of the relevant Contractual Agreements.

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The Powers of Attorney shall remain effective from the date of the signing of the Powers of Attorney during the period that the Registered Shareholder is a shareholder of the Contractual Arrangement Entities, unless Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) has given written instructions to the contrary.

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute relating to the Contractual Arrangements, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission (the “CIETAC”) for arbitration, in accordance with the then effective arbitration rules and procedures. The arbitration shall be conducted in Beijing. The arbitration ruling shall be final and binding on all parties. The dispute resolution provisions also provides that the arbitral tribunal may award remedies over the shares or assets of the Consolidated Affiliated Entities or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Consolidated Affiliated Entities respectively, and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), PRC and the places where the principal assets of the Consolidated Affiliated Entities are located also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares held by the Registered Shareholders in the Contractual Arrangement Entities or properties thereof.

To the extent permitted by PRC laws and where appropriate, the arbitration tribunal may grant any remedies in accordance the relevant agreement and applicable PRC laws, including preliminary and permanent injunctive relief (such as injunction against carrying out business activities, or mandating the transfer of assets), specific performance of contractual obligations, remedies concerning the equity interest or assets of the Contractual Arrangement Entities and awards directing the Contractual Arrangement Entities to conduct liquidation.

However, our PRC Legal Advisor has advised that (i) an arbitration tribunal would not be able to grant such kind of injunctive relief or winding up order of the Consolidated Affiliated Entities under PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and (iii) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreements under the Contractual Arrangements.

Since PRC arbitration tribunal cannot award legal remedies such as injunctive relief or winding up orders, Longyue Tiancheng WFOE and E-dragon Beijing WFOE can only seek similar but not identical remedies from CIETAC under PRC law, such as cessation of infringements or return of property. Alternatively, Longyue Tiancheng WFOE and E-dragon Beijing WFOE may seek remedies from a PRC court in accordance with PRC law, including interim injunctive relief over the assets or shares of the Contractual Arrangement Entities and a winding up order against the Contractual Arrangement Entities.

As a result of the above, in the event that the Contractual Arrangement Entities or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Contractual Arrangement Entities and conduct our business could be materially and adversely affected. Please see “Risk Factors — Risks Relating to Our Contractual Arrangements.”

Loan Agreement

As part of the Contractual Arrangements in relation to Beijing E-dragon, Mr. Jiang Hao entered into a loan agreement with E-dragon Beijing WFOE (the “**Loan Agreement**”), pursuant to which E-dragon Beijing WFOE agreed to lend Mr. Jiang Hao RMB8,000,000 (the “**Loan**”) for purposes of the capital contribution to Beijing E-dragon.

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Such Loan will become due and payable upon E-dragon Beijing WFOE’s demand under any of the following circumstances: (i) Mr. Jiang Hao resigns or is being removed from the various positions held by him with E-dragon Beijing WFOE or Beijing E-dragon or ceases to be a shareholder of Beijing E-dragon, (ii) the death or incapacity of Mr. Jiang Hao, (iii) Mr. Jiang Hao being engaged or involved in criminal activities, (iv) Mr. Jiang Hao incurring personal debt to a third party exceeding RMB 100,000, or (v) E-dragon Beijing WFOE exercising its option to purchase all or part of the equity interests in Beijing E-dragon held by Mr. Jiang Hao, to the extent permitted by PRC laws and regulations that the PRC foreign ownership restrictions applicable to Beijing E-dragon’s Internet information service have been lifted, or (vi) Mr. Jiang Hao’s breach of the representation, warranties, covenants or obligations under the Exclusive Share Purchase Right Agreement in relation to Beijing E-dragon.

Succession

As advised by our PRC Legal Advisor, the provisions set out in the Contractual Arrangements are also binding on any successors of the individual Registered Shareholders. Although the Contractual Arrangements do not specify the identity of successors to such Registered Shareholders, under the succession law of the PRC, statutory successors may include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents, and as such any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Longyue Tiancheng WFOE and E-dragon Beijing WFOE can enforce their rights against the successors. Pursuant to the Contractual Arrangements, any successor of such Registered Shareholders shall assume any and all rights and obligations of such Registered Shareholders under the Contractual Arrangements as if the successor was a signing party to such Contractual Arrangements.

In addition, (a) the spouse of Mr. Jiang Hao, the Registered Shareholder of Beijing E-dragon, executed an irrevocable undertaking on April 2, 2018; (b) the spouse of each of Mr. Wu Zhixiang, Mr. Wang Zhuan, Ms. Wu Jian, Mr. Zhang Hailong and Mr. Ma Heping, each of whom is a Registered Shareholders of Tongcheng Network, executed an irrevocable undertaking on April 2, 2018; and (c) the spouse of each of Mr. Wu Zhixiang and Mr. Ma Heping, each of whom is a Registered Shareholders of Suzhou Chengyi, executed an irrevocable undertaking on April 13, 2018, whereby each of them expressly and irrevocably acknowledged and have undertaken that (i) any equity interests held by the Registered Shareholders in the Contractual Arrangement Entities do not fall within the scope of their communal properties; (ii) each of them will not have any claim on the interests of Contractual Arrangement Entities obtained through the Contractual Arrangements; (iii) each of them never participated and will not participate in the operation or management of the Contractual Arrangement Entities

Each of the Tongcheng Network Registered Shareholders who are companies or limited partnership enterprises undertake under their Powers of Attorney that in case they lose corporate status due to merger, division, termination, winding up dissolution, liquidation or other reasons, or other events that could affect their rights as shareholders of Tongcheng Network occur, their successors, administrators or liquidators shall inherit and manage their rights as shareholders of Tongcheng Network, provided that they shall covenant to comply with the Powers of Attorney.

Our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of death or divorce of any individual Registered Shareholder of the Contractual Arrangement Entities and (ii) the loss of capacity, death or divorce of such Registered Shareholder would not affect the validity of the Contractual Arrangements, and Longyue Tiancheng WFOE and E-dragon Beijing WFOE can enforce their respective rights under the Contractual Arrangements against the successors of such Registered Shareholder.

Conflicts of Interests

Each of the Registered Shareholders has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see “—Summary of the Material Terms of the Contractual Arrangements—Powers of Attorney.”

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Loss Sharing

Under the relevant PRC laws and regulations, none of our Company, Longyue Tiancheng WFOE or E-dragon Beijing WFOE is legally required to share the losses of, or provide financial support to, the Contractual Arrangement Entities. Further, each of the Contractual Arrangement Entities is a limited liability company or a joint stock company and shall be solely liable for its own debts and losses with assets and properties owned by it. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through the Contractual Arrangement Entities, which holds the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if any of the Contractual Arrangement Entities suffers losses.

However, as provided in the Exclusive Share Purchase Right Agreements, without the prior consent of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable), the Contractual Arrangement Entities shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its legal or beneficial interest in assets, businesses or revenue worth more than RMB 500,000, or allow any third party create any other security interest on its legal or beneficial interest in assets, businesses or revenue worth more than RMB 500,000; (ii) execute any material contract with a value above RMB500,000, except those entered into in the ordinary course of business; (iii) provide any loan or credit in any form to any third party; (iv) incur, inherit, guarantee or allow any debt with a value above RMB 500,000, unless if it is not incurred in the ordinary course of business, or is disclosed to and consented by Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable); (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Longyue Tiancheng WFOE, E-dragon Beijing WFOE and our Company in the event of any loss suffered from the Contractual Arrangement Entities can be limited to a certain extent.

Liquidation

Pursuant to the Share Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders of the Contractual Arrangement Entities shall, upon the request of Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) (i) deposit the proceeds into an account designated and supervised by Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) and used to secure the Contractual Arrangement Entities’ and the Registered Shareholders’ obligations under the Contractual Arrangement in priority to any other payment, or (ii) give the proceeds they received from liquidation as a gift to the Contractual Arrangement Entities or its designee(s) to the extent permitted by the PRC laws.

Accordingly, in a winding up of the Contractual Arrangement Entities, Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) is entitled to liquidation proceeds of the Contractual Arrangement Entities based on the Contractual Arrangements for the benefit of our Company’s creditors/ shareholders.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our Confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Contractual Arrangement Entities under the Contractual Arrangements.

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Legality of the Contractual Arrangements

Based on the above, our PRC Legal Advisor is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that upon execution of the Contractual Arrangements:

- (a) as confirmed by the parties to the Contractual Arrangements, they have obtained all necessary authorizations to execute and perform the Contractual Arrangements;
- (b) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Contractual Arrangement Entities, Longyue Tiancheng WFOE or E-dragon Beijing WFOE;
- (d) each of the Contractual Arrangements is binding on the assignees or successors of the parties thereto;
- (e) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that (i) the pledge under the Share Pledge Agreements shall be registered with local administration bureau for industry and commerce, and (ii) the exercise of the option by Longyue Tiancheng WFOE or E-dragon Beijing WFOE of their rights under the Exclusive Share Purchase Right Agreements to acquire all or part of the equity interests in the relevant Contractual Arrangement Entities are subject to the approvals of, filing with and/or registrations with PRC governmental authorities; and
- (f) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the dispute resolution provision that provides that any dispute shall be submitted to the CIETAC for arbitration in accordance with the then effective arbitration rules, the arbitration shall be conducted in Beijing and that the arbitrator may award interim remedies over the shares or assets of our Consolidated Affiliated Entities or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our Consolidated Affiliated Entities; or the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC (being the place of incorporation of our Contractual Arrangement Entities) and any other jurisdiction in which major assets of the Consolidated Affiliated Entities are located also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of arbitration our Consolidated Affiliated Entities. Our PRC Legal Advisor has advised that the arbitration tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

Further, our Company, our PRC Legal Advisor and the Joint Sponsors’ PRC legal advisor conducted interviews with the MIIT, CATA and the CBIRC. During the interviews, the MIIT, CATA and CBIRC, being the competent government authorities, provided oral confirmation that the Contractual Arrangements would not be subject to any determination or approval by the MIIT, CATA and the CBIRC, and do not violate the applicable PRC laws or regulations concerning foreign ownership restrictions.

We have been advised by our PRC Legal Advisor, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the

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future take a view that is contrary to the above opinion of our PRC Legal Advisor. We have been further advised by our PRC Legal Advisor that if the PRC government finds that the Contractual Arrangements do not comply with PRC government restrictions on foreign investment in the Relevant Businesses, we could be subject to severe penalties, which could include:

- (a) revoking the business and operating licenses of Longyue Tiancheng WFOE, E-dragon Beijing WFOE and our Contractual Arrangement Entities;
- (b) restricting or prohibiting related party transactions among Longyue Tiancheng WFOE, E-dragon Beijing WFOE and our Contractual Arrangement Entities;
- (c) imposing fines or other requirements with which we, Longyue Tiancheng WFOE, E-dragon Beijing WFOE and our Contractual Arrangement Entities may find difficult or impossible to comply;
- (d) requiring us, Longyue Tiancheng WFOE, E-dragon Beijing WFOE and our Contractual Arrangement Entities to restructure the relevant ownership structure or operations; and
- (e) restricting or prohibiting the use of any [REDACTED] from the [REDACTED] to finance our business and operations in the PRC.

The imposition of any of these penalties could have a material adverse effect on our ability to conduct our business. Please see “Risk Factors—Risks Relating to Our Contractual Arrangements.”

Development in the PRC Legislation on Foreign Investment

Draft new Foreign Investment Law

MOFCOM published the Draft Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in the PRC. MOFCOM has solicited comments on this draft and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in the PRC.

Among other things, the Draft Foreign Investment Law purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise, or a foreign invested entity (“FIE”). The Draft Foreign Investment Law specifically provides that entities established in the PRC but “controlled” by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the “Catalogue of Restrictions” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment.

In respect of “actual control,” the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the FIE. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defines “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises. Further details on the definition of “control” are set out below.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a “negative list” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of our Contractual Arrangement Entities by Longyue Tiancheng WFOE and E-dragon Beijing WFOE, through which we operate our Relevant Businesses in PRC. Under the Draft Foreign

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Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. For companies with a VIE structure in an industry category that is in the “negative list”, it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

Pursuant to the Draft Foreign Investment Law, as far as the new VIE structures are concerned, if a domestic enterprise under the VIE structure is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor (“**PRC Investor**”) and therefore the VIE structures may be regarded as legal if the domestic enterprise operates in a sector which is in the “restricted category” on the “negative list.” On the contrary, if the domestic enterprise is controlled by foreign investors, such domestic enterprise may be treated as a foreign-investor or foreign-invested enterprise, and therefore the operation of such domestic enterprise through VIE structures may be regarded as illegal if the domestic enterprise operates in a sector which is on the “negative list” and the domestic enterprise does not apply for and obtain the necessary permission.

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The “negative list” set out in the Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the “Catalogue of Prohibitions” and the “Catalogue of Restrictions,” respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfill certain conditions and apply for permission before making such investment.

Notwithstanding that the accompanying explanatory notes to the Draft Foreign Investment Law (the “**Explanatory Notes**”) do not provide a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective, which were still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling in the “negative list”:

- (i) requiring them to make a declaration to the competent authority that the actual control is vested with PRC Investors, after which the VIE structures may be retained;
- (ii) requiring them to apply to the competent authority for certification that their actual control is vested with PRC Investors and, upon verification by the competent authority, the VIE structures may be retained; and
- (iii) requiring them to apply to the competent authority for permission to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

Where foreign investors and FIEs circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144, Article 145, Article 147 or Article 148 of the Draft Foreign Investment Law, as the case may be. If foreign investors make investments in the sectors specified in

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the Catalogue of Restrictions without approval or in the sector specified in the Catalogue of Prohibitions, the competent authorities for foreign investment in the province, autonomous region and/or municipality where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments. If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Measures to maintain control of our Contractual Arrangement Entities

Under the Draft Foreign Investment Law, if an entity is organized in a foreign jurisdiction but cleared by the relevant PRC government authority in charge of foreign investment in the PRC as “controlled” by PRC citizens, it would nonetheless be treated as a PRC domestic entity for investment in the “Catalogue of Restrictions” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the Draft Foreign Investment Law to cover any of the following summarized categories:

- (i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- (ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders’ meeting or the board; or
- (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

If the Draft Foreign Investment Law is promulgated in the current draft form, our PRC Legal Advisor is of the view that we are likely to be viewed as being controlled by PRC citizens on the following bases:

- (i) Based on the Contractual Arrangements, as our Company indirectly owns 100% of the equity interests of Longyue Tiancheng WFOE and E-dragon Beijing WFOE, our Company will be considered to “control” the Contractual Arrangement Entities through Longyue Tiancheng WFOE and of E-dragon Beijing WFOE pursuant to the third limb of the definition of “control” under the Draft Foreign Investment Law (as described above).
- (iii) Through the arrangements in relation to the our Board summarized below to ensure that the majority of our Board (which is the governing body of our Company and makes all material decisions with respect to our Company) is “controlled” by PRC nationals, our Company is likely to be considered as being ultimately “controlled” by PRC nationals pursuant to the second limb of the definition of “control” under the Draft Foreign Investment Law as described above.
 - Under the Articles to be adopted before the [REDACTED], members of our Nomination Committee of the Board will be elected by resolutions approved by a majority of our Directors. The Nomination Committee is responsible for recommending nominees to the Board for appointment as Directors.

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- The Nomination Committee will be responsible for making recommendations to the Board for the appointment or removal of Directors after the [REDACTED]. Under the Articles, a Director may only be appointed by (i) our Shareholders by ordinary resolutions upon the Board’s proposal; or (ii) in the case of appointment of any person as a director either to fill a casual vacancy or as an addition to the Board, by a majority of the Board (any director so appointed shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election at that meeting), and a Director may only be removed by (i) the Shareholders by ordinary resolutions upon the Board’s proposal; or (ii) by a three-quarters majority of the Board. The Board is in turn restricted to appointing or proposing to shareholders to elect, directors from candidates nominated by the Nomination Committee, or remove Directors as proposed by the Nomination Committee, in accordance with the Articles.
- The Articles and the terms of reference of the Nomination Committee (the “**Terms of Reference**”) will provide that the chairman of the Nomination Committee (the “**NC Chairman**”) shall be a PRC Investor under the Draft Foreign Investment Law. Mr. Wu Zhixiang and Mr. Liang Jianzhang will be the co-chairman of the Board and Mr. Wu Zhixiang will be the NC Chairman upon the [REDACTED]. As advised by our PRC Legal Advisor, Mr. Wu, who is a shareholder of our Company upon the [REDACTED], will be considered a PRC Investor of our Company under the Draft Foreign Investment Law as he is a PRC national. Our PRC Legal Advisor further advised that there is no threshold on the shareholding in order for the PRC national to qualify as an “investor” under the Draft Foreign Investment Law.
- The Articles and the Terms of Reference will further provide that (i) a majority of the Board will comprise PRC nationals at all times; (ii) the Nomination Committee will comprise three members; and (iii) the NC Chairman shall be a PRC Investor. The Terms of Reference will include that the quorum of a meeting of the Nomination Committee shall be two (including the NC Chairman), and that any resolution of the Nomination Committee at the meeting shall be approved by a majority (including the affirmative vote of the NC Chairman) of the members of the Nomination Committee who attend and vote at the meeting. In the event of an equality of votes of the Nomination Committee, the NC Chairman will have a casting vote in addition to any other vote he may have. Alternatively, a decision of the Nomination Committee may be approved by way of a written resolution signed unanimously by every member of the Nomination Committee.
- Our legal advisors on Cayman Islands Law, Conyers Dill & Pearman, is of the view that the Shareholders would not have any right under Cayman Islands law to propose (a) any amendment to the Terms of Reference which has not been proposed by the Board, or (b) the appointment or removal of any persons as directors who have not been proposed by the Board (pursuant to the nominations of the Nomination Committee made in accordance with the Terms of Reference). Any candidate proposed by the Shareholders shall first be approved by the Nomination Committee and the Board before election at the shareholders’ meeting, provided that members of the Nomination Committee and the Board will be subject to fiduciary duties as directors of our Company in making such decision.
- any amendment to the Articles shall be approved by special resolution (i.e.: three-fourths majority). TCH Sapphire, Image Frame, Sky Journey Limited, Suzhou Huafan Runhe Venture Capital Partnership (Limited Partnership) (蘇州華帆潤禾創業投資合夥企業(有限合夥)) and Hua Yuan International Limited, who are expected to control in aggregate over 25% of the voting rights of the shares in our Company upon the [REDACTED] (“**Relevant Shareholders**”) will provide an Undertaking (the “**Undertaking**”) to our Company that each of them will vote, or procure the companies through which it holds shares in our Company to vote, against any amendment to the Articles

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- (i) the removal of the requirement that the NC Chairman shall be a PRC Investor;
- (ii) any effect to the NC Chairman’s power to secure his/her nominated persons to acquire at least 50% of the seats on the Board, such as removing the requirement of the affirmative vote of the NC Chairman in any resolution of the Nomination Committee; or
- (iii) removing the requirement that the majority of the Board will comprise PRC nationals at all times.

In the event that any third party acquires any interest from the Relevant Shareholders so that the Relevant Shareholders’ Control over the voting rights in our Company would fall below 25%, the Relevant Shareholders would (a) procure the third party to provide an undertaking on substantially the same terms and conditions as the Undertaking; and (b) demonstrate to the reasonable satisfaction of our Company and the Stock Exchange that the Contractual Arrangements will continue to be viewed as a domestic investment under the Draft Foreign Investment Law or the final PRC Foreign Investment Law as enacted (the “**Final Law**”), as the case may be, to the extent the then current PRC laws, regulations and policies are consistent with the Draft Foreign Investment Law. In the event our Company receives any proposal to make any amendments to the Articles as described in (i), (ii) or (iii) above after the [REDACTED], our Company undertakes to make full disclosure of the potential risks associated with such proposal and the scenario which may arise from such amendment, including but not limited to delisting of our Company’s shares from the Stock Exchange, in the circular to be dispatched to the Shareholders of our Company.

- The Undertaking will become effective from the [REDACTED] and will remain effective until the earlier of the occurrence of the following events:
 - the Relevant Shareholders ceasing to hold any voting rights in our Company;
 - compliance with the relevant requirements under the Final Law or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required and the Stock Exchange has consented to this;
 - compliance with the Undertaking is no longer required, as advised by the Stock Exchange; or
 - the Stock Exchange and any applicable Chinese regulatory departments have consented to such termination.

To the extent that only part of the Undertaking above is no longer required as a result of the above, only such part of the Undertaking that is no longer required shall cease to be effective. To the extent that the Undertaking (or any part thereof) is no longer effective, our Company will issue an announcement as soon as practicable.

- The Undertaking will only cease to become effective for the reasons outlined above. Furthermore, the Undertaking will be a matter of public record and any party considering acquiring direct or indirect interest in our Company from any of the Relevant Shareholders will know that the Relevant Shareholders are bound by the Undertaking, that the Undertaking was given in connection with our Company’s application for the [REDACTED], and that failure to abide by the Undertaking may give rise to adverse regulatory consequences to the [REDACTED] status of our Company.

Our Company intends to follow paragraph A.4.2 of the Corporate Governance Code, Appendix 14 to the Listing Rules (the “**Code**”), pursuant to which every Director, including those appointed for a specific term, will be subject to retirement by rotation at least once every three years. The Board has the power, from time to time and at any time, to appoint any person as an additional director to

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the Board, subject to the requirement that any director so appointed shall hold office only until the next annual general meeting and shall then be eligible for re-election. If the shareholders of our Company did not vote to re-elect any director nominated or appointed by the Board, it is in any event within the power of the Board to appoint one or more additional directors, subject to the requirement that such directors being subject to re-election at the next annual general meeting.

We are of the view that the proposed arrangement as described above is in compliance with paragraph A.5.6 of the Code. Note to paragraph A.5.6 of the Code provides that board diversity can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience, and that each issuer should take into account its own business model and specific needs. As the target audience of our Company’s principal businesses are residents in the PRC, which requires deep local knowledge and experience, it is in line with our Company’s business model and specific needs to require that a majority of the Board shall comprise PRC nationals. Furthermore, our Company believes that there will be sufficient director candidates who are PRC nationals of different gender, age, educational background and professional experience to ensure that our Company will have a Board with diversified perspective

Our legal advisors on Cayman Islands Law, Conyers Dill & Pearman, is of the view that the above arrangement set out in the Articles are not inconsistent with the Cayman Islands Laws. Our PRC Legal Advisor have advised that the above arrangement is in compliance with anti-discrimination laws (if applicable) and applicable PRC laws and regulations.

Based on the views of our PRC Legal Advisor, our Directors are of the view that the Contractual Arrangements are likely to be deemed as a domestic investment and to be permitted to continue.

Notwithstanding the above, there may be uncertainties that the above measures to maintain control over and receive the economic benefit from our Contractual Arrangement Entities alone may not be effective in ensuring compliance with the new Foreign Investment Law together with, if any, all its subsequent amendments or updates, as promulgated (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. Please see “Risk Factors—Risks Relating to Our Contractual Arrangements.”

Potential impact on our company of the Contractual Arrangements are not treated as domestic investment

If the operation of the Restricted Businesses is on the “negative list” and the Draft Foreign Investment Law as finally enacted is refined or deviates from the current draft, depending on the treatment of existing VIE structures, the Contractual Arrangements may be regarded as invalid and illegal. As a result, we may not be able to operate the Restricted Businesses through the Contractual Arrangements and would lose our rights to receive the economic benefits of our PRC Operating Entities. As a result, the financial results of our Contractual Arrangement Entities would no longer be consolidated into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing entities engaged in the internet industry and other related industries, some of which have obtained listing status abroad, are operating under contractual arrangements, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements. Our PRC Legal Advisor believes that the PRC government is likely to take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them, and make decisions according to different situations in practice. According to the State Council Legislative Work Plan for 2018 issued on March 2, 2018, the draft Foreign Investment Law will be submitted to National People’s Congress Standing Committee for deliberation. According to National People’s Congress Standing

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Committee Legislative Work Plan for 2018 amended on April 17, 2018, the draft Foreign Investment Law will be deliberated for the first time in December, 2018. The draft Foreign Investment Law is currently in draft form only and does not have any binding force.

However, there are uncertainties as to the definition of control that may be adopted in the Draft Foreign Investment Law as finally enacted and interpretation of the definition of control even if it is the same as adopted in the Draft Foreign Investment Law and the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisor’s understanding. Please see “Risk Factors—Risks Relating to Our Contractual Arrangements” for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the Foreign Investment Law, if and when it comes into force.

If the operation of the Restricted Businesses is no longer on the “negative list” and we can legally operate them under PRC Laws, Longyue Tiancheng WFOE and E-dragon Beijing WFOE will exercise their respective call option under the Exclusive Share Purchase Right Agreements to acquire the equity interest of Tongcheng Network, Beijing E-dragon and Suzhou Chengyi respectively, and unwind the Contractual Arrangements subject to approvals by the relevant authorities.

Compliance with the Contractual Arrangements

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
2. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports;
4. our Directors undertake to provide periodic updates in our annual reports regarding the qualification requirement as stipulated under the paragraph headed “—Background to the Contractual Arrangements” in this section and the latest development of the Draft Foreign Investment Law as disclosed under the paragraph headed “—Development in the PRC Legislation on Foreign Investment” in this section, including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the qualification requirement; and
5. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Longyue Tiancheng WFOE, E-dragon Beijing WFOE and our Contractual Arrangement Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, we believe that our Directors are able to perform their roles in our Group independently and we are capable of managing our business independently after the [REDACTED] under the following measures:

1. the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the

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nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

2. each of our Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefits and in the best interests of our Company;
3. we have appointed three independent non-executive Directors, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
4. we will disclose in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director and his or her associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

Accounting Aspects of the Contractual Arrangements

Under the Exclusive Technology Consulting and Services Agreements, it was agreed that, in consideration of the services provided by Longyue Tiancheng WFOE and E-dragon Beijing WFOE, (a) Tongcheng Network and Suzhou Chengyi will pay service fees to Longyue Tiancheng WFOE; and (b) Beijing E-dragon will pay service fees to E-dragon Beijing WFOE. The service fee shall be an amount equivalent to 100% of the consolidated net profit of the respective Contractual Arrangement Entity in the financial year, less (i) net loss incurred by the respective Contractual Arrangement Entity in the immediately preceding financial year (if applicable); (ii) operational capital, expenses, taxes and other payments required under the PRC law in the same financial year; and (iii) any net profit distributed to Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable) in the form of dividends. Notwithstanding the foregoing, Longyue Tiancheng WFOE and E-dragon Beijing WFOE are entitled to adjust the scope and amount of the service fees payable with reference to the tax obligations and operating capital needs of the Contractual Arrangement Entities. Accordingly, Longyue Tiancheng WFOE and E-dragon Beijing WFOE have the ability to extract substantially all of the economic benefit of the Contractual Arrangement Entities respectively through the Exclusive Technology Consulting and Services Agreements.

In addition, under the Share Pledge Agreements, in the event that the Registered Shareholders receive any profit distribution or dividend from the Contractual Arrangement Entities, the Registered Shareholders must pledge such amount to Longyue Tiancheng WFOE or E-dragon Beijing WFOE (whichever applicable, as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts of the Contractual Arrangement Entities and the Registered Shareholders under the Exclusive Technology Consulting and Services Agreements, the Exclusive Share Purchase Right Agreements and the Powers of Attorney.

As a result of these Contractual Arrangements, our Company has obtained control of the Contractual Arrangement Entities through Longyue Tiancheng WFOE and E-dragon Beijing WFOE respectively and, at our Company's sole discretion, can receive substantially all of the economic interest returns generated by the Contractual Arrangement Entities. Accordingly, the results of operations, assets and liabilities, and cash flows of each of the Contractual Arrangement Entities are consolidated into our Company's financial statements.

In this regard, our Directors consider that our Company can consolidate the financial results of the Contractual Arrangement Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of the Consolidated Affiliated Entities is disclosed in Note 2.2 to the Accountant's Report set out in Appendix I.

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REGULATION ON FOREIGN INVESTMENT

Investment activities in the PRC by foreign investors are subject to the Catalogue which was promulgated and is amended from time to time by the MOFCOM and the NDRC. Pursuant to the latest Catalogue, amended and issued on June 28, 2017 and effective on July 28, 2017, or the 2017 Catalogue, industries listed therein are divided into two categories: encouraged industries and the industries within the catalogue of special management measures, or the Negative List. The Negative List is further divided into two sub-categories: restricted industries and prohibited industries. Establishment of wholly foreign-owned enterprises is generally allowed in industries outside of the Negative List. For the restricted industries within the Negative List, some are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to government approvals and certain special requirements. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Catalogue are generally open to foreign investment unless specifically restricted by other PRC regulations.

On October 8, 2016, the MOFCOM issued the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**FIE Record-filing Interim Measures**”), effective on the same day and further revised on July 30, 2017. Pursuant to FIE Record-filing Interim Measures, the establishment and change of the FIE are subject to record-filing procedures, instead of prior approval requirements, provided that the establishment or change does not involve special entry administration measures. If the establishment or change of FIE matters involves the special entry administration measures, the approval of the MOFCOM or its local counterparts is still required. Pursuant to the Announcement [2016] No. 22 of the National Development and Reform Commission and the MOFCOM (《中華人民共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號》) dated October 8, 2016, the special entry administration measures for foreign investment apply to restricted and prohibited categories specified in the Catalogue, and the encouraged categories are subject to certain requirements relating to equity ownership and senior management under the special entry administration measures.

REGULATION ON VALUE-ADDED TELECOMMUNICATIONS SERVICES AND FOREIGN INVESTMENT RESTRICTIONS

Licenses for Value-Added Telecommunication Services

On September 25, 2000, the Telecommunications Regulations of the People’s Republic of China (《中華人民共和國電信條例》) (the “**Telecom Regulations**”), were issued by the PRC State Council, which was amended on July 29, 2014, and February 6, 2016, respectively, as the primary governing law on telecommunication services. The Telecom Regulations set out the general framework for the provision of telecommunication services by PRC companies. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations draw a distinction between “basic telecommunications services” and “value-added telecommunications services.” The Catalogue of Telecommunications Business (《電信業務分類目錄》) was issued as an attachment to the Telecom Regulations to categorize telecommunications services as basic or value-added, and online data processing and transaction processing services and information services via public communication networks such as fixed networks, mobile networks and internet are classified as value-added telecommunications services.

On March 5, 2009, the MIIT issued the Administrative Measures for Telecommunications Business Operating Permit (《電信業務經營許可管理辦法》) (the “**Telecom Permit Measures**”), which took effect on April 10, 2009. The Telecom Permit Measures was recently amended on July 3, 2017 and the amendment took effect on September 1, 2017. The Telecom Permit Measures confirm that there are two types of telecom operating licenses for operators in China, namely, licenses for basic telecommunications services and the VAT License. The operation scope of the license will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services

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operator shall conduct its business in accordance with the specifications listed in its VAT License. In addition, a VAT License’s holder is required to obtain approval from the original permit-issuing authority in respect of any change to its shareholders.

On September 25, 2000, the PRC State Council promulgated the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Measures**”), which was amended in January 2011. Under the Internet Measures, commercial Internet information services operators shall obtain the ICP License, from the relevant government authorities before engaging in any commercial Internet information services operations within the PRC. The provision of information services through mobile applications is subject to the PRC laws and regulations governing internet information services. In addition, To strengthen the regulation of the mobile application information services, the State Internet Information Office promulgated the Administrative Provisions on Mobile Internet Application Information Services (《移動互聯網應用程序信息服務管理規定》) on June 28, 2016, pursuant to which, an internet application program provider must verify a user’s mobile phone number and other identity information under the principle of mandatory real name registration at the back-office end and voluntary real name display at the front-office end. An internet application program provider must not enable functions that can collect a user’s geographical location information, access user’s contact list, activate the camera or recorder of the user’s mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant application programs, unless it has clearly indicated to the user and obtained the user’s consent on such functions and application programs. Furthermore, in December 2016, the MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals (《移動智能終端應用軟件預置和分發管理暫行規定》) (the “**Mobile Application Interim Measures**”), which took effect on July 1, 2017. The Mobile Application Interim Measures requires, among others, that internet information service providers must ensure that a mobile application, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of hardware and operating system of a mobile smart device.

The content of the Internet information is highly regulated in China and pursuant to the Internet Measures, the PRC government may shut down the websites of ICP License holders and revoke their ICP Licenses if they produce, reproduce, disseminate or broadcast internet content that contains content that is prohibited by law or administrative regulations. Commercial Internet information services operators are also required to monitor their websites. They may not post or disseminate any content that falls within the prohibited categories, and must remove any such content from their websites, save the relevant records and make a report to the relevant governmental authorities.

Foreign Investment in Value-Added Telecommunication Services

Pursuant to the Provisions on Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulation**”) promulgated by the PRC State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, the ultimate foreign equity ownership in a value-added telecommunications services provider shall not exceed 50%. According to the Notice on Lifting the Restriction to Foreign Shareholding Percentage in Online Data Processing and Transaction Processing Business (Operational E-commerce) (《關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告》) promulgated by the MIIT on June 19, 2015, foreign investors are allowed to hold up to 100% of all equity interest in the online data processing and transaction processing business (operational e-commerce) in China. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunications business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. Pursuant to publicly available information, the PRC government has issued telecommunications business operating licenses to Sino-foreign joint ventures

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in very limited circumstances. The currently effective Foreign Investment Catalogue, promulgated by MOFCOM and the NDRC on June 28, 2017, also imposes the 50% restrictions on foreign ownership in value-added telecommunications business.

On July 13, 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《關於加強外商投資經營增值電信業務管理的通知》) (the “**MIIT Circular**”), which requires foreign investors to set up foreign-invested enterprises and obtain a VAT License to conduct any value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds a VAT License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local VAT License holder or its shareholder. The MIIT Circular further requires each VAT License holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license.

REGULATIONS ON INTERNET PRIVACY

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), promulgated by the PRC State Council in September 2000, amended on January 8, 2011, prohibit ICP service operators from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Under the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT on December 29, 2011, an ICP operator may not collect any user personal information or provide any such information to third parties without the consent of a user. An ICP service operator must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator must take immediate remedial measures and, in severe circumstances, to make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》) issued by the Standing Committee of the National People’s Congress on December 28, 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》) issued by the MIIT on July 16, 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or proving such information to other parties. Any violation of the above decision or order may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

Furthermore, on June 28, 2016, the State Internet Information Office issued the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》), which became effect on August 1, 2016, to further strengthen the regulation of the mobile applications information services. Pursuant to these provisions, owners or operators of mobile applications that provide information services are required to be responsible for information security management, establish and improve the protective mechanism for user information, observe the principles of legality, rightfulness and necessity, and expressly state the purpose, method and scope of, and obtain user consent to, the collection and use of users’ personal information. In addition, the Cyber Security Law also requires network operators to strictly keep confidential users’ personal information that they have collected and to establish and improve user information protective mechanism.

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REGULATION ON INFORMATION SECURITY

The Standing Committee of the National People’s Congress promulgated the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》) (the “**Cyber Security Law**”), which became effective on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public order and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as “owners and administrators of networks and network service providers”, including, among others, complying with a series of requirements of tiered cyber protection systems; verifying users’ real identity; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC; and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes. To comply with these laws and regulations, we have adopted security policies and measures to protect our cyber system and user information. On May 2, 2017, the Cyberspace Administration of China issued the Measures for the Security Review of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法(試行)》), which took effect on June 1, 2017, to provide for more detailed rules regarding cyber security review requirements.

REGULATIONS ON PRICING AND AIR-TICKET PRICE

In December 1997, the Standing Committee of the National People’s Congress promulgated the Pricing Law of the People’s Republic of China (中華人民共和國價格法), pursuant to which the prices of a very small number of products and services are guided or fixed by the government. Business operators must, as required by the government departments in charge of pricing, mark the prices explicitly and indicate the name, origin of production, specifications, and other related particulars clearly. Business operators may not sell products at a premium or charge any fees that are not explicitly indicated. Business operators must not commit the specified unlawful pricing activities, such as colluding with others to manipulate the market price, using false or misleading prices to deceive consumers to transact, or conducting price discrimination against other business operators. Failure to comply with the Pricing Law may subject business operators to administrative sanctions such as warning, ceasing unlawful activities, compensation, confiscating illegal gains, fines. The business operators may be ordered to suspend business for rectification, or have their business licenses revoked if the circumstances are severe.

In December 2017, the Civil Aviation Administration of China (中國民用航空局) (the “**CAAC**”), together with NDRC, issued the Civil Aviation Domestic Transportation Market Pricing Measures (《民用航空國內運輸市場價格行為規則》), pursuant to which the prices of first-class and business class air transportation are market-adjusted, and the price of economic class is a mix of market-adjusted price and government-guided price. Air transportation institutions shall comply with the pricing regulation mechanism, such as the maximum air transporting base price and price raising range, and make reasonable price adjustment. Air transportation institutions must disclose the categories, standards and applicable conditions of transportation pricing in a timely, accurate and complete manner. Air transportation institutions may not set prices beyond the range of the government-guided prices, collude with others to manipulate the market prices, forge and spread price raising information, use false or misleading prices to deceive consumers, or harm consumers’ interests by abusing market monopoly status. Failure to comply will be logged into the credit violation catalogue and be disclosed to the public according to Civil Aviation Industry Credit Management Measures (Trial) (《民航行業信用管理辦法》(試行)), which was issued by CAAC in November 2017.

REGULATIONS ON ONLINE AIR TICKETING TRANSACTION

In April 2015, the China Air Transportation Association (中國航空運輸協會) (the “**CATA**”) issued the Qualification Accreditation Measures (Amended in 2015) (《航空運輸銷售代理資質認可辦法》) (2015修訂), pursuant to which an air-ticketing agency must obtain a permit from Air Transport

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Sales Agency Branch, an affiliate of CATA for every region in which the agency proposes to conduct the air-ticketing business. There are two types of air-ticketing permits in China, permits for selling tickets for international flights and flights to Hong Kong, Macau and Taiwan, and permits for selling tickets for domestic flights in China.

In April 2015, CATA issued the Measures on the Administration of Online Air-ticketing Transaction (Trial) (《網絡機票交易管理辦法(試行)》), pursuant to which an institution in the operation of online air-ticketing transaction business must hold a VAT License and complete a commercial website filing with the CATA.

REGULATION ON INSURANCE BUSINESS

In June 2007, the China Insurance Regulatory Commission (中國保險監督管理委員會) (the “CIRC”) promulgated the Administrative Measures for Insurance Licenses (《保險許可證管理辦法》), pursuant to which all insurance brokerage institutions and insurance agencies must obtain an insurance license from CIRC.

Insurance Agency and Insurance Broker

In September 2009, CIRC promulgated the Provisions for the Supervision and Administration of Professional Insurance Agencies (《保險專業代理機構監管規定》), amended in April 2013 and October 2015 respectively, pursuant to which the establishment of a professional insurance agency is subject to the approval of the CIRC. An “professional insurance agency” refers to an agent that is instructed by and receive commissions from insurance companies to handle insurance services to the extent authorized by the insurance companies, including corporate professional insurance agency and is branches. A professional insurance agency must obtain Insurance Agent Operating License from CIRC. In February 2018, CIRC promulgated Provisions on the Regulation of Insurance Brokers (《保險經紀人監管規定》), effective in May, 2018, which abolished and superseded the Provisions on the Supervision and Administration of Insurance Brokerages (《保險經紀機構監管規定》), as amended by the CIRC in October 2015. Pursuant to the Regulation of Insurance Brokers, “insurance brokers” refer to institutions, including insurance brokerage companies and their branches, that provide intermediary services for the entry into insurance contracts by and between applicants and insurance companies for the interests of the applicants and therefore receive commissions. To operate an insurance brokerage business in the PRC, an insurance brokerage company must meet the qualification requirements specified by the CIRC and obtain a license to operate insurance brokerage business with the approval of the CIRC.

Internet Insurance Business

In July 2015, the CIRC issued the Interim Measures for the Regulation of Internet Insurance Business (《互聯網保險業務監管暫行辦法》) (the “**Internet Insurance Interim Measures**”), which took effect in October 2015 and replaced the Measures for Administration of Internet Insurance Business of Insurance Agencies and Insurance Brokerage Companies (Trial Implementation). Pursuant to these interim measures, no institutions or individuals other than insurance companies and professional insurance intermediaries may engage in the internet insurance business. Employees of insurance institutions may not carry out internet insurance business in their personal capacity. In addition, an insurance brokerage company or a third-party network platform engaging in the internet insurance brokerage business is required to meet certain requirements, including, but not limited to, establishing information management and internet information security management systems, and obtain the permit issued by the relevant internet regulator or complete website record-filing with the relevant internet regulator. The premiums paid by insurance customers are required to be directly transferred to the special account for premium income of the insurance institution, and the third-party network platform is not allowed collect premiums on behalf of the insurance institution.

REGULATION ON ADVERTISING BUSINESS

The SAIC is the government agency responsible for regulating advertising activities in the PRC. The PRC Advertising Law (《中華人民共和國廣告法》), as amended in April 2015, outlines the regulatory framework for the advertising industry.

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According to the PRC laws and regulations, companies that engage in advertising activities must obtain from SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising operators and distributors are obligated to verify that such censorship has been performed and approval has been obtained. The release or delivery of advertisements through the Internet shall not impair the normal use of the network by users. The advertisements released in pop-up form on the webpage of the Internet and other forms shall indicate the close flag in prominent manner and ensure one-key close. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, SAIC or its local branches may revoke violators’ licenses or permits for their advertising business operations.

On July 4, 2016, the SAIC issued the Interim Measures for the Administration of Internet Advertising ((《互聯網廣告管理暫行辦法》)) to regulate internet advertising activities. An internet advertisement must be identifiable and clearly identified as an “advertisement” to the consumers. Paid search advertisements are required to be clearly distinguished from natural search results. In addition, the following internet advertising activities are prohibited: providing or using any applications or hardware to intercept, filter, cover, fast forward or otherwise restrict any authorized advertisement of other persons; using network pathways, network equipment or applications to disrupt the normal data transmission of advertisements, alter or block authorized advertisements of other persons or load advertisements without authorization; or using fraudulent statistical data, transmission effect or matrices relating to online marketing performance to induce incorrect quotations, seek undue interests or harm the interests of others. Internet advertisement publishers, operators and distributors are required to verify relevant supporting documents, check the content of the advertisement, prohibited from publishing any advertisement with unverified content or without all the necessary qualifications and must examine, verify and record identity information, such as name, address and contact information, of advertisers, and maintain an updated verification record on a regular basis.

Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In the case of serious violations, the SAIC or its local branches may force the violator to terminate its advertising operation or even revoke its business license. Furthermore, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties.

REGULATION ON CONSUMER PROTECTION

The PRC Consumer Protection Law (《中華人民共和國消費者權益保護法》), as promulgated by the National People’s Congress Standing Committee (the “NPCSC”) in October 1993, amended in August 2009 and October 2013, sets out the obligations of business operators and the rights and interests of the consumers. Pursuant to this law, business operators must guarantee the quality, function, usage, term of validity, personal or property safety requirement of the goods and services and provide consumers with authentic information about the goods and services. Business operators may not provide goods or services by means of false advertising or other means of false marketing. Violations of state or industrial standards for health and safety and any other related violations may subject business operators to civil liabilities such as refunding purchase prices, exchange of

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commodities, repairing, ceasing damages, compensation, and restoring reputation, and even criminal penalties if business operators commit crimes by infringing the legitimate rights and interests of consumers. The amended PRC Consumer Protection Law further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on the business operators through the Internet. For example, the consumers are entitled to return the goods (except for certain specific goods) within seven days upon receipt without any reasons when they purchase the goods from business operators via the Internet. The consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from sellers or service providers.

REGULATION ON INTELLECTUAL PROPERTY RIGHTS

The PRC has adopted comprehensive legislation governing intellectual property rights, including patents, trademarks, copyrights and domain names.

The Patent Law

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法》(2008年修訂)) promulgated by the NPCSC, and its Implementation Rules (Revised in 2010) (《中華人民共和國專利法實施細則》(2010年修訂)) promulgated by the State Council, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, “invention”, “utility model” and “design”. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Trademark Law

Trademarks are protected by the Trademark Law of the PRC (Revised in 2013) (《中華人民共和國商標法》(2013年修訂)) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001 and August 30, 2013 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on August 3, 2002 (Revised in 2014) (《中華人民共和國商標法實施條例》(2014年修訂)). In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within six months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

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Copyright Law

The National People’s Congress adopted the Copyright Law (《中華人民共和國著作權法》) in 1990 and amended it in 2001 and 2010, respectively. The amended Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

In order to further implement the Computer Software Protection Regulations (《計算機軟件保護條例》) promulgated by the State Council on December 20, 2001 and amended on January 8, 2011 and January 30, 2013, the State Copyright Bureau issued the Computer Software Copyright Registration Procedures (《計算機軟件著作權登記辦法》) on February 20, 2002, which apply to software copyright registration, license contract registration and transfer contract registration.

Pursuant to the Copyright Law and its implementation rules, creators of protected works enjoy personal and property rights, including, among others, the right of disseminating the works through information networks. Pursuant to the relevant PRC regulations, rules and interpretations, internet service providers will be jointly liable with the infringer if they (a) participate in, assist in or abet infringing activities committed by any other person through the internet, (b) are or should be aware of the infringing activities committed by their website users through the internet, or (c) fail to remove infringing content or take other action to eliminate infringing consequences after receiving a warning with evidence of such infringing activities from the copyright holder. In addition, where an ICP service operator is clearly aware of the infringement of certain content against another’s copyright through the internet, or fails to take measures to remove relevant contents upon receipt of the copyright owner’s notice, and as a result, it damages the public interest, the ICP service operator could be ordered to stop the tortious act and be subject to other administrative penalties such as confiscation of illegal income and fines.

Regulation on Domain Name

Domain names are protected under the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT on August 24, 2017. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the China Internet Network Information Center (the “CNNIC”) is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the “first to file” principle with respect to the registration of domain names. On November 27, 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity’s shareholders), or the entity’s principal or senior manager.

REGULATION ON EMPLOYMENT AND SOCIAL WELFARE

Labor Contract Law and Labor Law

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner.

REGULATORY OVERVIEW

According to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on July 5, 1994 and effective on January 1, 1995 and amended on August 27, 2009, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended on December 20, 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on December 14, 1994, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, The Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State Council in 1999 and amended in 2002, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

REGULATIONS ON LEASING

Pursuant to the Law on Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》) which was promulgated by the NPCSC in 1994 and amended in 2007 and 2009, when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. If the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

According to the PRC Contract Law (《中華人民共和國合同法》), the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid.

Pursuant to the PRC Property Law (《中華人民共和國物權法》), promulgated by the National People's Congress in 2007, if a mortgagor leases the mortgaged property before the mortgage contract is executed, the previously established leasehold interest will not be affected by the subsequent mortgage; and where a mortgagor leases the mortgaged property after the creation and registration of the mortgage interest, the leasehold interest will be subordinated to the registered mortgage.

REGULATORY OVERVIEW

REGULATION ON TAX

PRC Enterprise Income Tax

The PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), which was promulgated on March 16, 2007 and took effect on January 1, 2008, and further amended on February 24, 2017, imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including foreign-invested enterprises, unless they qualify for certain exceptions. The enterprise income tax is calculated based on the PRC resident enterprise’s global income as determined under PRC tax laws and accounting standards. If a non-resident enterprise sets up an organization or establishment in the PRC, it will be subject to enterprise income tax on the income derived from such organization or establishment in the PRC and on the income derived from outside the PRC but with an actual connection to such organization or establishment in the PRC.

The PRC Enterprise Income Tax Law and its implementation rules (collectively, the “**EIT Law**”), which was promulgated on December 6, 2007 and took effect on January 1, 2008, permit certain “high and new technology enterprises strongly supported by the state” that independently own core intellectual property and meet statutory criteria, to enjoy a reduced 15% enterprise income tax rate. On January 29, 2016, the SAT, the Ministry of Science and Technology and the Ministry of Finance (the “**MOF**”) jointly issued the Administrative Rules for the Certification of High and New Technology Enterprises (《高新技術企業認定管理辦法》) specifying the criteria and procedures for the certification of High and New Technology Enterprises.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外注冊中資控股企業依據實際管理機構標準實施居民企業認定有關問題的通知》) promulgated by the SAT on April 22, 2009 and amended on November 8, 2013 and December 29, 2017, sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC. The EIT Law provide that PRC withholding tax at a rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises” which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business, and gains derived by such investors will be subject to 10% PRC income tax, to the extent such dividends and gains are derived from sources within the PRC. Such income tax may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and the Announcement on Issues Concerning “Beneficial Owners” in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》), which was issued on February 3, 2018 by the SAT, effective on April 1, 2018, abolished the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》), which was issued on October 27, 2009 by the SAT, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties (《關於認定稅收協定中“受益所有人”的公告》), which was issued on June 29, 2012 by the SAT, describes factors in favor of and factors not conducive to the determination of an applicant’s

REGULATORY OVERVIEW

status as a “beneficial owner”. Applicants’ that are not recognized as beneficial owners will not be entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

PRC Value-Added Tax

On January 1, 2012, the State Council officially launched a pilot value-added tax reform program, or the Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay value added tax, or VAT, instead of business tax. The Pilot Program initially applied only to transportation industry and part of “modern service industries” in Shanghai and would be expanded to eight trial regions (including Beijing and Guangdong province) and nationwide if conditions permit. The pilot industries in Shanghai included industries involving the leasing of tangible movable property, transportation services, research and development and technical services, information technology services, cultural and creative services, logistics and ancillary services, certification and consulting services. Revenues generated by advertising services, a type of “cultural and creative services”, are subject to the VAT tax rate of 6%. According to official announcements made by competent authorities in Beijing and Guangdong province, Beijing launched the same Pilot Program on September 1, 2012, and Guangdong province launched it on November 1, 2012.

On May 24, 2013, the MOF and the SAT issued the Circular on Tax Policies in the Nationwide Pilot Collection of Value Added Tax in Lieu of Business Tax in the Transportation Industry and Certain Modern Services Industries (《關於在全國開展交通運輸業和部分現代服務業營業稅改征增值稅試點稅收政策的通知》), or the Pilot Collection Circular. The scope of certain modern services industries under the Pilot Collection Circular extends to the inclusion of radio and television services. On March 23, 2016, the MOF and the SAT jointly issued the Circular on the Pilot Program for Overall Implementation of the Collection of Value Added Tax Instead of Business Tax (《關於全面推開營業稅改征增值稅試點的通知》), or Circular 36, which took effect on May 1, 2016. Pursuant to the Circular 36, all of the companies operating in construction, real estate, finance, modern service or other sectors which were required to pay business tax are required to pay VAT, in lieu of business tax. The VAT rate is 6%, except for rate of 11% for real estate sale, land use right transferring and providing service of transportation, postal sector, basic telecommunications, construction, real estate lease; rate of 17% for providing lease service of tangible property; and rate of zero for specific cross-bond activities.

REGULATION ON FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (《中華人民共和國外匯管理條例》), recently amended on August 5, 2008. Under the Foreign Exchange Administration Regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions can be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans.

On August 29, 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (the “SAFE Circular 142”), regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within China. SAFE also strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE’s approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. On March 30, 2015, SAFE issued the Circular of the

REGULATORY OVERVIEW

State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Circular 19**”), which took effective and replaced SAFE Circular 142 on June 1, 2015. Although SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in China, the restrictions continue to apply as to foreign-invested enterprises’ use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Circular 16**”), effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 or SAFE Circular 16 could result in administrative penalties.

On November 19, 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》) which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts (e.g., pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts), the reinvestment of lawful incomes derived by foreign investors in China (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment), and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer require SAFE approval, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible before. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents (關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in China based on the registration information provided by SAFE and its branches.

On February 13, 2015, SAFE promulgated the Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), which took effect on June 1, 2015. SAFE Circular 13 delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under relevant SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment.

REGULATION ON FOREIGN EXCHANGE REGISTRATION OF OFFSHORE INVESTMENT BY PRC RESIDENTS

On July 4, 2014, SAFE issued the SAFE Circular 37, and its implementation guidelines, which abolished and superseded the Circular on Several Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investments via Overseas Special Purpose Companies (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 75**”). Pursuant to SAFE Circular 37 and its implementation guidelines, PRC residents (including PRC institutions and individuals) must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with SAFE when there is a change to the basic information of the SPV, such as changes of a PRC resident individual shareholder, the name or operating period of the SPV, or when there is a significant change to the SPV, such as changes of the PRC individual resident’s increase or decrease

REGULATORY OVERVIEW

of its capital contribution in the SPV, or any share transfer or exchange, merger, division of the SPV. Failure to comply with the registration procedures set forth in the Circular 37 may result in penalties and limit the relevant onshore company’s ability to make distributions, pay dividends or other payments to its offshore parent or affiliate or affect its ownership structure and restrict its cross-border investment activities.

REGULATION ON EMPLOYEE SHARE OPTIONS

On December 25, 2006, the People’s Bank of China promulgated the Administrative Measures for Individual Foreign Exchange (《個人外匯管理辦法》). On February 15, 2012, SAFE issued the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的 通知》) (the “**Stock Option Rules**”), which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies (《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》) issued by SAFE on March 28, 2007. Pursuant to the Stock Option Rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges according to the stock incentive plans are required to register with SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches.

REGULATION ON DIVIDEND DISTRIBUTIONS

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include: Company Law of the PRC (1993) (《中華人民共和國公司法》(1993)), as amended in 1999, 2004, 2005 and 2013; Foreign-Invested Enterprise Law, as amended in 2000 and 2016; and Foreign-Invested Enterprise Law Implementing Rules (《外資企業法實施細則》), as amended in 2001 and 2014.

Under these laws and regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends. The foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

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REGULATION ON M&A AND OVERSEAS LISTINGS

On August 8, 2006, six PRC regulatory agencies, namely, the Ministry of Commerce, the State Assets Supervision and Administration Commission, SAT, SAIC, the CSRC, and SAFE, jointly adopted the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. According to M&A Rules, mergers and acquisitions of domestic enterprises by foreign investors shall be subject to the approval of the MOFCOM or its delegates at provincial level. In the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person, the merger and acquisition applications shall be submitted to the MOFCOM for approval and any circumvention on the requirement including domestic re-investment of a foreign invested enterprise is not allowed. In addition, the M&A Rules purport, among other things, to require that offshore special purpose vehicles, or SPVs, that are controlled by PRC companies or individuals and that have been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

RELATIONSHIP WITH OUR LARGEST SHAREHOLDERS

OUR LARGEST SHAREHOLDERS

As at the Latest Practicable Date and immediately following completion of the Capitalization Issue and the [REDACTED], our Company had and will have no controlling shareholder as defined under the Listing Rules. As of the Latest Practicable Date, Tencent and Ctrip indirectly held approximately 24.92% and 22.88%, respectively, of the total issued share capital of our Company (assuming the [REDACTED] and the options granted under the Share Incentive Plans are not exercised). Tencent and Ctrip will, immediately following completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] and the options granted under the Share Incentive Plans are not exercised), indirectly hold approximately [REDACTED]% and [REDACTED]%, respectively, of the total issued share capital of our Company. Therefore, Tencent and Ctrip will remain as our largest Shareholder and second largest Shareholder respectively after the completion of the Capitalization Issue and the [REDACTED], but will not be regarded as controlling shareholders of our Company as defined under the Listing Rules.

TENCENT

Overview

Tencent is a limited liability company organized and existing in the Cayman Islands and its shares have been listed on the Main Board of the Stock Exchange since 2004 with stock code 700.

The Tencent Group is principally engaged in the provision of value-added services and online advertising services to users in the PRC. Tencent also invests in, and is a minority shareholder of certain companies which engage in OTA business, including but not limited to the following companies:

(a) JD.com, Inc. (“**JD.com**”)

JD.com, a company whose shares are listed on the NASDAQ (stock symbol: JD), is one of many investee portfolio companies of the Tencent Group. As of the Latest Practicable Date, the Tencent Group held approximately 18.1% of the total outstanding ordinary shares issued by, and 4.4% of the aggregate voting power of JD.com. JD.com primarily operates an online direct sales platform, selling products including computer products, mobile handsets, consumer electronic parts, auto parts and home appliances. In addition, JD.com offers hotel and air tickets booking services through its leisure channel on its website and mobile applications under the name JD Travel (京東旅行).

We are of the view that there is no material competition between the business of JD.com and the business of our Group. The principal business of JD.com is the operation of an online direct sales platform. To the best of our knowledge, the sales platform of JD.com focuses on sales of consumables, electronics and home appliances, and the offering of hotel and air tickets booking services consist only part of its 15 product categories, grouped under virtual goods. As of the Latest Practicable Date, the Tencent Group had no control over the JD.com. To the best of our knowledge, the Tencent Group does not have any active involvement in the day-to-day management and operation of JD.com or JD Travel, and is only a strategic investor in JD.com with no intention to inject any business of JD.com into our Group. There is no overlap between our Company and JD.com in terms of directors and senior management.

(b) Internet Plus Holdings Ltd. (“**Internet Plus**”)

Internet Plus is one of many investee portfolio companies of the Tencent Group. Founded in 2010, Internet Plus primarily operates an online group buying business, under the brand name Meituan (美團) (“**Meituan**”), offering food delivery and review services via its online website and mobile application, while also providing a wide coverage of other services including group-buying, ride-hailing and travel services booking.

As of the Latest Practicable Date, the Tencent Group had no control over Internet Plus. To the best of our knowledge, the Tencent Group does not have any active involvement in the day-to-day

RELATIONSHIP WITH OUR LARGEST SHAREHOLDERS

management and operation of Internet Plus or Meituan, and is only a strategic investor in Internet Plus with no intention to inject any business of Internet Plus into our Group. There is no overlap between our Company and Internet Plus in terms of directors and senior management.

CTRIP

Overview

Ctrip is a limited liability company organized and existing in the Cayman Islands and its American Depositary Shares are listed on the NASDAQ (stock symbol: CTRP).

The Ctrip Group is a leading travel service provider for accommodation reservation, transportation ticketing, packaged-tour and corporate travel management in China. Ctrip’s users include leisure travelers and corporate clients, and its services are targeted primarily at travelers in China who do not travel in groups, catering for their increasing needs for both domestic and international travel with an emphasis on the latter. Aside from accommodation reservation and transportation ticketing, Ctrip also generates revenues from packaged-tour, corporate travel and other travel services.

While the business of Ctrip Group competes or is likely to compete with the business of our Group, we are of the view that we maintain a mutually beneficial and complementary relationship with Ctrip. As disclosed in the section headed “Business” in this [REDACTED], we have extensive coverage in terms of partnerships with airlines, hotels and transportation service providers in the travel business segment, which form our principal business. Our Group and Ctrip Group shares hotel and accommodation, transportation ticketing and other travel-related resources for sale on each other’s online platforms in order to provide a more comprehensive selection of travel services to our respective users. In light of the different strengths and focuses of our Group and Ctrip Group, we are of the view that our strategic partnership with Ctrip Group expands and complements the scope of travel products and services offered on our respective online platforms. For details on our business relationship with Ctrip, see “Connected Transactions” in this [REDACTED] and the sub-section headed “— Independence from Tencent and Ctrip — Operational independence — Transactions with Ctrip” in this section.

Given that Ctrip (i) is not a controlling shareholder in our Company, (ii) has no direct involvement in our daily operations, and (iii) has no control over the composition of our Board, we are of the view that our business is adequately delineated from that of Ctrip notwithstanding any potential competition between the business of Ctrip and the business of our Group. Furthermore, our Group had our own management team at both the executive and operational levels. Upon [REDACTED], none of our Directors (other than Mr. Liang Jianzhang, a non-executive Director who does not participate in our daily management and operations) will serve as directors of Ctrip. We also have in place corporate governance measures to identify and prevent conflict of interests with Ctrip Group. For details on our measures to manage existing and potential conflict of interests, see “— Corporate Governance Measures” in this section.

TONGCHENG HOLDINGS

Our largest shareholders, Tencent and Ctrip, are both substantial shareholders in Tongcheng Holdings, which was established under the laws of the PRC as a joint stock company on March 17, 2017 pursuant to the Tongcheng Spin-off. For details on the Tongcheng Spin-off, see “History, Reorganization and Corporate Structure — Tongcheng Spin-off”.

The principal businesses of Tongcheng Holdings include the operation of offline travel agency to provide travel and tourism related products to consumers. Tongcheng Holdings also operates, to a lesser extent, financial services. Tongcheng Holdings and its subsidiaries do not operate any online platforms independently, and instead enter into business cooperation agreements with our Group to sell its services and products through our online platforms. See “History, Reorganization and Corporate Structure — Tongcheng Spin-off” for details on our business relationship with Tongcheng Holdings.

RELATIONSHIP WITH OUR LARGEST SHAREHOLDERS

We are of the view that there is a clear delineation in the products and services offered by our Group and by Tongcheng Holdings, as the latter offers packaged tours, attraction tickets and financial services, none of which are offered by our Group other than those sold by other operators on our online platforms, nor does Tongcheng Holdings offer standalone transportation and/or accommodation services and products to its users.

Upon [REDACTED], four of our Directors, namely Mr. Wu Zhixiang, Mr. Ma Heping, Mr. Lin Haifeng and Mr. Liang Jianzhang, will also serve as members of the board of directors of Tongcheng Holdings, whose board comprises a total of 15 directors. Despite the overlap of shareholders and directors, our Directors are of the view that our Group operates independently and there is no material overlap of businesses for the following reasons:

- the principal business of Tongcheng Holdings include the operation of offline travel agency to provide travel and tourism products to consumers. Tongcheng Holdings also operates, to a lesser extent, financial services;
- our business operations and Tongcheng Holdings’ business operations are conducted and managed independently, there is no overlap between our senior management team and Tongcheng Holdings’ senior management team; and
- our financial management functions and Tongcheng Holdings’ financial management functions are independent and we do not rely on Tongcheng Holdings or its subsidiaries for financial assistance.

INDEPENDENCE FROM TENCENT AND CTRIP

Having considered the following factors, our Directors are satisfied that we have been, and will be, capable of carrying out our business independently from Tencent, Ctrip and their respective associates.

Management Independence

Upon [REDACTED], our Board will comprise three executive Directors, three non-executive Directors and three independent non-executive Directors. Our daily operational and management decisions are made collectively by our executive Directors and senior management.

Our Directors and senior management understand well that the fiduciary duties require that one must act for the best interests of our Company and not allow any conflict between duties to our Company and their personal interests. Furthermore, our independent non-executive Directors are expected to bring independent judgement to the decision-making process of our Board. Lastly, according to our Articles of Association, our Directors shall abstain from voting in any Board resolution where he/she has a material interest and also shall not be counted in the quorum thereof.

Given the above, it is satisfied that our Board, together with our senior management team, are able to perform the managerial role in our Group independently from Tencent and Ctrip.

Operational Independence

Save as disclosed in the sections headed “Business — Licenses and Permits” in this [REDACTED], our Group holds all relevant licenses and owns (or otherwise are licensed) all relevant intellectual properties and production and research and development facilities necessary to carry on our business. We have sufficient capital, facilities and employees to operate our business independently from Tencent and Ctrip. We have established our own business development, sales and marketing, finance, technology, human resources, legal and other administrative functions which operate independently from Tencent and Ctrip. We also adopted a set of internal control procedures to maintain effective and independent operation of our business.

Transactions with Tencent Group

We have entered and/or will enter into a number of transactions with the Tencent Group as detailed in the section headed “Connected Transactions” of this [REDACTED].

RELATIONSHIP WITH OUR LARGEST SHAREHOLDERS

For the following reasons, we are of the view that we do not and will not significantly rely on Tencent Group:

- *Complementary and mutually beneficial relationship* — The roles of the Tencent Group (as a leading social and communications platforms and media platform operator in the PRC Internet and social network industry) and of us (as one of the leading OTAs in China) are complementary to each other and mutually beneficial because (a) on the one hand, we can sell our travel resources through Tencent’s platforms, which provide us with access to hundreds of millions of Chinese Internet users on a daily basis and (b) on the other hand, as one of the leading OTAs in China, our sale of travel resources on Tencent’s platforms helps increase user activity and enhances stickiness of mobile Internet users on Tencent’s platforms.
- *Leading position of the Tencent Group in the PRC Internet and social network industry* — According to iResearch, Weixin is the first Internet product in China with more than 1 billion monthly active users, and provides a great opportunity for growth to OTA partners. In light of the market position of the Tencent Group, it would be beneficial for us to cooperate with the Tencent Group with respect to the sale of travel resources. Furthermore, through strategically collaborating with Tencent Group, and obtaining better user insight, we are able to more precisely customize our products and services, and improve user experience and satisfaction.
- *Diversified service providers* — Other than Tencent Group, we also engage a number of third party service providers in relation to the provision of payment and settlement, cloud and other technical services. We will continue to expand our user base through a diverse range of traffic acquisition channels. In any event, we are not restricted to utilize Tencent Group’s services and are free to obtain similar services from Independent Third Parties.

Transactions with Ctrip Group

We have entered and/or will enter into a number of transactions with the Ctrip Group as detailed in the section headed “Connected Transactions” of this [REDACTED].

For the following reasons, we are of the view that we do not and will not significantly rely on Ctrip Group:

- *Mutually beneficial relationship* — The roles of Ctrip Group and of us are mutually beneficial to each other because (i) our strategic partnership with Ctrip Group enables us and Ctrip Group to devote more resources to non-price competition through customer service improvement and product innovation in order to distinguish each other from other competitors; and (ii) by sharing travel resources, we can offer a more comprehensive spectrum of services on our platforms.
- *Nature of our industry* — We operate in the OTA business, where the upstream supplier market, and in particular the hotel industry, is of a fragmented nature with no dominant players. Strategic partnerships and sharing of travel resources among OTAs help to allow players to improve operational efficiency and expand product coverage.
- *Diversified source of TSPs* — Apart from procurement of accommodation resources and transportation tickets from the Ctrip Group, we also procure products and services for our platforms through (i) contracting directly with TSPs including airlines, hotel operators and railway companies; (ii) contracting with regional travel agents; (iii) directly linking our platforms to booking systems operated by TSPs; and (iv) sharing of travel resources with other third party OTAs. To ensure our operation independence, we maintain an in-house procurement team independent of Ctrip Group to obtain travel resources for sale on our platforms directly from TSPs, and to negotiate partnerships with travel agents and other OTAs. We will continue to tailor our products and services that better suit the needs of our users and our business strategies.

RELATIONSHIP WITH OUR LARGEST SHAREHOLDERS

Our Directors believe that the roles of our Company on the one hand, and those of Tencent Group and/or Ctrip Group on the other hand, are complementary and beneficial to each other, and it is natural and in the best interests of our Company and our Shareholders to cooperate with Tencent Group and/or Ctrip Group. We are still and will be open to all forms of cooperation with other business partners. Our Directors believe that the transactions with Tencent Group and/or Ctrip Group will not cause any business dependence or reliance issue between our Company on the one hand, and Tencent Group and/or Ctrip Group on the other hand.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, our Group had our own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and we make financial decisions according to our own business needs. In addition, we have independent access to third party financing and our Group does not rely on Tencent, Ctrip or their respective associates for financial assistance. Our Directors confirm that, as at the Latest Practicable Date, there were no loans, guarantees or pledges provided by Tencent, Ctrip and/or their respective close associates to our Group.

Given the above, our Board believes that we are able to maintain financial independence from Tencent, Ctrip and their respective associates.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) our Articles of Association provides that a Director shall abstain from voting on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) our Company has established internal control mechanisms to identify connected transactions, including transactions with Tencent and/or Ctrip. Upon the [REDACTED], if our Company enters into any connected transactions, our Company will comply with the relevant requirements in accordance with Chapter 14A of the Listing Rules;
- (c) our Board includes a balance composition of executive and non-executive Directors. Our independent non-executive Directors possess sufficient experience and will be able to provide an impartial opinion to safeguard the interests of our public Shareholders;
- (d) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group and either of Tencent or Ctrip, our Company will provide the independent non-executive Directors with all necessary information. We will disclose the decisions of the independent non-executive Directors either through our annual report or by way of announcements; and
- (e) we have appointed Guotai Junan Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to Directors’ duties and corporate governance.

CONNECTED TRANSACTIONS

We have entered and/or will enter into certain agreements with parties that will be our connected persons (as defined under Chapter 14A of the Listing Rules). Following the [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules. For the purpose of this section, all references to “we”, “us” or “our Group” include both our Group and Tongcheng Online Business.

SUMMARY OF OUR CONNECTED PERSONS

Following the [REDACTED], the following parties, which have entered and/or will enter into certain written agreements with our Group, will be connected persons of our Group:

Name	Connected Relationship
C-Travel	one of our substantial shareholders
Tencent	one of our substantial shareholders
Tencent Cloud Computing (Beijing) Company Limited (騰訊雲計算(北京)有限責任公司) (“Tencent Cloud”)	a wholly-owned subsidiary of Tencent
Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) (“Tencent Computer”)	a wholly-owned subsidiary of Tencent
Mr. Jiang Hao (江浩)	an executive Director and 50% equity interest holder of Beijing E-dragon
Mr. Ma Heping (馬和平)	an executive Director and 49% equity interest holder of Suzhon Chengyi;
Mr. Wu Zhixiang (吳志祥)	an executive Director and 22.86% equity interest holder of Tongcheng Network and 51% equity interest holder of Suzhon Chengyi;

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

			Proposed annual cap for the year ending December 31, (in RMB'000)		
Transaction	Applicable Listing Rule	Waiver sought	2018	2019	2020
<i>A. Fully-exempt continuing connected transactions</i>					
1..... Tencent Cooperation Agreement	14A.35, 14A.52, 14A.53, 14A.76(1) and 14A.105	N/A	0	0	0
2..... Tencent Travelling Resources Sales Framework Agreement	14A.35, 14A.53, 14A.76(1) and 14A.105	N/A	320	450	650

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

CONNECTED TRANSACTIONS

				Proposed annual cap for the year ending December 31, (in RMB'000)		
	Transaction	Applicable Listing Rule	Waiver sought	2018	2019	2020
<i>B. Partially-exempt continuing connected transactions</i>						
1.....	Tencent Technical Support Framework Agreement	14A.35, 14A.53, 14A.76(2) and 14A.105	Announcement requirement under Chapter 14A of the Listing Rules	38,000	60,000	72,000
2.....	Ctrip Travelling Resources Sales Framework Agreement	14A.35, 14A.53, 14A.76(2) and 14A.105	Announcement requirement under Chapter 14A of the Listing Rules	70,000	78,000	100,000
<i>C. Non-exempt continuing connected transactions</i>						
1.....	Tencent Payment Services Framework Agreement	14A.35, 14A.36, 14A.53 and 14A.105	Requirements as to announcement, circular and independent Shareholders' approval under Chapter 14A of the Listing Rules	670,000	940,000	1,250,000
2.....	Ctrip Travelling Resources Provision Framework Agreement	14A.35, 14A.36, 14A.53 and 14A.105	Requirements as to announcement, circular and independent Shareholders' approval under Chapter 14A of the Listing Rules	1,050,000	1,500,000	2,000,000
3.....	Contractual Arrangements	14A.35, 14A.36, 14A.52, 14A.53 and 14A.105	Requirements as to announcement, circular, independent Shareholders' approval, annual cap and term of agreements limited to three years under Chapter 14A of the Listing Rules	N/A	N/A	N/A

A. Fully-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions of our Group which are exempt from the reporting, annual review, announcement requirements and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Tencent Cooperation Agreement

Principal Terms

Each of Tongcheng Network and E-dragon Beijing WFOE entered into a business cooperation agreement with, among others, Tencent Computer in July 2015 and July 2016, respectively, which was subsequently replaced by an amended and restated business cooperation agreement dated December 25, 2017 entered into by, among others, Tongcheng Network, Beijing E-dragon and Tencent Computer (the “**Tencent Cooperation Agreement**”), pursuant to which Tencent has agreed that Tongcheng Network and E-dragon Beijing WFOE, respectively, will be the sole operator of the “Rail & Flight” and “Hotel” portals in Weixin's and Mobile QQ's mobile payment interface, provided that each of Tongcheng Network and Beijing E-dragon remains a market leader with the ability to deliver good user experience. Through such cooperation, our travel products and services can reach the users in Tencent's social communication ecosystem, in return for accessing fees paid by us to Tencent Group.

CONNECTED TRANSACTIONS

The term of the Tencent Cooperation Agreement is from the date of the agreement to July 31, 2021. In addition, Tencent Computer agreed that after the expiry of the initial term of the Tencent Cooperation Agreement and until July 31, 2026, if any multi-products trading platform is introduced on Weixin and Mobile QQ which include online travel products, it will consider cooperating with us in priority to other providers if the terms and quality of products offered by us are comparable to those offered by such other providers.

Historical amount, annual cap and basis for annual cap

We have already made payments to Tencent Group before the [REDACTED] for services under the Tencent Cooperation Agreement. Pursuant to the Tencent Cooperation Agreement, no further payment from Tongcheng Network or Beijing E-dragon would be required during its term. Therefore, the annual cap under the Tencent Cooperation Agreement is zero for each of the three years ending December 31, 2018, 2019 and 2020.

Reason for the transactions

Access to Tencent’s social communication platforms is a rare and valuable resource in the market. As at the Latest Practicable Date, Tencent has only granted such access to a small number of companies. Our Directors consider that entering into the Tencent Cooperation Agreement would benefit our Company since Tencent has accumulated a large user base in the online social communication industry, whereby our Company could further enlarge our user base and enhance our leading market position leveraging Tencent’s social communication platforms.

Pricing Policies

Fees under the Tencent Cooperation Agreement were determined based on arm’s length negotiations between the parties and were no less favorable than the fees charged by Tencent Group for providing access of its social communication platforms to other companies.

Information about Tencent Computer

Tencent Computer is a limited liability company established in the PRC on November 11, 1998, which is a wholly-owned subsidiary of Tencent. Tencent Computer is primarily engaged in the provision of value-added services and Internet advertisement services in the PRC.

Listing Rule Implications

The transactions contemplated under the Tencent Cooperation Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that each of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of such transactions will be less than 0.1%. As such, these transactions will be fully-exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52, a continuing connected transaction should be for a duration of no longer than three years except in special circumstances. It is appropriate for the Tencent Cooperation Agreement to be for a term of more than three years for the following reasons:

- (1) the duration of the Tencent Cooperation Agreement is inherently beneficial to our Group as it allows us to continue to access Tencent’s social communication platforms during its term, which is a rare resource in the OTA industry and is important to the continued business strength and development of our Group; and
- (2) the duration of the Tencent Cooperation Agreement provides comfort, protection, and stability to us, enabling us to plan and invest over the longer term

Based on the above, the Directors are of the view, and the Joint Sponsors concur, that it is normal business practice for agreements of this type to be of a term of more than three years.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Tencent Cooperation Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONNECTED TRANSACTIONS

Tencent Travelling Resources Sales Framework Agreement

Principal Terms

We will enter into a travelling resources sales framework agreement with Tencent Computer (the “**Tencent Travelling Resources Sales Framework Agreement**”), pursuant to which we will offer our travelling resources for sale on the Tencent Map (騰訊地圖) application on, including but not limited to, the PC end, the mobile end and the intelligent vehicle terminal end. Commissions will be paid by us to Tencent Group for utilizing the Tencent Map mobile application for the sales of our travelling resources.

The initial term of the Tencent Travelling Resources Sales Framework Agreement will commence on the [REDACTED] and end on the third anniversary of the [REDACTED], subject to renewal upon the mutual consent of both parties.

Historical amount, annual cap and basis for annual cap

We started our collaboration with Tencent Computer in January 2016. During the Track Record Period, the commission we paid to Tencent Computer for utilizing the Tencent Map mobile application for the sales of our travelling resources was approximately RMB53,000 and RMB230,000 for the two years ended December 31, 2016 and 2017, respectively.

The transaction amount to be paid by us as commission to Tencent Group under the Tencent Travelling Resources Sales Framework Agreement for the years ending December 31, 2018, 2019 and 2020, respectively, shall not exceed the proposed annual caps set out in the table below:

Proposed annual caps for the year ending December 31,		
2018	2019	2020
<i>(in RMB'000)</i>		

Transaction amount under the Tencent Travelling Resources Sales Framework Agreement	320	450	650
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The annual caps are estimated based on the commissions payable calculated with reference to (i) the abovementioned historical amounts; (ii) the expected annual increase of our user base; (iii) the expected annual increase of the user base of Tencent Map mobile application; and (iv) the estimated amount of travelling resources that can be sold on Tencent Map mobile application for the three years ending December 31, 2018, 2019 and 2020, respectively.

Reason for the transactions

Tencent Map is a popular and widely used mobile application in the PRC, which has accumulated a large user base in the past years. By offering our travel products and services on Tencent Map, we are able to reach more potential users and to increase our market penetration. Furthermore, the cooperation with Tencent Map is in addition to our cooperation with other online and mobile map service providers and helps to diversify our service providers. Our Directors believe that entering into the Tencent Travelling Resources Sales Framework Agreement would benefit our Company by ensuring a long-term collaboration with Tencent Map to enable us to further explore the travel products and services market.

Pricing Policies

Before entering into any procurement or service agreement pursuant to the Tencent Travelling Resources Sales Framework Agreement, we will assess our business needs and compare the commission rates proposed by Tencent Group with the rates offered by other comparable service providers. We will only enter into a procurement or service agreement with Tencent Group when the commission rates proposed by Tencent Group are in line with or lower than the market rates and the agreement is in the best interests of our Company and our Shareholders as a whole.

CONNECTED TRANSACTIONS

Listing Rule Implications

The transactions contemplated under the Tencent Travelling Resources Sales Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that each of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of such transactions will be less than 0.1%. As such, these transactions will be fully-exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

B. Partially-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to the reporting, annual review and announcement requirements but will be exempt from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Tencent Technical Support Framework Agreement

Principal Terms

We will enter into a technical support framework agreement with Tencent Cloud (the “**Tencent Technical Support Framework Agreement**”), pursuant to which Tencent Group will provide us with technical support and related services, including but not limited to, cloud services and intelligent DNS domain name resolution. Fees will be paid by us to Tencent Group in respect of the provision of such services.

The initial term of the Tencent Technical Support Framework Agreement will commence on the [REDACTED] and end on the third anniversary of the [REDACTED], subject to renewal upon the mutual consent of both parties.

Historical amount, annual cap and basis for annual cap

The historical amount paid by us for the above services provided by Tencent Cloud was approximately RMB1.4 million, RMB4.3 million and RMB5.2 million for the three years ended December 31, 2015, 2016 and 2017, respectively.

The transaction amount to be paid by us for the technical support and related services to be provided by Tencent Group for the three years ending December 31, 2018, 2019 and 2020, respectively, shall not exceed the proposed annual caps set out in the table below:

Proposed annual caps for the year ending December 31,		
2018	2019	2020
<i>(in RMB’000)</i>		

Transaction amount under the Tencent Technical Support Framework Agreement	38,000	60,000	72,000
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The annual caps are estimated based on the service fees payable calculated with reference to (i) the abovementioned historical amounts; (ii) the actual amount occurred for the four months ended on April 30, 2018 increased substantially due to the increase in the number of cloud servers required to support our increased products and services; and (iii) collaboration with Tencent Group due to its stable and cost-efficient services; and (iv) our estimated demand of technical and related services from Tencent Group for the three years ending December 31, 2018, 2019 and 2020.

Reason for the transactions

There are limited cloud service providers in the PRC, and Tencent Group is a leading market player which provides integrated services for a wide range of technical support and related services, and is able to provide reliable and cost-efficient services in the PRC. Other than Tencent Group, we also obtained services from other third party service providers. Taking into account the importance of stable technical and cloud services required for our operations, we believe that obtaining such services

CONNECTED TRANSACTIONS

from Tencent Group will help to diversify our technical service providers. We therefore entered into the Tencent Technical Support Framework Agreement to govern the cloud services and any other technical services to be provided by Tencent Group to us.

Pricing Policies

Before entering into any technical service agreement pursuant to the Tencent Technical Support Framework Agreement, we will assess our business needs and compare the service fee rates proposed by Tencent Group with the rates offered by other comparable service providers. We will only enter into a technical service agreement with Tencent Group when the service fee rates proposed by Tencent Group are in line with or lower than the market rates and the agreement is in the best interests of our Company and our Shareholders as a whole.

Information about Tencent Cloud

Tencent Cloud is a limited liability company established in the PRC on October 21, 2010, which is a wholly-owned subsidiary of Tencent. Tencent Cloud is primarily engaged in the provision of information system integration services in the PRC.

Listing Rule Implications

The transactions contemplated under the Tencent Support Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms, and our Directors currently expect that each of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, these transactions will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Reasons for the Waiver Application

Our Directors (including our Independent Non-executive Directors) are of the view that the Tencent Technical Support Framework Agreement is fundamental to our businesses' development and marketing and advertising needs, given importance of stable cloud services required for our operations.

In addition, given the Tencent Technical Support Framework Agreement was entered into prior to the [REDACTED] and are disclosed in this [REDACTED], and our potential investors will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the [REDACTED] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has] granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement in respect of the Tencent Technical Support Framework Agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Tencent Technical Support Framework Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Ctrip Travelling Resources Sales Framework Agreement

Principal Terms

We will enter into a travelling resources sales framework agreement with C-Travel (the “**Ctrip Travelling Resources Sales Framework Agreement**”), pursuant to which Ctrip Group and our Group will provide certain travelling products and services to each other, including, but not limited to, the utilization of Ctrip's platforms for accommodation booking and transportation services offered by us. Ctrip Group also offers transportation ticketing services to us pursuant to the Ctrip Travelling Resources Sales Framework Agreement.

The initial term of the Ctrip Travelling Resources Sales Framework Agreement will commence on the [REDACTED] and end on the third anniversary of the [REDACTED], subject to renewal upon the mutual consent of both parties.

CONNECTED TRANSACTIONS

Historical amount, annual cap and basis for annual cap

During the Track Record Period, the historical transaction amount for the relevant products and services was approximately RMB7.4 million, RMB262.0 million and RMB574.8 million for the three years ended December 31, 2015, 2016 and 2017, respectively.

Such historical amount was calculated based on the commissions paid to Ctrip and/or its associates for the accommodation booking services that we sold on Ctrip’s platforms. However, starting from 2018, we changed our model of cooperation with Ctrip and/or its associates, and we will only recognize the system maintenance fee payable by Ctrip and/or its associates for accommodation booking services as our revenue going forward. As a result, the historical amount may not be strictly comparable to the expected transaction amount going forward.

The transaction amount under the Ctrip Travelling Resources Sales Framework Agreement for the three years ending December 31, 2018, 2019 and 2020, respectively, shall not exceed the proposed annual caps set out in the table below (which represent the higher of (i) the commission and system maintenance fee payable by Ctrip Group and/or third parties to us and (ii) the service fee and system maintenance fee payable by us to Ctrip Group, for the products and services offered under the Ctrip Travelling Resources Sales Framework Agreement):

	Proposed annual caps for the year ending December 31,		
	2018	2019	2020
	<i>(in RMB’000)</i>		
Transaction amount under the Ctrip Travelling Resources Sales Framework Agreement	70,000	78,000	100,000

The annual caps are estimated based on the fees payable as calculated with reference to (i) the abovementioned historical amounts; (ii) the estimated increased market demand for travelling resources for the next three years; (iii) an expected annual increase of our user base; and (iv) offset by the expected decrease of our utilization of Ctrip’s platforms for our sales of accommodation resources and change of collaboration model as explained above.

Reason for the transactions

Our Directors consider that entering into the Ctrip Travelling Resources Sales Framework Agreement with Ctrip would benefit our Company for the following reasons:

- given Ctrip has accumulated a large user base in the online travel industry, our products and services could reach a larger sales market via Ctrip’s online and mobile platforms and further enlarge our user base; and
- as both parties enjoy substantive market shares in China’s OTA market and have respective advantages in different business fields, our collaboration will integrate our and Ctrip’s respective resources and further increase our market share.

Pricing Policies

Pursuant to the Ctrip Travelling Resources Sales Framework Agreement:

- for each valid booking of our accommodation resources through Ctrip’s platforms, we will receive system maintenance fee and Ctrip Group will be entitled to market rate commissions for such accommodation resources from third parties;
- for transportation services offered by us for sale on Ctrip’s platforms, we will receive market rate commissions and Ctrip Group will also be entitled to system maintenance fee and market rate commissions for such transportation services; and

CONNECTED TRANSACTIONS

- in relation to the transportation ticketing services offered by Ctrip Group to us, each of Ctrip Group and our Group will charge commission or service fees based on market rates and our respective internal pricing policies. Ctrip Group will also receive a fixed annual system maintenance fee for such transportation ticketing services.

Listing Rule Implications

The transactions contemplated under the Ctrip Travelling Resources Sale Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms, and our Directors currently expect that each of the applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will be lower than 5%. Pursuant to Rule 14A.76(2)(a) of the Listing Rules, these transactions will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Reasons for the Waiver Application

Our Directors (including our Independent Non-executive Directors) are of the view that the Ctrip Travelling Resources Sales Framework Agreement is fundamental to our businesses' development and marketing and advertising needs, given Ctrip has accumulated a large user base in the online travel industry.

In addition, given the Ctrip Travelling Resources Sales Framework Agreement was entered into prior to the [REDACTED] and are disclosed in this [REDACTED], and our potential investors will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the [REDACTED] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has] granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement in respect of the Ctrip Travelling Resources Sales Framework Agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Ctrip Travelling Resources Sales Framework Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

C. Non-exempt continuing connected transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Tencent Payment Services Framework Agreement

Principal Terms

We will enter into a payment services framework agreement with Tencent Computer (the “**Tencent Payment Services Framework Agreement**”), pursuant to which Tencent Group will provide payment and settlement services through its payment channels to us in return for certain fees.

The initial term of the Tencent Payment Services Framework Agreement will commence on the [REDACTED] and end on the third anniversary of the [REDACTED], subject to renewal upon the mutual consent of both parties.

Historical amount, annual cap and basis for annual cap

During the Track Record Period, the historical amount we paid to Tencent Group for the provision of the online payment services was approximately RMB39.6 million, RMB184.6 million and RMB413.4 million for the three years ended December 31, 2015, 2016 and 2017, respectively.

The transaction amount to be paid by us for the provision of the aforementioned services under the Tencent Payment Services Framework Agreement for the three years ending December 31, 2018, 2019 and 2020, respectively, shall not exceed the proposed annual caps set out in the table below:

CONNECTED TRANSACTIONS

	Proposed annual caps for the year ending December 31,		
	2018	2019	2020
<i>(in RMB'000)</i>			
Transaction amount under the Tencent Payment Services Framework Agreement	670,000	940,000	1,250,000

The annual caps are estimated based on the fees payable as calculated (i) with reference to the abovementioned historical amounts; (ii) in consideration of the increasing percentage of our users using the online payment services offered by Tencent Group; and (iii) the expected growth of our GMV in the next three years.

Reason for the transactions

There are limited numbers of online payment service providers in the PRC. Given that Tencent Group is a leading player in the PRC online payment service industry and many of our users use its online payment services, the cooperation with Tencent Group would enable us to provide our users with a convenient payment method, therefore enhancing the overall user experience of our services.

Pricing Policies

Before entering into any payment service agreement pursuant to the Tencent Payment Services Framework Agreement, we will assess our business needs and compare the fee rates proposed by Tencent Group with the rates offered by other comparable service providers. We will only enter into a payment service agreement with Tencent Group when the fee rates proposed by Tencent Group are in line with or lower than the market rates and the agreement is in the best interests of our Company and our Shareholders as a whole.

Listing Rule Implications

The transactions contemplated under the Tencent Payment Services Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of such transactions will be more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the Waiver Application

Our Directors (including our Independent Non-executive Directors) are of the view that the Tencent Payment Services Framework Agreement is fundamental to our businesses' development, given there are limited number of online payment settlement service providers in the PRC.

In addition, given the Tencent Payment Services Framework Agreement was entered into prior to the [REDACTED] and are disclosed in this [REDACTED], and our potential investors will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement, circular and the independent Shareholders' approval requirements in respect thereof immediately after the [REDACTED] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has] granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement and/or the independent shareholders' approval requirements in respect of the Tencent Payment Services Framework Agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Tencent Payment Services Framework Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONNECTED TRANSACTIONS

Ctrip Travelling Resources Provision Framework Agreement

Principal Terms

We will enter into a travelling resources provision framework agreement with C-Travel (the “**Ctrip Travelling Resources Provision Framework Agreement**”), pursuant to which our Group and Ctrip Group will provide certain travelling products and services to each other, including the utilization of our platforms for accommodation booking and car rental services offered by Ctrip Group, as well as transportation ticketing services offered by us to Ctrip Group.

The initial term of the Ctrip Travelling Resources Provision Framework Agreement will commence on the [REDACTED] and end on the third anniversary of the [REDACTED], subject to renewal upon the mutual consent of both parties.

Historical amount, annual cap and basis for annual cap

During the Track Record Period, the historical amount for the relevant products and services was approximately RMB84.8 million, RMB148.9 million and RMB316.1 million for the three years ended December 31, 2015, 2016 and 2017, respectively.

The transaction amount payable under the Ctrip Travelling Resources Provision Framework Agreement for the three years ending December 31, 2018, 2019 and 2020, respectively, shall not exceed the proposed annual caps set out in the table below (which represent the aggregate of the commission and system maintenance fee payable by Ctrip Group and/or third parties to us for the products and services offered under the Ctrip Travelling Resources Provision Framework Agreement):

Proposed annual caps for the year ending December 31,		
2018	2019	2020
<i>(in RMB'000)</i>		

Transaction amount under the Ctrip Travelling Resources Provision Framework Agreement	1,050,000	1,500,000	2,000,000
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The annual caps are estimated based on the fees payable as calculated with reference to (i) the abovementioned historical amounts; (ii) the estimated market demand for travelling resources in the next three years; (iii) the actual commission amount that we received in relation to the utilization of our platforms for accommodation booking services offered by Ctrip Group for the four months ended April 30, 2018 has significantly increased compared to the same period in 2017, which is primarily due to the significant increase of accommodation resources that Ctrip Group sold on our platforms during the same period. Historically, the Ctrip Group and we have been procuring accommodation resources separately. In early 2018, we have strengthened our cooperation with Ctrip. As a result, the amount of accommodation resources procured by Ctrip Group for sale on our platforms, and the TSP commissions we received from such sales, have substantially increased and are expected to continue to increase; (iv) the expected annual increase of our user base; and (v) the expected significant increase in the online ticketing segment due to our expanding offering of ticketing products and services.

Reason for the transactions

Our Directors consider that entering into the Ctrip Travelling Resources Provision Framework Agreement with Ctrip would benefit our Company for the following reasons:

- utilizing Ctrip’s resources would expand the variety of travel products and services offered on our online and mobile platforms, provide more choices to our users, and enhance the user experience on our platforms; and
- as both parties enjoy substantive market shares in China’s OTA market and have respective advantages in different business fields, our collaboration will integrate our and Ctrip’s respective resources and further increase our market share.

CONNECTED TRANSACTIONS

Pricing Policies

Pursuant to the Ctrip Travelling Resources Provision Framework Agreement:

- for each valid booking of Ctrip Group’s accommodation resources through our platforms, we will pay system maintenance fee to Ctrip Group, and we will be entitled to market rate commissions for such accommodation resources from third parties;
- for car rental services offered by Ctrip Group for sale on our platforms, each of Ctrip Group and our Group will receive market rate commissions for such car rental services; and
- in relation to the transportation ticketing services offered by us to Ctrip Group, each of our Group and Ctrip Group will charge commission based on market rates and our respective internal pricing policies.

Listing Rule Implications

The transactions contemplated under the Ctrip Travelling Resources Provision Framework Agreement are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of such transactions will be more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Reasons for the Waiver Application

Our Directors (including our Independent Non-executive Directors) are of the view that the Ctrip Travelling Resources Provision Framework Agreement is fundamental to our businesses’ development, given integrating Ctrip Group’s resources would expand the variety of our travel products and services and provide more choices to our users.

In addition, given the Ctrip Travelling Resources Provision Framework Agreement was entered into prior to the [REDACTED] and are disclosed in this [REDACTED], and our potential investors will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement, circular and the independent Shareholders’ approval requirements in respect thereof immediately after the [REDACTED] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has] granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement and/or the independent shareholders’ approval requirements in respect of the Provision of Travelling Resources Platform to Ctrip Framework Agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Ctrip Travelling Resources Provision Framework Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

The Contractual Arrangements

Background

We conduct a substantial part of our business through our Contractual Arrangement Entities under a series of Contractual Arrangements entered into among E-dragon Beijing WFOE, Longyue Tiancheng WFOE, Tongcheng Network, Beijing E-dragon and Suzhou Chengyi, and their respective Registered Shareholders. Through these Contractual Arrangements, we exercise effective control over the operations of each of the Contractual Arrangement Entities. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits from our Contractual Arrangement Entities in consideration for the services provided by Longyue Tiancheng WFOE and E-dragon Beijing WFOE to the Contractual Arrangement Entities; (ii) exercise effective control over our Contractual Arrangement Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in Contractual Arrangement Entities when and to the extent permitted by PRC laws. Please see

CONNECTED TRANSACTIONS

“Contractual Arrangements” in this [REDACTED] for details. The transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Company and are subject to reporting, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Principle Terms of the Transactions

The Contractual Arrangements comprise the following agreements: Exclusive Technology Consulting and Services Agreements, Exclusive Share Purchase Right Agreements, Powers of Attorney, Share Pledge Agreements and the Loan Agreement. Details of the continuing connected transactions (i.e. the transactions contemplated under the said agreements which constitute the Contractual Arrangements) entered into between the relevant connected persons and our Group are set out in the section headed “Contractual Arrangements” in this [REDACTED].

Listing Rules Implications

The transactions contemplated under the Contractual Arrangements are conducted in the ordinary and usual course of business on normal commercial terms or better and our Directors currently expect that the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of such transactions will be more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Directors are of the view, and the Joint Sponsors concur, that it is justifiable and normal business practice to ensure that (i) the financials and operation of the Contractual Arrangement Entities can be effectively controlled by Longyue Tiancheng WFOE and E-dragon Beijing WFOE, (ii) Longyue Tiancheng WFOE and E-dragon Beijing WFOE can obtain the economic benefits derived from the Contractual Arrangement Entities, and (iii) any possible leakage of assets and values of the Contractual Arrangement Entities can be prevented, on an uninterrupted basis.

Conditions for Waiver

In relation to the Contractual Arrangements, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has] granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are [REDACTED] on the Hong Kong Stock Exchange subject however to the following conditions:

(a) *No change without independent non-executive Directors’ approval*

No change to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of our independent non-executive Directors.

(b) *No change without independent Shareholders’ approval*

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders’ approval. Once independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

CONNECTED TRANSACTIONS

(c) *Economic benefits flexibility*

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Contractual Arrangement Entities through (i) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the Contractual Arrangement Entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Contractual Arrangement Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to E-dragon Beijing WFOE and Longyue Tiancheng WFOE by the Contractual Arrangement Entities under the Exclusive Business Cooperation Agreements, and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of the Contractual Arrangement Entities.

(d) *Renewal and reproduction*

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Contractual Arrangement Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) *Ongoing reporting and approvals*

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Contractual Arrangement Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Contractual Arrangement Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Hong Kong Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Contractual Arrangement Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, and at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be

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treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Our Contractual Arrangement Entities will undertake that, for so long as the Shares are [REDACTED] on the Hong Kong Stock Exchange, the Contractual Arrangement Entities will provide our Group’s management and our Company’s auditors full access to its relevant records for the purpose of our Company’s auditors’ review of the connected transactions.

APPLICATION FOR WAIVER

We expect the non-exempt and partially exempt continuing connected transactions disclosed above will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance and the announcement requirement under the Listing rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company.

Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Hong Kong Stock Exchange [has] granted to us, a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules (in respect of the partially-exempt and non-exempt continuing connected transactions as described above) and the circular and independent Shareholders’ approval requirements under Rules 14A.36 and 14A.46 of the Listing Rules (in respect of the non-exempt continuing connected transactions as described above), once the Shares are listed on the Hong Kong Stock Exchange in respect of such partially-exempt and non-exempt continuing connected transactions.

In addition, we have applied for, and the Hong Kong Stock Exchange has granted us, in respect of the Contractual Arrangements, (i) a waiver from strict compliance with the requirement to set a term not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Listing Rules.

We will, however, comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of such partially-exempt and non-exempt continuing connected transactions.

JOINT SPONSORS’ AND DIRECTORS’ VIEWS

Our Directors (including our Independent Non-executive Directors) consider that all the continuing connected transactions described in this section have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; (iii) are fair and reasonable and in the interests of our Shareholders as a whole; and (iv) in respect of the Contractual Arrangements, the transactions contemplated therein are fundamental to our legal structure and business operations.

Based on the relevant documents and information provided by our Group and reviewed by the Joint Sponsors, the necessary representations and confirmations provided by our Company and the Directors to the Joint Sponsors and the Joint Sponsors’ participation in the due diligence and discussions with the management of our Company and the PRC Legal Advisor, the Joint Sponsors are of the view that the non-exempt continuing connected transactions described above, and for which the waivers have been sought, have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and that the Contractual Arrangements are fundamental to our Group’s legal structure and business operations.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Upon [REDACTED], our Board will comprise 9 Directors, including 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors. Our executive Directors, non-executive Directors and independent non-executive Directors will be subject to rotation and re-election at the annual general meetings of our Company in accordance with the Articles of Association.

The following table sets out information in respect of the Directors of our Company:

Name	Age	Position	Responsibilities	Date of joining our Group or Tongcheng Network	Date of appointment as Director
Wu Zhixiang (吳志祥).....	41	Co-Chairman of the Board; executive Director	Overall strategic planning and business discretion	March 2004	March 2018
Jiang Hao (江浩)	45	Deputy Chairman of the Board; executive Director	Overall strategic planning and business discretion	July 2015	March 2018
Ma Heping (馬和平).....	40	Executive Director	Overall strategic planning and business discretion	January 2006	March 2018
Liang Jianzhang (梁建章).....	48	Co-Chairman of the Board; non-executive Director	Provide professional advice to the Board	April 2014	March 2018
Lin Haifeng (林海峰).....	41	Non-executive Director	Provide professional advice to the Board	January 2014	March 2018
Brent Richard Irvin.....	45	Non-executive Director	Provide professional advice to the Board	March 2018	March 2018
Wu Haibing (吳海兵).....	45	Independent non-executive Director	Provide independent opinion and judgment to the Board	[●]	[●]
Dai Xiaojing (戴小京).....	58	Independent non-executive Director	Provide independent opinion and judgment to the Board	[●]	[●]
Han Yuling (韓玉靈).....	62	Independent non-executive Director	Provide independent opinion and judgment to the Board	[●]	[●]

Executive Directors

Wu Zhixiang (吳志祥), aged 41, was appointed as the Co-Chairman of our Board in March 2018 and our executive Director in June 2018. Mr. Wu’s main responsibility is to provide overall strategic planning and business discretion to our Group. Mr. Wu has more than 14 years of experience in e-commerce and OTA business. Among others, Mr. Wu established Tongcheng Network in March 2004. He has served as the chairman of Tongcheng Network since April 2008. As its co-founder, Mr. Wu was responsible for the strategic planning of Tongcheng Network and has continuously provided leadership and inspiration for the company’s OTA business.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu received a bachelor’s degree in history from Soochow University (蘇州大學) in the PRC in June 1998.

Since March 2018, Mr. Wu has served as a director and general manager of Suzhou Chengyi.

Jiang Hao (江浩), aged 45, was appointed as our Deputy Chairman of the Board in April 2018 and executive Director in June 2018. Mr. Jiang has served as our President since April 2018. From March to April 2018, together with Mr. Ma Heping, Mr. Jiang served as our Co-CEO. Mr. Jiang has served as the chief executive officer of eLong Cayman since July 2015.

Mr. Jiang has over 15 years of experience in leading an internet company. From 1999 to 2015, Mr. Jiang served as a senior vice president in Ctrip, which is one of our substantial Shareholders. Mr. Jiang’s main responsibilities in Ctrip consisted of development of Ctrip web technology platform and wireless business.

Mr. Jiang received a bachelor’s degree of engineering in ship engineering from Shanghai Jiao Tong University (上海交通大學) in the PRC in 1993.

Mr. Jiang currently holds the following positions in the subsidiaries of our Group:

- the chairman and general manager of E-dragon Beijing WFOE since January 2016;
- the executive director and general manager of eLong Information Technology (Hefei) Co., Ltd. (藝龍信息技術(合肥)有限公司) since November 2015;
- the executive director and general manager of Beijing E-dragon since August 2015;
- the executive director and general manager of Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司) since August 2015;
- the executive director and general manager of Hangzhou E-dragon since September 2015;
- the executive director and general manager of Beijing Asia Interactive Advertisement Broadcast Co., Ltd. (北京亞洲互動廣告傳播有限公司) since August 2015;
- the executive director and general manager of Beijing eLong International Travel Co., Ltd. (北京藝龍國際旅行社有限公司) since September 2015;
- the executive director and general manager of Weilutong Information Technology (Beijing) Co., Ltd. (微旅通信息技術(北京)有限公司) since April 2016;
- the executive director and general manager of Tianjin eLong Union Information Technology Co., Ltd. (天津藝龍互聯信息技術有限公司) since November 2016;
- the executive director and general manager of eLong (Tianjin) Technology Co., Ltd. (藝龍(天津)科技有限公司) since December 2016;
- the executive director of Tianjin eLong Union Investment Management Co., Ltd. (天津藝龍互聯投資管理有限公司) since October 2017; and
- the executive director and general manager of Tianjin eLong Union International Travel Co., Ltd. (天津藝龍互聯國際旅行社有限公司) since May 2017.

Ma Heping (馬和平), aged 40, was appointed as our executive Director in June 2018. Mr. Ma served as our Chief Executive Officer since April 2018, responsible for the implementation of our business strategies and the day-to-day business operation. From March to April 2018, together with Mr. Jiang Hao, Mr. Ma served as our Co-CEO. Mr. Ma has over 10 years of marketing experience for an internet company. From January 2006 to March 2018, Mr. Ma has served as the chief marketing officer of Tongcheng Network, responsible for the internet-based online and offline travel business, as well as the promotion and development of the air ticket, hotel and other transportation business of Tongcheng Network, before Tongcheng Spin-off.

Mr. Ma serves as the general manager and director of Tongcheng Network.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ma obtained a diploma in computer application and maintenance from Soochow University (蘇州大學) in the PRC in June 1998.

Non-executive Directors

Liang Jianzhang (梁建章), aged 48, was appointed as our Co-Chairman of the Board in March 2018 and non-executive Director in June 2018. Mr. Liang has served as one of our Directors since 2016. Mr. Liang is one of the co-founders and the executive chairman of Ctrip. He has served as the chairman of the board of directors of Ctrip Group since August 2003. Mr. Liang served as the chief executive officer of Ctrip from 2000 to 2006, and from March 2013 to November 2016.

Mr. Liang has served as a director of BTG Hotels Group (首旅酒店), a company whose shares are listed on Shanghai Stock Exchange (stock code: 600258) since January 2017, a director of Sina Corp. (新浪公司), a company whose shares are listed on NASDAQ (stock symbol: SINA) since December 2017, and a director of MakeMyTrip Ltd., a company whose shares are listed on NASDAQ (stock symbol: MMYT) since January 2016.

Mr. Liang formerly served on the boards of Tuniu Corp (途牛旅遊網), a company whose shares are listed on NASDAQ (stock symbol: TOUR), eHi Car Services Ltd. (上海一嗨租車服務有限公司), a company whose shares are listed on New York Stock Exchange (stock symbol: EHIC), 51job, Inc (前程無憂股份有限公司), a company whose shares are listed on NASDAQ (stock symbol: JOBS), jiayuan.com International Ltd. (世紀佳緣國際有限公司), a company whose shares were formerly listed on NASDAQ (stock symbol: DATE) and privatized in May 2016, and Homeinns Hotel Group (如家酒店集團), a company whose shares were formerly listed on NASDAQ (stock symbol: HMIN) and privatized in April 2016.

Mr. Liang has won many accolades for his contributions to the Chinese travel industry, including Best CEO in the Internet category in the 2016 All-Asia Executive Team Rankings by Institutional Investor and 2015 China’s Business Leader of the Year by Forbes.

Mr. Liang obtained master’s degrees in information and computer science from Georgia Institute of Technology in the United States in June 1991.

Lin Haifeng (林海峰), aged 41, has been appointed as our non-executive Director in June 2018. Mr. Lin joined our Group in January 2014 and has served as one of our Directors since January 2016. He joined the Tencent Group in November 2010 and is currently the head of mergers and acquisitions of Tencent Group.

Mr. Lin has been an executive director of Huayi Tencent Entertainment Company Limited (華誼騰訊娛樂), a company whose shares are listed on the Stock Exchange (stock code: 0419), since February 2016. Mr. Lin has also been appointed as a non-executive director of China Literature Limited (閱文集團), a company whose shares are listed on the Stock Exchange (stock code: 0772), since November 2014.

Mr. Lin received his bachelor’s degree in industrial foreign trade from Zhejiang University (浙江大學) in the PRC in June 1997 and his master’s degree of business administration from the Wharton School of the University of Pennsylvania in the United States in May 2003.

Brent Richard Irvin, aged 45, has been appointed as our non-executive Director in June 2018. Mr. Irvin joined our Group and has been appointed as one of our Directors since March 2018. Mr. Irvin joined Tencent Technology in January 2010, and is currently serving as the vice president and general counsel of Tencent Technology. Prior to that, Mr. Irvin worked as a lawyer at Wilson Sonsini Goodrich & Rosati from August 2005 to November 2009, with a focus on technology companies.

Mr. Irvin obtained a bachelor’s degree in history from Carleton College in the United States in June 1994, a master’s degree in East Asian studies from Yale University in the United States in December 1995, and a doctor of jurisprudence degree from Stanford University in the United States in June 2003.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Wu Haibing (吳海兵), aged 45, has been appointed as our independent non-executive Director in [●] 2018. Mr. Wu has over 16 years of experience in finance. Mr Wu has been serving as a partner of VKC-Partners (嘉禦基金) since April 2018. Previously, Mr. Wu served as the chief financial officer of Plateno Hotel Group (previously known as “7 Days Group Holdings Limited”), a company whose shares were then listed on the Stock Exchange of New York (stock symbol: SVN) and voluntarily delisted in July 2013. Mr. Wu is a non-practicing member of Shanghai Institute of Certified Public Accountant.

Mr. Wu has served as an independent director of Acorn International, Inc. (橡果國際股份有限公司), a company whose shares are listed on the New York Stock Exchange (stock symbol: ATV) since October 2016, and an independent non-executive director of Zhong Ao Home Group Limited (中奧到家集團有限公司), a company whose shares are listed on the main board of the Stock Exchange (stock code: 1538) from November 2015 to May 2017. From November 2013 to June 2016, Mr. Wu was an independent non-executive director of Dongpeng Holdings Company Limited (東鵬控股股份有限公司), a company whose shares were formerly listed on the main board of the Stock Exchange (stock code: 3386) and privatized in June 2016. From September 2011 to May 2016, Mr. Wu was a director of Country Style Cooking Restaurant Chain Co., Ltd. (鄉村基國際快餐連鎖有限公司), a company whose shares were formerly listed on the New York Stock Exchange (stock symbol: CCSC) and privatized in May 2016.

Mr. Wu received his bachelor’s degree in economics from Shanghai Jiao Tong University (上海交通大學) in July 1994 and a master’s degree in business administration from Michigan State University in May 2000.

Dai Xiaojing (戴小京), aged 58, has been appointed as our independent non-executive Director in [●] 2018. Mr. Dai has profound knowledge and experience in the research and studies of securities market and finance. From December 1998 to April 2016, Mr. Dai served as an executive director in SEEC Media Group Limited (財訊傳媒集團有限公司), a company whose shares are listed on the main board of the Stock Exchange (stock code: 0205). Mr. Dai was engaged in economic policy research at the Economic Development Research Institute of State Council of the PRC, and he was an editorial committee member of CapitalWeek.

Mr. Dai received his bachelor’s degree in science and master’s degree in law from Sun Yat-sen University (中山大學), in 1981 and 1984, respectively.

Han Yuling (韓玉靈), aged 62, has been appointed as our independent non-executive Director since [●], 2018. Ms. Han currently holds professorial fellowship and is the vice dean of the China Tourism Talent Development Research Institute (中國旅遊人才發展研究院) at Beijing International Studies University (北京第二外國語學院). Ms. Han also serves as a secretary general of the China National Tourism Vocational Education Permanent Committee (全國旅遊職業教育教學指導委員會). She has consecutively served as a lecturer, associate professor and professor at Beijing International Studies University since May 1986, and served as a lecturer at Central China Normal University (華中師範大學) from October 1979 until April 1986.

Ms. Han obtained her bachelor’s degree in politics from Central China Normal University in July 1979.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below illustrates the composition of the senior management of our Company.

Name	Age	Position	Responsibilities	Date of joining our Group	Date of appointment
Jiang Hao (江浩)	45	President	General business operation and the participation of overall business strategy decision	July 2015	April 2018
Ma Heping (馬和平)	40	Chief Executive Officer	General business operation and the implementation of overall business strategy	January 2006	April 2018
Wu Jiazhu (吳嘉竹)	33	Chief Strategy Officer	Overall investment and capital arrangement	July 2015	March 2018
Fan Lei (范磊)	36	Chief Financial Officer	Overall financial management	April 2013	March 2018
Wang Qiang (王強)	37	Chief Marketing Officer	Implementation of our business strategy on internet marketing	February 2012	March 2018
Yu Pei (余沛)	35	Vice President	Overall research and development activities of our Group	February 2012	March 2018
Bai Zhiwei (白志偉)	41	Vice President	Overall marketing and business development	February 2008	March 2018

Jiang Hao (江浩), our executive Director and President. See “— Board of Directors — Executive Directors” in this section for his profile.

Ma Heping (馬和平), our executive Director and Chief Executive Officer. See “— Board of Directors — Executive Directors” in this section for his profile.

Wu Jiazhu (吳嘉竹), aged 33, was appointed as our Chief Strategy Officer in March 2018, and is responsible for the overall investment and capital arrangement of our Group. From January 2014 to July 2015, Mr. Wu was a director of Tongcheng Network and from July 2015 to March 2018, Mr. Wu served as the chief investment officer of Tongcheng Network, and was responsible for the capital investment of that company. From November 2011 to July 2015, Mr. Wu served as an investment manager at Oriza Holdings Ltd. (蘇州元禾控股股份有限公司).

Mr. Wu received both his bachelor’s and master’s degrees in linguistics and applied linguistics from Peking University (北京大學) in the PRC in July 2007 and July 2010, respectively.

Fan Lei (范磊), aged 36, was appointed as the Chief Financial Officer of our Group in March 2018, and is responsible for the overall financial management. From September 2016 to March 2018, Mr. Fan served as the finance vice president of our Company. From April 2013 to September 2016, Mr. Fan served as a principal and senior principal, in the financial plan and analysis department of eLong Cayman. Mr. Fan currently serves as a supervisor in various subsidiaries of our Group, including Tianjin Elong E-dragon Interactive Technology Co., Ltd., Tianjin E-dragon Interactive International Travel Agency Co., Ltd. and E-dragon (Tianjin) Technology Co., Ltd.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. Fan consecutively served as a financial manager and a senior financial manager in Lenovo Group Limited (聯想集團有限公司), a company whose shares are listed on the main board of the Stock Exchange (stock code: 0992) from March 2010 to April 2013.

Mr. Fan received a bachelor’s degree of engineering in mechanical engineering and automation from Beihang University (北京航空航天大學) in the PRC in 2004. Mr. Fan also obtained a master’s degree of business administration from The Chinese University of Hong Kong in 2010.

Wang Qiang (王強), aged 37, was appointed as the Chief Marketing Officer of our Group in March 2018, and is responsible for the implementation of our business strategies on marketing. From May 2016 to March 2018, Mr. Wang served as the chief marketing officer of Tongcheng Network, and was responsible for its promotion and business development. From February 2012 to May 2016, Mr. Wang consecutively served as a programmer, senior manager, deputy principal and principal in the wireless business department of Tongcheng Network.

Mr. Wang received a diploma in applied computer science from Nanjing University of Finance and Economics (南京財經大學) (previously known as Nanjing Economics Academy (南京經濟學院)) in the PRC in 2002.

Yu Pei (余沛), aged 35, was appointed as a Vice President of our Group in March 2018, and is responsible for the overall research and development activities of our Group. From February 2012 to March 2018, Mr. Yu consecutively served as the structure design principal, chief structure officer and chief technology officer of eLong Cayman.

Bai Zhiwei (白志偉), aged 41, was appointed as a Vice President of our Group in March 2018, and is responsible for the marketing and business development of our Group. From June 2014 to March 2018, Mr. Bai served as a vice president of eLong Cayman. From December 2010 to June 2014, Mr. Bai served as a senior principal and business development vice president at sales support department of eLong Cayman. From February 2008 to December 2010, he served as a regional senior principal, responsible for the strategic clients of eLong Cayman.

Mr. Bai received double bachelor’s degrees of computer science and economics from Peking University (北京大學) in the PRC in 1998. He also obtained a master’s degree of business administration from Tsinghua University (清華大學) in the PRC in 2007.

For the business address of the senior management, please refer to the address of the corporate headquarters in section headed “Corporate Information” in this [REDACTED].

Save as disclosed in this [REDACTED], none of our Directors and senior management hold any other positions within our Group.

None of our Directors and senior management is related to other Directors and senior management.

Interests of our Directors and Senior Management

Save as those disclosed in the section headed “Relationship with Our Largest Shareholders” of this [REDACTED], none of our Directors have any interests in any business, other than our Group’s business, which compete or is likely to compete, either directly or indirectly, with our Group’s business.

Save as disclosed above, none of our Directors holds any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas during the Track Record Period. See “Appendix V — Statutory and General Information” in this [REDACTED] for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO).

Save as disclosed in this [REDACTED], to the best knowledge, information and belief of our Directors after having made all reasonable enquiries, as of the Latest Practicable Date, there were no

DIRECTORS AND SENIOR MANAGEMENT

other matters in respect of each of our Directors which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there were no other material matters relating to our Directors that need to be brought to the attention of our Shareholders.

JOINT COMPANY SECRETARIES

Ms. Leung Suet Wing (梁雪穎), was appointed as one of our joint company secretaries in June 2018. Ms. Leung has over seven years of experience in company secretarial profession and currently works as an assistant manager in listing services at TMF Hong Kong Limited. From June 2011 to June 2013, she consecutively served as an associate and an officer at the corporate services division of Tricor Services Limited.

Ms. Leung received her master’s degree of science in professional accounting and corporate governance from City University of Hong Kong in July 2016. Ms. Leung is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom since December 2016.

Ms. Ma Li (馬莉), was appointed as one of our joint company secretaries in June 2018. Ms. Ma joined our Company in 2016 and has served as our investment principal since then, primarily responsible for, among others, assisting directors and managers in relation to compliance matters, arranging training for directors, supervisors and senior management, and organizing shareholder and board meetings.

Ms. Ma received her bachelor’s degree in administrative management from Xiangtan University (湘潭大學) in June 2007 and her master’s degree in economic law from China University of Political Science and Law (中國政法大學) in June 2010.

COMMITTEES UNDER THE BOARD OF DIRECTORS

We have established the following committees in our Board: an Audit Committee, a Remuneration Committee and a Nomination Committee. The committees operate in accordance with the terms of reference established by our Board of Directors.

Audit Committee

We [have] established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee consists of two independent non-executive Directors, namely Mr. Wu Haibing and Ms. Han Yuling, as well as one non-executive Director, namely, Mr. Lin Haifeng. The chairman of the Audit Committee is Mr. Wu Haibing, an independent non-executive Director who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We [have] established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Dai Xiaojing and Ms. Han Yuling, as well as one non-executive Director, namely, Mr. Brent Richard Irvin. The Remuneration Committee is chaired by Ms. Han Yuling, an independent non-executive Director. The primary duties of the Remuneration Committee include, but are not limited to, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

DIRECTORS AND SENIOR MANAGEMENT

Nomination Committee

We [have] established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code to the Listing Rules. The Nomination Committee consists of two independent non-executive Directors, namely Mr. Dai Xiaojing and Ms. Han Yuling, as well as one executive Director, namely, Mr. Wu Zhixiang. The chairman of the Nomination Committee is Mr. Wu Zhixiang, an executive Director the Co-Chairman of the Board. The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

CORPORATE GOVERNANCE

Our Company intends to comply with all code provisions under the Principles of Good Governance, Code Provisions and Recommended Best Practices in Appendix 14 to the Listing Rules after the [REDACTED].

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonus) for the then five highest paid individuals for three years ended December 31, 2015, 2016 and 2017 was approximately RMB126,184,000, RMB25,795,000 and RMB23,964,000, respectively.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonus) for our then directors for three years ended December 31, 2015, 2016 and 2017 was approximately RMB4,313,000, RMB11,812,000 and RMB12,122,000, respectively. None of our Directors waived any remuneration during the aforesaid periods.

Save as disclosed, no other payments have been paid or are payable, in respect of three years ended December 31, 2015, 2016 and 2017 by our Company to our Directors or senior management.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

Share Incentive Plans

In order to assist us in attracting, retaining and motivating our employees and directors who will contribute to the success of our Company, we have adopted the Share Incentive Plans, pursuant to which we may grant awards to eligible participants. The principal terms of the Share Incentive Plans are summarized in the section headed “Appendix V — Statutory and General Information — Share Incentive Plans” in this [REDACTED].

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our Compliance Advisor pursuant to Rule 3A.19 of the Listing Rules. The Compliance Advisor will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Advisor will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;

DIRECTORS AND SENIOR MANAGEMENT

- (b) where a transaction, which might be a notifiable or connected transaction (as defined under the Listing Rules), is contemplated including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this [REDACTED] or where our business activities, developments or results deviate from any forecast, estimate, or other information in this [REDACTED]; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment of the Compliance Advisor shall commence on the [REDACTED] and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the [REDACTED] and assuming that the [REDACTED] and the options granted under the Share Incentive Plans are not exercised, the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Substantial shareholder	Number of Shares/ underlying shares	Nature of interest	Approximate percentage of interest in our Company
TCH Sapphire ⁽¹⁾	310,899,020	Beneficial interest	[REDACTED]%
Image Frame ⁽¹⁾	158,365,730	Beneficial interest	[REDACTED]%
Tencent ⁽²⁾	476,215,740	Interest in controlled corporations	[REDACTED]%
C-Travel ⁽³⁾	288,273,190	Beneficial interest	[REDACTED]%
Ctrip (Hong Kong) ⁽³⁾	148,966,590	Beneficial interest	[REDACTED]%
Ctrip ⁽³⁾	437,239,780	Interest in controlled corporations	[REDACTED]%
Suzhou Huafan Runhe Venture Capital Partnership (Limited Partnership) (蘇州 華帆潤禾創業投資合夥企業 (有限合夥)) (“ Huafan Runhe ”) ⁽⁴⁾	166,394,430	Beneficial interest and interest in controlled corporations	[REDACTED]%
Suzhou Industrial Park Tiancheng Jiahua Investment Management Co., Ltd. (蘇州工業園區天 程嘉華投資管理有限公司, “ Tiancheng Jiahua ”) ⁽⁴⁾	166,394,430	Interest in controlled corporations	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) TCH Sapphire Limited is a wholly-owned subsidiary of Tencent.
- (2) Under the SFO, Tencent is deemed to be interested in (i) the 310,899,020 Shares held by TCH Sapphire (ii) the 158,365,730 Shares held by Image Frame and (iii) the 6,950,990 Shares held by Elite Strength Limited, each of which is a wholly-owned subsidiary of Tencent.
- (3) Under the SFO, Ctrip is deemed to be interested in (i) the 288,273,190 Shares held by C-Travel, and (ii) the 148,966,590 Shares held by Ctrip (Hong Kong), each of which is a wholly-owned subsidiary of Ctrip.
- (4) Huafan Runhe holds 153,815,250 Shares, and under the SFO, is deemed to be interested in the 12,579,180 Shares held by Huafan Runhe Limited, which is a wholly-owned subsidiary of Huafan Runhe. Under the SFO, Tiancheng Jiahua, the general partner of Huafan Runhe, is deemed to be interested in the 153,815,250 Shares held by Huafan Runhe, and the 12,579,180 Shares held by Huafan Runhe Limited.

Other than as disclosed herein, the Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the [REDACTED] and assuming that the [REDACTED] and the options granted under the Share Incentive Plans are not exercised, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 and Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings.

As of the Latest Practicable Date and immediately following completion of the Capitalization Issue and the [REDACTED], our Company did not and will not have a controlling shareholder as defined under the Listing Rules. We are not aware of any arrangement currently in place which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The following is a description of our authorized and issued share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Capitalization Issue and the [REDACTED].

1. Prior to the Capitalization Issue and the [REDACTED]

	<u>Nominal Value</u>
	(US\$)
<i>Authorized share capital .</i>	
300,000,000 ordinary shares of US\$0.0005 par value	150,000.00
<i>Issued and to be issued, fully paid or credited to be fully paid</i>	
191,100,676 ordinary shares of US\$0.0005 par value	95,550.34

2. Immediately following completion of the Capitalization Issue and the [REDACTED] (assuming the [REDACTED] and the options granted under the Share Incentive Plans are not exercised)

	<u>Nominal Value</u>
	(US\$)
<i>Authorized share capital</i>	
3,000,000,000 Shares	1,500,000.00
<i>Issued and to be issued, fully paid or credited to be fully paid</i>	
191,100,676 Shares in issue	95,550.34
1,719,906,084 Shares to be issued pursuant to the Capitalization Issue	859,953.04
[REDACTED] Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED] Total	[REDACTED]

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and Shares are issued pursuant to the Capitalization Issue and the [REDACTED]. It also assumes that the options granted under the Share Incentive Plans and the [REDACTED] are not exercised. The above tables also do not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

RANKING

The [REDACTED] will be ordinary shares in our share capital and will rank equally with all Shares then in issue and, in particular, will rank equally for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this [REDACTED].

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meetings are required

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of our Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce

SHARE CAPITAL

our share capital or capital redemption reserve by our Shareholders passing a special resolution. For details, see “Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law — Articles of Association — Alteration of capital”.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares. For details, see “Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law — Articles of Association — Variation of rights of existing shares”.

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed “Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law”.

General mandate to issue Shares

Conditional on the [REDACTED] becoming unconditional, our Directors [have been] granted a general unconditional mandate to allot, issue and deal with the Shares (otherwise than pursuant to, or in consequence of, the [REDACTED], a rights issue or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders) with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal value of our share capital in issue immediately following the completion of the Capitalization Issue and the [REDACTED]; and
- the aggregate nominal value of our share capital repurchased by us (if any) under the general mandate to repurchase Shares referred to below.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of our next annual general meeting unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our next annual general meeting is required under any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under “Appendix V — Statutory and General Information — Resolutions of our Shareholders” of this [REDACTED].

General mandate to repurchase Shares

Conditional on the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which our Securities may be [REDACTED] with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Capitalization Issue and the [REDACTED].

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are [REDACTED] (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Appendix V — Statutory and General Information — Resolutions of our Shareholders”.

SHARE CAPITAL

The general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of our next annual general meeting unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our next annual general meeting is required by any applicable laws of the Cayman Islands or the Memorandum and the Articles to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Share Incentive Plans

Our Board approved and adopted the 2016 Share Incentive Plan and the 2018 Share Incentive Plan on August 26, 2016 and on March 9, 2018, respectively. See “Statutory and General Information — D. Share Incentive Plans” in Appendix V to this [REDACTED] for further details.

FINANCIAL INFORMATION

*Your attention should be drawn to the fact that the merger of Tongcheng Network into our Group was completed after the years ended December 31, 2015, 2016 and 2017 (the “**Track Record Period**”), and therefore the results of operations and financial position of Tongcheng Online Business were not consolidated into the results of operations and financial position of our Group during the Track Record Period. **Accordingly, unless otherwise indicated, the historical results of operations and financial condition of our Group presented and discussed in this section does not reflect those of Tongcheng Online Business.** For more information about the merger of Tongcheng Network into our Group, see “ — The Tongcheng-eLong Merger.” To comply with the applicable regulations and disclosure requirements, as well as to present material information necessary to assess the financial impact of the merger of Tongcheng Network into our Group, this section includes discussion and analysis of the historical financial information of Tongcheng Online Business during the Track Record Period. See “— Financial Information of Tongcheng Online Business.”*

You should read the following discussion and analysis with the audited consolidated financial information of our Group, including the notes thereto, included in the Accountants’ Report in Appendix I to this [REDACTED] and the audited combined financial information of Tongcheng Online Business, including the notes thereto, included in the Accountants’ Report in Appendix II to this [REDACTED]. The audited consolidated financial information of our Group and the audited combined financial information of Tongcheng Online Business has been prepared in accordance with IFRS.

The discussion and analysis of financial information in this section may contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this [REDACTED], including the sections headed “Risk Factors” and “Business.”

For the purpose of this section, unless the context otherwise requires or unless otherwise indicated, references to 2015, 2016 and 2017 refer to the financial years ended December 31 of such years.

OVERVIEW

We are an innovator and market leader in China’s online travel industry. We are the combined business resulting from the merger of Tongcheng and eLong, which was completed in March 2018. As two independently successful businesses founded in 2004 and 1999, Tongcheng and eLong had each been a leading OTA in China with innovative business models and longstanding relationships with a wide array of TSPs. According to iResearch, we ranked third in terms of GMV in China’s online travel market in 2017, with the highest year-over-year growth from 2015 to 2017 in the number of online transportation ticketing and accommodation reservation transactions in China’s OTA travel market.

We are a one-stop shop for users’ travel needs. We offer a comprehensive and innovative selection of products and services covering nearly all aspects of travel, including transportation ticketing, accommodation reservation and various ancillary value-added travel products and services designed to meet users’ evolving travel needs throughout their trips. We have established extensive long-term strategic partnerships and alliances with TSPs to support our product innovation efforts and develop more innovative ancillary value-added products and services.

We have achieved substantial growth over the Track Record Period. Our Group’s total revenue grew from RMB1,026.1 million in 2015 to RMB2,204.6 million in 2016 and further to RMB2,518.6 million in 2017, representing a CAGR of 56.7%, and the total revenue of Tongcheng Online Business grew from RMB580.5 million in 2015 to RMB1,435.0 million in 2016 and further to RMB2,707.5

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FINANCIAL INFORMATION

million in 2017, representing a CAGR of 116.0%. Our Group had losses of RMB963.0 million and RMB2,160.6 million in 2015 and 2016, respectively, and a profit of RMB194.4 million in 2017, and Tongcheng Online Business had losses of RMB335.1 million and RMB91.1 million in 2015 and 2016, respectively, and a profit of RMB491.3 million in 2017.

BASIS OF PRESENTATION

We are principally engaged in the provision of travel related products and services, primarily including accommodation reservation services, transportation ticketing services and online advertising services (collectively, the “**Listing Business**”), in the PRC.

eLong Cayman and its subsidiaries were the group of companies operating the Listing Business throughout the Track Record Period. eLong Cayman used to be controlled by Expedia, Inc. (“**Expedia**”) with the majority ownership and voting rights of eLong Cayman held by Expedia. On May 22, 2015, Expedia sold all of its equity interest in eLong Cayman to several investors (the “**Expedia Transaction**”). In connection with the Expedia Transaction, the board of directors and certain management of eLong Cayman were changed. After the Expedia Transaction, eLong Cayman no longer has any controlling shareholder. On May 31, 2016, eLong Cayman consummated a restructuring (the “**eLong Restructuring**”), pursuant to which, eLong Cayman was acquired by our Company, with all of the then existing ordinary shareholders of eLong Cayman exchanged their respective shares in eLong Cayman for an equivalent number of ordinary shares or redeemable convertible preferred shares of our Company. Immediately prior to and after each of the Expedia Transaction and the eLong Restructuring, the Listing Business was carried out by eLong Cayman and its subsidiaries. The Expedia Transaction, which was the transaction between the shareholders of eLong Cayman, did not change the business substance of the Listing Business. Pursuant to each of the eLong Restructuring, the Listing Business were effectively controlled by our Company through its acquisition of the entire equity interest in eLong Cayman. Our Company had not been involved in any business prior to the eLong Restructuring and its operations did not meet the definition of a business. Therefore, the eLong Restructuring was merely a recapitalization of the Listing Business and did not change the business substance, management or controlling shareholders of the Listing Business. Accordingly, our Group resulting from the Expedia Transaction and the eLong Restructuring is regarded as a continuation of the Listing Business conducted by eLong Cayman and its subsidiaries, and, for the purpose of the Accountants’ Report included in Appendix I to this Prospectus, our Group’s historical financial information has been prepared and presented using the carrying amounts of the Listing Business as recorded in the consolidated financial statements of eLong Cayman for the Track Record Period.

Our Group’s historical financial information has been prepared in accordance with IFRS issued by International Accounting Standard Board (“**IASB**”). In preparing such historical financial information, our Group has early adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

THE TONGCHENG-ELONG MERGER

On December 28, 2017, our Company entered into a restructuring agreement with, among others, Tongcheng Network, the shareholders of our Company, the shareholders of Tongcheng Network and Image Frame, whereby our Company agreed to issue to (i) the designated entities of the shareholders of Tongcheng Network, alongside Wonderful Holidays Limited, Wonderful Land Limited, Cheerful Fishes Limited, and Great Long Tour Limited, which were employee shareholding platforms on behalf of the employees of Tongcheng Network, 96,721,818 ordinary shares of our Company in return for the signing of a series of contractual arrangements with Longyue Tiancheng WFOE; and (ii) Image Frame 3,374,369 ordinary shares of our Company in return for a total cash consideration of US\$30,032,589 (collectively, the “**Acquisition Share Issuance**”). The Acquisition Share Issuance was completed on March 9, 2018. Following the Acquisition Share Issuance, our Group acquired, through the contractual arrangements mentioned above, substantially all the Tongcheng Online Business. For details, see “History, Reorganization and Corporate Structure” and “Contractual Arrangements” in this [REDACTED].

To comply with the requirements of Rule 4.05A of the Listing Rules, as well as to present material information necessary to assess the impact of the Acquisition Share Issuance on our Group,

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this [REDACTED] includes (i) a discussion and analysis of the historical financial information of Tongcheng Online Business for the years ended December 31, 2015, 2016 and 2017; see “— Financial Information of Tongcheng Online Business”; and (ii) unaudited pro forma financial information of our Group for the year ended December 31, 2017, assuming the Acquisition Share Issuance was completed on January 1, 2017, prepared in accordance with the Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants; see “— Summary of Pro Forma Financial Information of the Enlarged Group.” We have applied for, and the Stock Exchange [has granted] us, a waiver from strict compliance with Rule 4.29 of the Listing Rules in relation to the Pro Forma Financial Information. For details of the waiver, see “Waivers from Strict Compliance with the Listing Rules and the Companies (Winding up and Miscellaneous Provisions) Ordinance — Waiver in relation to Pro Forma Financial Information.”

SUMMARY OF PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following table presents the revenue, cost of revenue, gross profit, operating profit, profit and adjusted profit for the year of the Enlarged Group (as defined in Appendix III — Unaudited Pro Forma Financial Information) based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended December 31, 2017 as if the merger of Tongcheng Network into our Group had taken place on January 1, 2017. The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the Enlarged Group.

	For the Year Ended December 31, 2017
	<i>(RMB in thousands)</i> <i>(unaudited)</i>
Revenue	5,226,090
Cost of revenue	(1,670,587)
Gross profit	3,555,503
Operating profit	338,669
Profit for the year	454,958
Non-IFRS Measures:	
Adjusted profit for the year	712,800

The following table reconciles adjusted profit for the year to profit for the year, the most directly comparable financial measure calculated and presented in accordance with IFRS, for the year ended December 31, 2017:

Profit for the year	454,958
Add:	
Share-based compensation	56,783
Amortization of intangible assets from acquisition	231,105
Fair value (gain) on redeemable convertible preference shares	(97,576)
Professional fee related to the Tongcheng-eLong Merger	10,556
Administrative expense for deemed distribution to shareholder ⁽¹⁾	56,974
Adjusted profit for the year	712,800

Note:

- (1) Represents the difference between (i) the fair value of the Shares issued to Image Frame determined by the Directors based on a valuation report dated May 31, 2018 prepared by an independent valuer and (ii) the cash consideration received from Image Frame, which was recorded as our administrative expenses.

For more information, see “Appendix III — Unaudited Pro Forma Financial Information.”

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MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

General Factors Affecting Our Results of Operations

Growth in China’s overall Economy and Travel Industry

Our results of operations have been, and are expected to continue to be, driven by the growth in China’s overall economy and travel industry. According to iResearch, China’s GDP increased from RMB59.7 trillion in 2013 to RMB81.3 trillion in 2017. We anticipate that China’s economy and travel industry will continue to grow in the foreseeable future, and we will continue to benefit from this growth. Conversely, our results of operations may be impacted by any disruptions or other adverse developments in China’s economy and travel industry.

Additionally, as an OTA, we have benefited significantly from the increasing proliferation of the Internet, in particular the mobile Internet, in China’s travel market. We believe our ability to continue to grow our revenue significantly depends on our ability to continue to attract users and TSPs and gain market shares from traditional, offline market players. According to iResearch, the online penetration of China’s travel market increased from 10.6% in 2013 to 31.5% in 2017 and is expected to further increase to 45.7% by 2022.

Competition

We compete primarily with other OTAs. In response to increasing competition, we have made, and expect to continue to make, substantial investments in our sales and marketing efforts, including broadening our user acquisition channels, which may place constraints on our financial resources. Increasing competition may cause us to offer products and services at more competitive prices to attract more users, which could reduce our revenue and narrow our profit margin. Increasing competition among OTAs could also lead to reduced bargaining power of OTAs as a whole against TSPs, thereby negatively affecting our results of operations and financial condition. For example, if competition among OTAs for accommodation inventories intensifies, our bargaining power against accommodation suppliers may decline, which may in turn lead to declines in the commission rates on accommodation reservations made through us.

See “Industry Overview” for details of the competitive landscape in China’s online travel industry.

Our results of operations may also be affected by the changing competitive landscape among TSPs. Consolidation of, or strategic alliance among, major TSPs may result in TSPs’ becoming fewer but larger, with heightened bargaining power against OTAs. We may face increased competition from TSPs, particularly from airlines and large hotel groups, that build their online direct sale channels independently or through alliance with other OTAs.

Regulatory Environment

We are subject to various PRC laws, regulations and policies. Such laws and regulations, especially those newly promulgated by the PRC government, may require us to change certain aspects of our business operations, which could decrease the demand for our products and services, increase costs, and subject us to additional liabilities. For example, we are subject to restrictions posed by the PRC government on improper bundle sales of ancillary value-added travel products and services. Additionally, we have historically experienced decreased commission rates on air ticket bookings resulting from the heightened enforcement of the restrictive industry policies on air ticket commissions paid to OTAs. Our ability to comply with applicable laws, regulations, and policies and to respond to potential changes therein will continue to have a significant effect on our future business performance and profitability.

Seasonality

Our business is subject to seasonal fluctuations, and our revenue may vary from period to period. In general, we generate higher revenue during holiday seasons, such as the Chinese New Year holiday, the National Day holiday, and summer holidays, compared to rest of the year. In addition, the

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seasonality of the PRC travel market is affected by regulatory adjustments to the calendar of public holidays. Our future results will continue to be affected by seasonality and regulatory adjustments to the calendar of public holidays in China.

Specific Factors Affecting Our Results of Operations

Our Products and Services

Our results of operations have been, and will continue to be, affected by the size and diversity of our product offerings. Over the years, we have continued to introduce various ancillary value-added services built around users’ travel needs and have successfully expanded our accommodation offerings to include a wide choice of alternative accommodation options. These efforts have effectively helped us attract more users, broaden revenue channels, and improve our bargaining powers against TSPs, thus driving our business and revenue growth.

Our financial performance has also been affected by the mix of our products and services. For example, in respect of accommodation reservation business, we have historically increased the volume of prepurchase transactions as opposed to non-prepurchase transactions. This initiative has affected our results of operations because the revenue generated from prepurchase transactions for which we take inventory risk is recorded on a gross basis, while revenue generated from accommodation reservation transactions for which we do not take inventory risk is recorded on a net basis. Additionally, we offer two payment models to our users, namely “pre-pay” and “pay-at-destinations” which render different levels of commission we receive on the bookings thus affecting our results of operations. See “Business — Travel Products and Services We Offer — Accommodation Reservation” for details.

User Base and User Engagement

We have a large and engaged user base, which has driven our business growth. The average MAUs of Tongcheng and eLong combined increased from 88.7 million in 2015 to 121.2 million in 2017. During the same period, the average MPUs of Tongcheng and eLong combined increased from 3.9 million to 15.6 million. The growth in our user base has particularly been driven by our efforts to build and continue to improve our Tencent-based platforms, which mainly include the “Rail & Flight” and “Hotel” portals on Tencent’s Weixin and Mobile QQ. See “Business — Our Online Platforms” for more information. As we expect to continue to generate a substantial majority of revenue from offering travel products and services to users, our results of operations will continue to be affected by our ability to retain and attract users and drive user engagement.

Operational Efficiency

Our results of operations have been, and will continue to be, affected by our ability to improve our operational efficiency. As our business grows, we will continue to further improve our operational efficiency by developing technologies and infrastructure across different business functions. We will also continue to focus on automation by, for example, improving direct connect with accommodation suppliers to allow more of them to manage inventories and rates and process bookings directly from their own systems.

With the merger of eLong and Tongcheng, we expect to benefit from improved sales and marketing efficiency by exploring cross-selling opportunities, particularly between accommodation and transportation products and services, leveraging eLong’s and Tongcheng’s respective leading position and expertise in these travel segments. Moreover, we have benefitted, and intend to further benefit, from greater economies of scale and reduced operational costs from the integration of products, personnel, and systems of both companies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements and related disclosure have been prepared in conformity with IFRS. The preparation of our financial statements requires that we make judgments, estimates and assumptions that affect reported amounts of assets and liabilities, income and expenses, and related disclosure of

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contingent assets and liabilities. Actual results could be significantly different from these estimates. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management’s estimates or assumptions and actual results, and we have not made any material changes to the estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future. We consider an accounting policy critical if it: (i) requires management to make judgments and estimates about matters that are inherently uncertain; and (ii) is important to an understanding of our financial condition and operating results.

Please refer to Note 2 to the Accountants’ Report included in Appendix I to this [REDACTED] for details of the critical accounting policies, judgments and estimates involved in the preparation of financial statements of our Group. Please refer to Note 2 to the Accountants’ Report included in Appendix II to this [REDACTED] for details of the critical accounting policies, judgments and estimates involved in the preparation of financial statements of Tongcheng Online Business.

SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME OF THE GROUP

The following table sets forth a summary of our consolidated statements of comprehensive (loss)/income for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Revenue	1,026,124	2,204,565	2,518,591
Cost of revenue	(639,723)	(1,032,913)	(811,781)
Gross profit	386,401	1,171,652	1,706,810
Service development expenses.....	(399,073)	(517,648)	(522,018)
Selling and marketing expenses.....	(775,464)	(1,882,779)	(1,094,977)
Administrative expenses.....	(272,584)	(898,337)	(97,379)
Fair value changes on investments measured at fair value through profit or loss	17,646	(4,031)	863
Other income	49,006	10,547	12,805
Other gains/(losses), net	51,107	4,689	22,610
Operating (loss)/profit	(942,961)	(2,115,907)	28,714
Finance income	9,156	8,402	10,145
Finance costs	(5,831)	(4,114)	(163)
Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss....	—	(36,781)	97,576
Share of results of associates	(18,177)	(11,218)	(2,251)
(Loss)/profit before income tax	(957,813)	(2,159,618)	134,021
Income tax (expense)/credit	(5,206)	(978)	60,356
(Loss)/profit for the year	(963,019)	(2,160,596)	194,377

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was generated primarily from accommodation reservation business and transportation ticketing business.

The following table sets forth a breakdown of our revenue in absolute amount and as a percentage of the total revenue for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
<i>(in thousands, except percentages)</i>						
Accommodation reservation services	907,649	88.5	2,094,050	95.0	2,361,625	93.8
Transportation ticketing services	89,378	8.7	86,650	3.9	61,295	2.4
Others	29,097	2.8	23,865	1.1	95,671	3.8
Total.....	<u>1,026,124</u>	<u>100.0</u>	<u>2,204,565</u>	<u>100.0</u>	<u>2,518,591</u>	<u>100.0</u>

Accommodation reservation services. We present accommodation reservation revenue on a net basis in circumstances where we do not assume inventory risk, and on a gross basis in circumstances where we prepurchase accommodation room nights for which we take inventory risk. Revenue recognized on a gross basis represents the amounts billed to the users for the room nights sold, while the prices at which we prepurchase the room nights from the accommodation suppliers are recorded as cost of revenue.

The following table sets forth details of (i) net commissions earned from accommodation reservation, and (ii) the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation, for the periods indicated. We believe these two measures are useful financial metrics to assess the performance of our accommodation reservation business and allow us to present important information as to the financial impact of the room nights we prepurchase for which we take inventory risk.

Net commissions earned from accommodation reservation represent the sum of (i) accommodation reservation revenue recorded on a net basis, and (ii) accommodation reservation revenue generated from prepurchased room nights for which we take inventory risk, should such revenue have been recorded on a net basis. The excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation represents the excess of (i) the revenue generated from prepurchased room nights for which we take inventory risk, over (ii) the revenue generated from prepurchased room nights for which we take inventory risk, should such revenue have been recorded on a net basis. With respect to any given period, the amount of the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation equals to the cost of prepurchased inventory-risk-taking room nights for the same period.

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For the Year Ended December 31,						
2015		2016		2017		
RMB	%	RMB	%	RMB	%	
(in thousands, except percentages)						
Net commissions earned from accommodation reservation	667,963	73.6	1,416,691	67.7	1,828,755	77.4
The excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation	239,686	26.4	677,359	32.3	532,870	22.6
Total	907,649	100.0	2,094,050	100.0	2,361,625	100.0

Transportation ticketing services. Transportation ticketing represents the second largest component of our revenue. During the Track Record Period, we generated transportation ticketing revenue primarily from commissions received from suppliers of transportation tickets, travel insurance and other ancillary value-added travel products and services. In these transactions, we act as an agent, assume no inventory risk and no obligations for cancelled ticket reservations, and therefore record the revenue on a net basis.

Others. Other revenue mainly includes revenue from advertising services. Other revenue in 2017 also included revenue generated from a one-off technical support services we provided to an affiliate of Ctrip in 2017.

Cost of Revenue

Our cost of revenue consists primarily of: (i) cost of prepurchased inventory-risk-taking room nights, representing the prices we pay to accommodation suppliers for room nights prepurchased for which we take inventory risk; (ii) employee benefit expenses, representing the wages, salaries, and other benefits (including share-based compensation) paid to our user services and TSP services employees; (iii) order processing cost, representing the fees we pay to banks and payment channels for processing user payments; (iv) depreciation of property, plant and equipment; and (v) others, which primarily include telephone and communication costs, tax and surcharges, travel and entertainment cost, professional fees, user fulfilment fees (which represents compensation paid to users due to user complaints), and rental and utility fees. The following table sets forth a breakdown of our cost of revenue in absolute amount and as a percentage of the total cost of revenue for the periods indicated:

For the Year Ended December 31,						
2015		2016		2017		
RMB	%	RMB	%	RMB	%	
(in thousands, except percentages)						
Cost of prepurchased inventory-risk-taking room nights	239,686	37.5	677,359	65.6	532,870	65.6
Employee benefit expenses ..	152,662	23.9	123,549	12.0	89,004	11.0
Order processing cost	52,371	8.2	46,708	4.5	51,841	6.4
Depreciation of property, plant and equipment	45,935	7.2	47,250	4.6	39,961	4.9
Others	149,069	23.2	138,047	13.3	98,105	12.1
Total	639,723	100.0	1,032,913	100.0	811,781	100.0

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Gross Profit

In 2015, 2016 and 2017, our gross profit was RMB386.4 million, RMB1,171.7 million, and RMB1,706.8 million, respectively, and our gross margin (expressed as a percentage of the revenue) was 37.7%, 53.1%, and 67.8%, respectively.

Service Development Expenses

Our service development expenses represent the expenses incurred to develop and diversify the travel products and services that we sources from our TSPs as well as the expenses in relation to the research and development of our TSP support systems and online platforms. Our service development expenses consist predominantly of employee benefit expenses, which mainly include wage, salaries and benefits (including share-based compensation) paid to our IT, product development and product procurement employees. Our service development expenses also include (i) rental and utility fees; and (ii) others, which primarily include telephone and communication expenses and business development and recruitment expenses.

The following table sets forth a breakdown of our service development expenses in absolute amount and as a percentage of the total service development expenses for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Employee benefit expenses ..	339,994	85.2	458,678	88.6	452,652	86.7
Rental and utility fees	23,366	5.9	23,583	4.6	22,086	4.2
Others	35,713	8.9	35,387	6.8	47,280	9.1
Total	<u>399,073</u>	<u>100.0</u>	<u>517,648</u>	<u>100.0</u>	<u>522,018</u>	<u>100.0</u>

Selling and Marketing Expenses

Our selling and marketing expenses consist of: (i) commission expenses, which represent the commissions paid to sales channels through which we make products and services available; and (ii) advertising and promotion expenses, which consist primarily of advertising fees paid to online and offline advertising channels, including traditional media, web portals and search engines. Our advertising and promotion expenses in 2016 also included expenses in the form of preferred shares issued to a shareholder of our Company to compensate its promotion and marketing services rendered.

The following table sets forth a breakdown of our selling and marketing expenses in absolute amount and as a percentage of our total selling and marketing expenses for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Commission expenses	182,002	23.5	473,276	25.1	659,761	60.3
Advertising and promotion expenses	567,557	73.2	1,357,769	72.1	356,776	32.6
Others	25,905	3.3	51,734	2.8	78,440	7.1
Total	<u>775,464</u>	<u>100.0</u>	<u>1,882,779</u>	<u>100.0</u>	<u>1,094,977</u>	<u>100.0</u>

Administrative Expenses

Our administrative expenses consist primarily of: (i) employee benefit expenses, which primarily include wages, salaries and benefits (including share-based compensation) paid to our finance, legal,

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human resources, auditing and executive employees; (ii) professional fees, which mainly include legal services fees and other professional fees; (iii) rental and utility fees; and (iv) amortization of intangible assets, such as software and trademark. Our administrative expenses in 2016 also included a one-off expense relating to the re-designation of ordinary shares in eLong Cayman to preferred shares in our Company in connection with the eLong Cayman Privatization. For more information about the eLong Cayman Privatization, see “History, Reorganization and Corporate Structure — History of Our Business — eLong.”

The following table sets forth a breakdown of our administrative expenses in absolute amount and as a percentage of our total administrative expenses for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except percentages)</i>					
Employee benefit expenses	210,081	77.1	80,561	9.0	68,659	70.5
Professional fees	18,868	6.9	28,884	3.2	8,596	8.8
Rental and utility fees	7,554	2.8	8,574	1.0	7,504	7.7
Amortization of intangible assets ..	21,225	7.8	8,164	0.9	6,424	6.6
Charges related to re-designation of ordinary shares to preferred shares in connection with the eLong Cayman Privatization	—	—	742,467	82.6	—	—
Others	14,856	5.4	29,687	3.3	6,196	6.4
Total	272,584	100.0	898,337	100.0	97,379	100.0

Fair value changes on investments measured at fair value through profit or loss

Our fair value changes on investments measured at fair value through profit or loss consist of fair value changes in long-term investments in certain private companies, which represent the equity interests held by us, and fair value changes in short-term investments, which represent wealth management products. Our fair value gains on investments measured at fair value through profit or loss amounted to RMB17.6 million and RMB0.9 million, respectively, in 2015 and 2017, and our fair value losses on investments measured at fair value through profit or loss amounted to RMB4.0 million in 2016.

Other income

Our other income consists of discretionary grants and subsidies from local governments and interest income from time deposit. Our other income was RMB49.0 million, RMB10.5 million and RMB12.8 million, respectively, in 2015, 2016 and 2017.

Other gains/(losses), net

Our other gains/(losses) consists primarily of foreign exchange gain/(loss), impairment of goodwill and other intangible assets, gain on disposal of long-term investments, and fair value gains from short-term investments measured at fair value through profit or loss. Our other gains/(losses) in 2015 also included a one-off gain of RMB71.1 million from the disposal of Nanjing Xici, a then subsidiary of our Group.

Finance income

Our finance income consists primarily of interest income on bank deposits.

Finance costs

Our finance costs consist of service fees paid to commercial banks.

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Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss

We designate the redeemable convertible preferred shares issued by our Company as financial liabilities at fair value through profit or loss. Subsequent to initial recognition at fair value, the changes in fair value were recognized in our consolidated statements of comprehensive income or loss.

TAXATION

Cayman Islands

Our Company is incorporated in the Cayman Islands. Under the current law of the Cayman Islands, our Company is not subject to tax on its income or capital gains. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

PRC

PRC Corporate Income Tax (“CIT”)

In 2007, the PRC enacted a new Corporate Income Tax Law (“**CIT Law**”) and promulgated related regulations, effective January 1, 2008, which impose a unified corporate income tax (“**CIT**”) rate of 25% for both domestic and foreign invested enterprises. Enterprises qualified as “High New Technology Enterprises (“**HNTes**”)” enjoy a preferential CIT rate of 15%. We made CIT provision on the estimated assessable profits of entities within our Group incorporated in the PRC in 2015, 2016 and 2017, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate was 25% in 2015, 2016 and 2017. One of our subsidiaries in the PRC was qualified as an HNTe and was entitled to the preferential CIT rate of 15% until October 25, 2020.

PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. During the Track Record Period, our Group did not have any plan to procure its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of December 31, 2015, 2016 and 2017.

NON-IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use certain non-IFRS measures, namely adjusted revenue, adjusted (loss)/profit for the year, and adjusted EBITDA, as additional financial metrics. These non-IFRS measures are not required by or presented in accordance with IFRS.

We believe that non-IFRS measures facilitate comparisons of our operating performance by eliminating potential impacts of items that our management do not consider indicative of our operating performance. We believe that such non-IFRS measures present useful information in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of such non-IFRS measures may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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The following table reconciles our adjusted revenue to revenue, the most directly comparable financial measure calculated and presented in accordance with IFRS, for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Revenue	1,026,124	2,204,565	2,518,591
Less:			
The excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation ⁽¹⁾	239,686	677,359	532,870
Adjusted revenue	<u>786,438</u>	<u>1,527,206</u>	<u>1,985,721</u>

Notes:

- (1) Please see “— Description of Major Components of Our Results of Operations — Revenue” for more information about the excess of gross up revenue over commissions for inventory-risk-taking accommodation reservation, which we believe is a useful metric in assessing the performance of our accommodation reservation business and allows us to present more information as to the financial impact of the room nights we prepurchase for which we take inventory risk.

The following table reconciles our adjusted profit/(loss) for the year to profit/(loss) for the year, the most directly comparable financial measure calculated and presented in accordance with IFRS, for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Profit/(loss) for the year	(963,019)	(2,160,596)	194,377
Add:			
Share-based compensation	211,500	72,343	56,783
Amortization of intangible assets	21,225	24,488	39,073
Selling and marketing expenses in the form of newly issued preferred shares ⁽¹⁾	—	1,044,908	—
Fair value loss / (gain) on redeemable convertible preferred shares ⁽²⁾	—	36,781	(97,576)
Charges related to re-designation of ordinary shares to preferred shares in connection with the eLong Cayman Privatization ⁽³⁾	—	742,467	—
Adjusted (loss)/profit for the year	<u>(730,294)</u>	<u>(239,609)</u>	<u>192,657</u>

Notes:

- (1) Represents the selling and marketing expenses in the form of preferred shares issued to a shareholder of the Company to compensate its promotion and marketing service rendered.
- (2) Represents the fair value gain or loss on redeemable convertible preferred shares issued to eLong Cayman’s shareholders. We designate redeemable convertible preferred shares as financial liabilities at fair value through profit or loss. For more information about the eLong Cayman Privatization, see “History, Reorganization and Corporate Structure — History of Our Business — eLong.”
- (3) Represents a one-off expense relating to the re-designation of ordinary shares in eLong Cayman to preferred shares in our Company in connection with the eLong Cayman Privatization. For more information about the eLong Cayman Privatization, see “History, Reorganization and Corporate Structure — History of Our Business — eLong.”

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The following table reconciles adjusted EBITDA to operating profit/(loss), the most directly comparable financial measure calculated and presented in accordance with IFRS, for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Operating (loss)/profit	(942,961)	(2,115,907)	28,714
Add:			
Share-based compensation.....	211,500	72,343	56,783
Amortization of intangible assets	21,225	24,488	39,073
Depreciation of property, plant and equipment	52,067	52,845	45,077
Selling and marketing expenses in the form of newly issued preferred shares ⁽¹⁾	—	1,044,908	—
Charges related to re-designation of ordinary shares to preferred shares in connection with the eLong Cayman Privatization ⁽²⁾	—	742,467	—
Adjusted EBITDA	<u>(658,169)</u>	<u>(178,856)</u>	<u>169,647</u>

Notes:

- (1) Represents the selling and marketing expenses in the form of preferred shares issued to a shareholder of the Company to compensate its promotion and marketing service rendered.
- (2) Represents a one-off expense relating to the re-designation of ordinary shares in eLong Cayman to preferred shares in our Company in connection with the eLong Cayman Privatization. For more information about the eLong Cayman Privatization, see “History, Reorganization and Corporate Structure — History of Our Business — eLong.”

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

Our revenue increased by 14.2% from RMB2,204.6 million in 2016 to RMB2,518.6 million in 2017, which was primarily driven by an increase in accommodation reservation revenue and, to a lesser extent, an increase in other revenue. These increases were partially offset by a decrease in transportation ticketing revenue.

- *Accommodation reservation services.* Our accommodation reservation revenue increased by 12.8% from RMB2,094.1 million in 2016 to RMB2,361.6 million in 2017, which was mainly attributable to (i) an increase in the room nights sold, driven by our effective sales efforts through our “Hotel” portal on Tencent’s Weixin and Mobile QQ and our efforts to tap into the accommodation reservation market in non-first-tier cities in China; and (ii) reduced price competition among Chinese OTAs. Meanwhile, the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation declined by 21.3% from RMB677.4 million in 2016 to RMB532.9 million in 2017, which reflected an overall decline in the scale of our prepurchase transactions for which we take inventory risk. This is because we prepurchased fewer room nights from accommodation suppliers in light of our increased bargaining power against them as we continued to expand our accommodation supplier base as well as the increased availability of alternative accommodation supplies in the market. For more information about the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation, see “— Description of Major Components of Our Results of Operations — Revenue — Accommodation Reservation Services.”

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- *Transportation ticketing services.* Our transportation ticketing revenue decreased by 29.3% from RMB86.7 million in 2016 to RMB61.3 million in 2017, which was mainly due to (i) a decline in the transportation ticketing volume as we continued to focus our efforts on accommodation reservation business; and (ii) a decrease in commission rates on air ticket transactions made through us, resulting from restrictive industry policies on air ticket commissions paid by airlines to OTAs.
- *Others.* Our other revenue increased significantly from RMB23.9 million in 2016 to RMB95.7 million in 2017, which was mainly due to revenue generated from a one-off technical support service we provided to an affiliate of Ctrip in 2017.

Cost of revenue

Our cost of revenue decreased by 21.4% from RMB1,032.9 million in 2016 to RMB811.8 million in 2017. This decrease was primarily due to (i) a 21.3% decrease in the cost of prepurchased inventory-risk-taking room nights from RMB677.4 million in 2016 to RMB532.9 million in 2017, as we reduced the room nights prepurchased from accommodation suppliers in light of our heightened bargaining power against accommodation suppliers; and (ii) a 28.0% decrease in employee benefit expenses from RMB123.5 million in 2016 to RMB89.0 million in 2017, driven by a decrease in the number of our user services and TSP services employees resulting from the improved level of automation in accommodation reservations made through us.

Gross profit

As a result of the foregoing, our gross profit increased by 45.7% from RMB1,171.7 million in 2016 to RMB1,706.8 million in 2017. Our gross margin increased from 53.1% to 67.8% over the same period.

Service development expenses

Our service development expenses increased slightly by 0.8% from RMB517.7 million in 2016 to RMB522.0 million in 2017. This increase was mainly attributable to a 30.0% increase in other service development expenses from RMB35.4 million in 2016 to RMB46.0 million in 2017 driven largely by increased travel expenses, which was generally in line with our business growth during the same period. The increase in our service development expenses was partially offset by a 1.3% decrease in employee benefit expenses from RMB458.7 million in 2016 to RMB452.7 million in 2017, which, in turn, was mainly due to reduced share-based compensation and a decrease in the number of our service development employees as a result of our improved efficiency.

Selling and marketing expenses

Our selling and marketing expenses decreased by 41.8% from RMB1,882.8 million in 2016 to RMB1,095.0 million in 2017, which was primarily due to a decrease in advertising and promotion expenses and partially offset by an increase in commission expenses. Our advertising and promotion expenses decreased by 73.7% from RMB1,357.8 million in 2016 to RMB356.8 million in 2017, which was mainly because we incurred a significant one-off advertising and promotion expense in 2016 in connection with the preferred shares issued to a shareholder of the Company to compensate its promotion and marketing service rendered. During the same period, our commission expenses increased by 39.4% from RMB473.3 million to RMB659.8 million, which was mainly driven by increased room nights sold through other online channels.

Administrative expenses

Our administrative expenses decreased by 89.2% from RMB898.3 million in 2016 to RMB97.4 million in 2017, which was primarily due to a significant one-off expense of RMB742.5 million incurred in 2016 relating to re-designation of ordinary shares in eLong Cayman to preferred shares in our Company in connection with the eLong Cayman Privatization. See “History, Reorganization and Corporate Structure — History of Our Business — eLong” for more information about the eLong

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Cayman Privatization. The decrease in our administrative expenses was also attributable to (i) a decrease in employee benefit expenses, due to decreased share-based compensation; and (ii) a decrease in professional fees, which was high in 2016 due to the eLong Cayman Privatization.

Fair value changes on investments measured at fair value through profit or loss

We recorded fair value gains on investments measured at fair value through profit or loss of RMB0.9 million in 2017, while we recorded fair value losses on investments measured at fair value through profit or loss of RMB4.0 million in 2016, which was mainly due to (i) a decrease in fair value losses in long-term investments from RMB4.2 million in 2016 to RMB1.2 million in 2017, which reflected a fair value loss in certain private companies in which we invested; and (ii) an increase in fair value gains in short-term investments measured at fair value through profit or loss, which consisted of short-term wealth management products, from RMB0.2 million in 2016 to RMB2.1 million in 2017.

Other income

Our other income increased by 21.4% from RMB10.5 million in 2016 to RMB12.8 million in 2017, which was due to our increased government subsidies.

Other gains/(losses), net

Our other gains, net, increased from RMB4.7 million in 2016 to RMB22.6 million in 2017. This was mainly because (i) we recorded a foreign exchange gain of RMB1.3 million in 2017 due to favorable foreign exchange rate movements, as compared to a foreign exchange loss of RMB3.1 million in 2016; and (ii) an increase in investment income from short-term investments measured at fair value through profit or loss from RMB6.3 million in 2016 to RMB10.1 million in 2017 due to redemption of short-term wealth management products.

Operating profit/(loss)

As a result of the foregoing, we recorded operating loss of RMB2,115.9 million in 2016 and operating profit of RMB28.7 million in 2017.

Finance income

Our finance income increased from RMB8.4 million in 2016 to RMB10.1 million in 2017, which was generally in line with changes in the principal amount of our short-term deposits during the same period.

(Loss)/profit before income tax

As a result of the foregoing, we had profit before income tax of RMB134.0 million in 2017, compared with a loss before income tax of RMB2,159.6 million in 2016.

Income tax (expenses)/credit

We recorded income tax expenses of RMB1.0 million in 2016 and income tax credit of RMB60.4 million in 2017, as we utilized the previously unrecognized tax losses in 2017.

(Loss)/profit for the year

As a result of the foregoing, we had a net profit of RMB194.4 million in 2017, compared with a net loss of RMB2,160.6 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenue

Our revenue increased by 114.8% from RMB1,026.1 million in 2015 to RMB2,204.6 million in 2016, which was primarily driven by an increase in accommodation reservation revenue and, to a lesser extent, an increase in transportation ticketing revenue and partially offset by a decrease in other revenue.

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- *Accommodation reservation services.* Our accommodation reservation revenue increased by 130.7% from RMB907.6 million in 2015 to RMB2,094.1 million in 2016, which was mainly driven by (i) a reduction in the incentive program provided to users; and (ii) an overall increase in the room nights sold, driven by our effective sales efforts through our “Hotel” portal on Tencent’s Weixin and Mobile QQ. During the same period, the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation increased significantly from RMB239.7 million to RMB677.4 million, which was mainly because we prepurchased more room nights from accommodation suppliers to secure quality accommodation inventories. For more information about the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation, see “— Description of Major Components of Our Results of Operations — Revenue — Accommodation Reservation Services.”
- *Transportation ticketing services.* Our transportation ticketing revenue decreased by 3.1% from RMB89.4 million in 2015 to RMB86.7 million in 2016, which was mainly due to (i) a decline in the transportation ticketing volume, as we continued to focus our efforts on accommodation reservation business; and (ii) a decrease in commission rates on air ticket bookings made through us, resulting from the restrictive industry policies on air ticket commissions paid by airlines to OTAs.
- *Others.* Our other revenue decreased by 17.9% from RMB29.1 million in 2015 to RMB23.9 million in 2016, primarily due to decreased advertising revenue.

Cost of revenue

Our cost of revenue increased by 61.5% from RMB639.7 million in 2015 to RMB1,032.9 million in 2016, which was generally in line with our business growth during the same period. Such increase was specifically driven by a 182.6% increase in the cost of prepurchased inventory-risk-taking room nights from RMB239.7 million in 2015 to RMB677.4 million in 2016, which was mainly because we prepurchased more room nights from accommodation suppliers to secure quality accommodation inventories. The increase in our cost of revenue was partially offset by a 19.1% decrease in employee benefit expenses from RMB152.7 million in 2015 to RMB123.5 million in 2016, mainly due to a decrease in the number of our user services and TSP services employees resulting from the improved level of automation in accommodation reservations made through us.

Gross profit

As a result of the foregoing, our gross profit increased by 203.2% from RMB386.4 million in 2015 to RMB1,171.7 million in 2016. Our gross margin increased from 37.7% in 2015 to 53.1% in 2016.

Service development expenses

Our service development expenses increased by 29.7% from RMB399.1 million in 2015 to RMB517.6 million in 2016. This increase was primarily due to a 34.9% increase in employee benefit expenses from RMB340.0 million in 2015 to RMB458.7 million in 2016, which was mainly driven by (i) an increase in the number of our IT employees as our business continued to grow; (ii) an increase in the average wages and salaries paid to our IT employees; and (iii) increased share-based compensation paid to our IT employees.

Selling and marketing expenses

Our selling and marketing expenses increased by 142.8% from RMB775.5 million in 2015 to RMB1,882.8 million in 2016, which was primarily due to (i) a 139.2% increase in advertising and promotion expenses from RMB567.6 million in 2015 to RMB1,357.8 million in 2016, as we incurred in 2016 a significant one-off expense in connection with the preferred shares issued to a shareholder of the Company to compensate its promotion and marketing services rendered; and (ii) a 160.1% increase in commission expenses from RMB182.0 million in 2015 to RMB473.3 million in 2016, which was mainly driven by increased room nights sold through other online channels.

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Administrative expenses

Our administrative expenses increased by 229.5% from RMB272.6 million in 2015 to RMB898.3 million in 2016. This increase was primarily due to (i) a one-off expense of RMB742.5 million incurred in 2016 relating to re-designation of ordinary shares in eLong Cayman to preferred shares in our Company in connection with the eLong Cayman Privatization (See “History, Reorganization and Corporate Structure — History of Our Business — eLong” for more information about the eLong Cayman Privatization); (ii) a 53.1% increase in the professional fees from RMB18.9 million in 2015 to RMB28.9 million in 2016 which was mainly associated with professional fees paid in connection with the eLong Cayman Privatization; (iii) a 99.3% increase in other administrative expenses from RMB14.9 million in 2015 to RMB29.7 million in 2016, mainly due to the increased allowance for doubtful accounts in 2016. The increase in administrative expenses was partially offset by a 61.7% decrease in employee benefit expenses from RMB210.1 million in 2015 to RMB80.6 million in 2016, which was primarily caused by decreased share-based compensation paid to our senior executives.

Fair value changes on investments measured at fair value through profit or loss

We recorded fair value losses on investments measured at fair value through profit or loss of RMB4.0 million in 2016, which was mainly due to a fair value loss in long-term investments of RMB4.2 million as a result of the depreciation in the value of our long-term investments in certain private companies. We recorded fair value gains on investments measured at fair value through profit or loss of RMB17.6 million in 2015, which was mainly due to the appreciation in the value of our long-term investments in certain private companies.

Other income

Our other income decreased by 78.5% from RMB49.0 million in 2015 to RMB10.5 million in 2016. This decrease was primarily because (i) we had interest income from time deposit of RMB28.1 million in 2015 while we did not have such interest income in 2016; and (ii) government subsidies decreased by 49.7% from RMB21.0 million in 2015 to RMB10.5 million in 2016.

Other gains/(losses), net

Our other gains, net, decreased by 90.8% from RMB51.1 million in 2015 to RMB4.7 million in 2016, which was mainly due to a one-off gain of RMB71.1 million from disposal of Nanjing Xici, a then subsidiary of our Group, in 2015.

Operating profit/(loss)

As a result of the foregoing, we recorded operating losses of RMB943.0 million and RMB2,116.0 million, respectively, in 2015 and 2016.

Finance income

Our finance income decreased by 8.7% from RMB9.2 million in 2015 to RMB8.4 million in 2016, which was generally in line with changes in the principal amount of our bank deposit during the same period.

(Loss)/profit before income tax

As a result of the foregoing, we recorded losses before income tax of RMB957.8 million and RMB2,159.6 million, respectively, in 2015 and 2016.

Income tax (expense)/credit

Our income tax expense decreased by 81.2% from RMB5.2 million in 2015 to RMB1.0 million in 2016, which was primarily due to a decrease in our taxable income.

(Loss)/profit for the year

As a result of the foregoing, we had net losses for the year of RMB963.0 million and RMB2,160.6 million, respectively, in 2015 and 2016.

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DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS OF THE GROUP

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our Group’s audited consolidated financial statements included in Appendix I to this [REDACTED].

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Total current assets	1,799,734	1,721,516	1,843,551
Total non-current assets	457,063	584,293	924,459
Total assets	2,256,797	2,305,809	2,768,010
Total current liabilities.....	1,201,722	1,432,640	1,577,952
Total non-current liabilities.....	6,688	6,405,289	6,521,992
Total liabilities	1,208,410	7,837,929	8,099,944
Net assets/(liabilities)	1,048,387	(5,532,120)	(5,331,934)
Non-controlling interest	27,510	6,079	4,881
Total equity	1,048,387	(5,532,120)	(5,331,934)
Total equity and liabilities	2,256,797	2,305,809	2,768,010

Current Assets and Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of April 30 ⁽¹⁾ ,
	2015	2016	2017	2018
	(RMB in thousands)			
Current assets				
Trade receivables	461,431	883,382	539,217	871,646
Prepayment and other receivables	235,867	274,188	195,938	591,326
Short-term investments measured at amortized cost	224,507	—	—	—
Short-term investments measured at fair value through profit or loss	21,046	71,041	236,107	1,072,710
Restricted cash.....	146,480	153,606	170,541	141,285
Cash and cash equivalents.....	710,403	339,299	701,748	2,043,760
Total current assets	1,799,734	1,721,516	1,843,551	4,720,727
Current liabilities				
Borrowings	—	—	19,692	19,692
Trade payables	658,566	921,633	1,114,917	2,273,727
Other payables and accruals.....	540,753	510,593	437,358	821,206
Current income taxes liabilities.....	2,403	414	5,985	21,720
Contract liabilities	—	—	—	38,450
Total current liabilities	1,201,722	1,432,640	1,577,952	3,174,795
Net current assets.....	598,012	288,876	265,599	1,545,932

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Note:

- (1) The financial information as of April 30, 2018 presented herein takes into account the financial position of Tongcheng Online Business of Tongcheng Network which merged into our Group in March 2018. For more information about the merger, see “— The Tongcheng-eLong Merger.” The relevant financial information as of April 30, 2018 is based on our unaudited management accounts that have not been reviewed, confirmed or audited by our auditors and may differ from the information to be disclosed in the audited or unaudited consolidated financial statements to be published by us.

Our net current assets increased from RMB265.6 million as of December 31, 2017 to RMB1,545.9 million as of April 30, 2018, which was mainly due to the impact of the merger of Tongcheng Network into our Group in March 2018. For more information about the merger of Tongcheng Network into our Group, see “— The Tongcheng-eLong Merger.”

Our net current assets decreased by 8.1% from RMB288.9 million as of December 31, 2016 to RMB265.6 million as of December 31, 2017, which was primarily due to (i) a RMB344.2 million, or 39.0%, decrease in trade receivables; (ii) a RMB193.3 million, or 21.0%, increase in trade payables; and (iii) a RMB78.2 million, or 28.5%, decrease in prepayment and other receivables. The decrease in our net current assets was partially offset by (i) a RMB362.4 million, or 106.8% increase in cash and cash equivalents; and (ii) a RMB165.1 million, or 232.3%, increase in short-term investments measured at fair value through profit or loss.

Our net current assets decreased by 51.7% from RMB598.0 million as of December 31, 2015 to RMB288.9 million as of December 31, 2016, which was primarily due to (i) a RMB371.1 million, or 52.9%, decrease in cash and cash equivalents; (ii) a RMB263.1 million, or 39.9% increase in trade payables; and (iii) a decrease in short-term investments measured at amortized cost from RMB224.5 million as of December 31, 2015 to nil as of December 31, 2016. The decrease in our net current assets was partially offset by a RMB422.0 million, or 91.4%, increase in trade receivables.

Trade receivables

Our trade receivables represent the amounts due from our TSPs and other customers for the purchase of the products and services we provide in the ordinary course of business.

The following table sets forth a breakdown of our trade receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Trade receivables from third parties	251,619	354,040	213,696
Trade receivables from related parties	216,331	534,812	329,618
	467,950	888,852	543,314
Less: allowance for impairment of trade receivables	(6,519)	(5,470)	(4,097)
Total trade receivable, net	461,431	883,382	539,217

Trade receivables decreased by 39.0% from RMB883.4 million as of December 31, 2016 to RMB539.2 million as of December 31, 2017, which was primarily due to our increased efforts in collecting trade receivables due from TSPs and other customers.

Trade receivables increased by 91.5% from RMB461.4 million as of December 31, 2015 to RMB883.4 million as of December 31, 2016, which was generally in line with our overall business growth from 2015 to 2016.

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The following table sets forth an aging analysis of our trade receivables, based on the invoice date, as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Up to six months	461,431	883,382	539,217
Over six months.....	6,519	5,470	4,097
Total.....	<u>467,950</u>	<u>888,852</u>	<u>543,314</u>

As of April 30, 2018, RMB542.2 million, or 99.8%, of our trade receivables as of December 31, 2017 were subsequently settled.

Prepayment and other receivables included in current assets

Our prepayment and other receivables included in current assets consist primarily of deposits, advances to accommodation suppliers, prepaid tax, advances to ticket suppliers, and prepayment for advertising. As of December 31, 2015, 2016 and 2017, our prepayment and other receivables included in current assets were RMB235.9 million, RMB274.2 million, and RMB195.9 million, respectively.

The following table sets forth a breakdown of our prepayment and other receivables included in current assets as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Deposits.....	60,268	70,247	52,386
Advances to accommodation suppliers	109,454	174,155	51,682
Prepaid tax	15,403	74	46,588
Advances to ticket suppliers	4,733	4,247	12,389
Prepayment for advertising	23,396	4,052	4,875
Others.....	22,613	21,413	28,018
Prepayment and other receivables	<u>235,867</u>	<u>274,188</u>	<u>195,938</u>

Our prepayment and other receivables included in current assets decreased by 28.6% from RMB274.2 million as of December 31, 2016 to RMB195.9 million as of December 31, 2017. This decrease was mainly driven by a decrease in advances paid to accommodation suppliers as we prepurchased less room nights in light of our growing accommodation supplier base as well as the increased availability of alternative accommodation supplies in the market, partially offset by an increase in prepaid tax primarily due to VAT paid in connection with the purchase of a property.

Our prepayment and other receivables included in current assets increased by 16.2% from RMB235.9 million as of December 31, 2015 to RMB274.2 million as of December 31, 2016. This increase was mainly driven by an increase in advances paid to accommodation suppliers from which we prepurchased room nights, as we prepurchased more room nights from accommodation suppliers to secure more quality accommodation inventory. The increase in prepayment and other receivables included in current assets was partially offset by a decrease in prepayment for advertising, which was primarily because we reduced the amount of prepayment paid to advertising channels, mainly including search engines and web portals, as our bargaining power increased against these advertising channels.

Short-term investments measured at amortized cost

Our short-term investments measured at amortized cost consist primarily of RMB-denominated time deposits with maturities over three months to one year with fixed interest rates.

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The amount of our short-term investments measured at amortized cost was RMB224.5 million, nil, and nil as of December 31, 2015, 2016 and 2017. The decrease in short-term investments measured at amortized cost from RMB224.5 million as of December 31, 2015 to nil as of December 31, 2016 was due to withdrawal of our time deposits.

Short-term investments measured at fair value through profit or loss

Our short-term investments measured at fair value through profit or loss are wealth management products denominated in RMB with expected rates of return ranging from 0.4% to 5.4%, 0.8% to 6.0%, and 1.5% to 6.0% per annum for the years ended December 31, 2015, 2016 and 2017, respectively.

The amount of our short-term investments measured at fair value through profit or loss was RMB21.0 million, RMB71.0 million and RMB236.1 million as of December 31, 2015, 2016 and 2017, respectively. The continuing increase in short-term investments measured at fair value through profit or loss from 2015 to 2017 was primarily due to increased investment in short-term wealth management products during the same period.

Restricted cash

Our restricted cash represents cash that cannot be withdrawn without the permission of third parties. In connection with our air ticketing and accommodation reservation services, we are required by our business partners to pay deposits as guarantee for the issuance of air tickets and timely payment. The amount of restricted cash remained largely stable during the Track Record Period. As of December 31, 2015, 2016 and 2017, our restricted cash amounted to RMB146.5 million, RMB153.6 million, and RMB170.5 million, respectively.

Trade payables

Our trade payables primarily consist of our obligations to pay for goods or services that are from suppliers in the acquired in the ordinary course of our business. Trade payables are classified as current liabilities if payment is due within one year or less, or in the normal operating cycle of the business, if longer than one year.

The following table sets forth a breakdown of our trade payables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Payables to third parties	623,611	789,629	960,940
Payables to related parties	34,955	132,004	153,977
Total	<u>658,566</u>	<u>921,633</u>	<u>1,114,917</u>

Our trade payables increased by 21.0% from 921.6 million as of December 31, 2016 to RMB1,114.9 million as of December 2017, primarily because the volume of accommodation reservations made under the “pre-pay” model increased.

Our trade payables increased by 39.9% from RMB658.6 million as of December 31, 2015 to RMB921.6 million as of December 31, 2016, primarily driven by (i) an increase in the payables due to accommodation suppliers, as the volume of accommodation reservations made under the “pre-pay” model increased; and (ii) increased volume of transactions with Ctrip and its affiliates as we intensified our cooperation with these related parties.

The invoice date of our trade payables as of December 31, 2015, 2016 and 2017 were all less than six months.

As of April 30, 2018, RMB1,054.4 million, or 94.6% of our trade payables as of December 31, 2017 were subsequently settled.

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Other payables and accruals included in current liabilities

Other payables and accruals included in current liabilities consist primarily of (i) advances from users, which represents advances we receive from users for the accommodation reservations they make through us; (ii) accrued payroll and welfare; (iii) accrual for user incentive program, which represents the redemption liability for redeemable virtual cash due to users; and (iv) others, which mainly include accrued advertisement expenses and payables to TSPs.

The following table sets forth our other payables and accruals included in current liabilities as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Advances from users	92,364	177,389	116,044
Accrual for user incentive program	217,359	75,567	67,862
Accrued payroll and welfare	69,669	94,277	77,919
Others	161,361	163,360	175,533
Total other payables and accruals	540,753	510,593	437,358

Our other payables and accruals included in current liabilities decreased by 14.3% from RMB510.6 million as of December 31, 2016 to RMB437.4 million as of December 31, 2017, primarily due to (i) a decrease in advances from users, which was mainly due to a shortened “booking window,” which refers to the period of time between accommodation reservations being made and the point in time when we become obligated to pay the accommodation suppliers the advances we have received from the users; (ii) a decrease in accrued payroll and welfare due to a decreased amount of funds we reserved for employee bonuses; and (iii) a decrease in accrual for user incentive program, as we reduced our promotional activities in light of the reduced price competition among Chinese OTAs during the same period. The decrease in other payables and accruals included in current liabilities was partially offset by an increase in the items included in the “others” category, which was generally consistent with the increase in our accommodation reservation volume during the same period.

Our other payables and accruals included in current liabilities decreased by 5.6% from RMB540.8 million as of December 31, 2015 to RMB510.6 million as of December 31, 2016, primarily driven by a decrease in accrual for user incentive program as we reduced our promotional efforts in light of the reduced price competition among Chinese OTAs during the same period. Such decrease was partially offset by (i) an increase in advances from users, which was mainly driven by increasing use of “pre-pay” model among users who made accommodation reservation through us; (ii) an increase in accrued payroll and welfare, due to increased amount of funds reserved for employee bonuses; and (iii) an increase in the items included in the “others” category, which was generally consistent with the increase in our accommodation reservation volume during the same period.

Current portion of borrowings

Our current portion of borrowings was nil, nil and RMB19.7 million, respectively, as of December 31, 2015, 2016 and 2017. The amount of our borrowings as of December 31, 2017 represents the outstanding amount of a secured loan we obtained from a Chinese commercial bank in October 2017. See “— Liquidity and Capital Resources.”

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Non-current Assets and Liabilities

The following table sets forth our non-current assets and current liabilities as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Non-current assets			
Property, plant and equipment	98,800	101,074	441,722
Investments accounted for using the equity method	51,087	39,869	37,618
Investments measured at fair value through profit or loss	49,881	45,685	25,239
Intangible assets	209,146	347,904	308,831
Deferred income tax assets	—	—	61,877
Prepayment and other receivables	48,149	49,761	49,172
Total	457,063	584,293	924,459
Non-current liabilities			
Borrowings	—	—	172,305
Deferred income tax liabilities	3,738	4,283	201
Redeemable convertible preferred shares	—	6,398,631	6,347,647
Other payables and accruals	2,950	2,375	1,839
Total	6,688	6,405,289	6,521,992

Property, Plant and Equipment

Our property, plant and equipment consist primarily of (i) IT equipment; (ii) furniture and fixtures; (iii) software; (iv) leasehold improvements; and (v) construction in progress, which mainly includes office buildings under construction. The following table sets forth a breakdown of the net book amount of our property, plant and equipment as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
IT equipment	45,776	62,933	67,329
Furniture and fixtures	3,841	3,134	2,014
Software	43,559	29,524	11,600
Leasehold improvements	5,624	5,483	4,214
Construction in progress	—	—	356,565
Total	98,800	101,074	441,722

Our property, plant and equipment, net of accumulated depreciation, increased by 337.0% from RMB101.1 million as of December 31, 2016 to RMB441.7 million as of December 31, 2017, primarily due to (i) an increase in construction in progress of RMB356.6 million associated with our new office buildings; and (ii) an increase in IT equipment associated with purchases of additional computers and servers to meet our business operational needs. These increases were partially offset by a 60.7% decrease in software from RMB29.5 million as of December 31, 2016 to RMB11.6 million as of December 31, 2017.

Our property, plant and equipment, net of accumulated depreciation, increased by 2.3% from RMB98.8 million as of December 31, 2015 to RMB101.1 million as of December 31, 2016, primarily due to a 37.5% increase in IT equipment from RMB45.8 million as of December 31, 2015 to RMB62.9

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million as of December 31, 2016 due to purchases of additional computers and servers to meet our business operational needs, partially offset by a 32.2% decrease in software from RMB43.6 million as of December 31, 2015 to RMB29.5 million as of December 31, 2016 due to depreciation.

Investments accounted for using the equity method

Our investments accounted for using the equity method refers to our equity investment in affiliated companies. As of December 31, 2015, 2016 and 2017, our investments accounted for using the equity method were RMB51.1 million, RMB39.9 million, and RMB37.6 million, respectively. The decline in our investments accounted for using the equity method was caused by the losses sustained by the affiliated companies in which we invested.

Investments measured at fair value through profit or loss

Our investments measured at fair value through profit or loss refer to our equity investments in certain private companies in the PRC. We hold less than 20% interest in each of such companies, and we do not have control or significant influence over any of these companies. As of December 31, 2015, 2016 and 2017, our investments measured at fair value through profit or loss were RMB49.9 million, RMB45.7 million, and RMB25.2 million, respectively. The decrease in our investments measured at fair value through profit or loss from 2016 to 2017 was due to the disposal of certain investments and a decrease in fair value of our investment in 2017. The decrease in our investments measured at fair value through profit or loss from 2015 to 2016 was mainly due to a decrease in fair value of our investment.

Intangible assets

Our intangible assets primarily consist of (i) goodwill; (ii) business cooperation arrangement entered into in July 2016 between us and one of our shareholders; and (iii) others, including customer lists, trade names, copy rights, and Internet domain names.

Our intangible assets decreased by 11.2% from RMB347.9 million as of December 31, 2016 to RMB308.8 million as of December 31, 2017, primarily due to the effect of amortization.

Our intangible assets increased by 66.3% from RMB209.1 million as of December 31, 2015 to RMB347.9 million as of December 31, 2016, primarily because the business cooperation arrangement was entered into in July 2016, following which we began to record the fair value of such agreement as intangible assets.

Deferred tax assets

We recorded deferred tax assets of RMB61.9 million in 2017, which was due to the utilization of previously unrecognized temporary differences.

Prepayment and other receivables, included in non-current assets

Our prepayment and other receivables included in non-current assets mainly include deposits placed with business partners in connection with our air ticketing business. Our prepayment and other receivables remained generally stable from 2015 to 2017. As of December 31, 2015, 2016 and 2017, our prepayment and other receivables classified as non-current assets was RMB48.1 million, RMB49.8 million, and RMB49.2 million, respectively.

Redeemable convertible preferred shares

As of December 31, 2016 and 2017, we had redeemable convertible preferred shares of RMB6,398.6 million and RMB6,347.6 million, respectively. For details, see Note 24 to the Accountants’ Report included in Appendix I to this [REDACTED].

Non-current portion of borrowings

The non-current portion of our borrowings was nil, nil and RMB172.3 million, respectively, as of December 31, 2015, 2016 and 2017. The amount of borrowings as of December 31, 2017 represents the outstanding amount of a secured loan we obtained from a PRC commercial bank in October 2017. See “— Liquidity and Capital Resources.”

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KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated. The table below contains financial ratios calculated using certain non-IFRS measures. See “—Non-IFRS Measures” for reconciliations of such non-IFRS measures to their most directly comparable financial measures calculated and presented in accordance with IFRS.

	For the Year Ended December 31,		
	2015	2016	2017
		(%)	
Revenue growth	N/A	114.8	14.2
Gross margin ⁽¹⁾	37.7	53.1	67.8
Adjusted EBITDA margin ⁽²⁾	(64.1)	(8.1)	6.7
Net margin ⁽³⁾	(93.9)	(98.0)	7.7
Adjusted net margin ⁽⁴⁾	(71.2)	(10.9)	7.6
Key financial ratios on adjusted revenue basis			
Adjusted revenue ⁽⁵⁾ growth	N/A	94.2	30.0
Gross margin on adjusted revenue basis ⁽⁶⁾	49.1	76.7	86.0
Adjusted EBITDA margin on adjusted revenue basis ⁽⁷⁾ ..	(83.7)	(11.7)	8.5
Adjusted net margin on adjusted revenue basis ⁽⁸⁾	(92.9)	(15.7)	9.7

Notes:

- (1) Gross margin equals gross profit divided by revenue for the same year, multiplied by 100%.
- (2) Adjusted EBITDA margin equals adjusted EBITDA divided by revenue for the same year, multiplied by 100%. For the reconciliation from adjusted EBITDA to operating profit/(loss), see “—Non-IFRS Measures.”
- (3) Net margin equals net profit divided by revenue for the same year, multiplied by 100%.
- (4) Adjusted net margin equals adjusted profit / (loss) for the year divided by revenue for the same year, multiplied by 100%. For the reconciliation from adjusted profit/(loss) to profit/(loss), see “—Non-IFRS Measures.”
- (5) Adjusted revenue equals (i) revenue, less (ii) the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation. For more information about the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation, see “— Description of Major Components of Our Results of Operations — Revenue.” For the reconciliation from adjusted revenue to revenue, see “—Non-IFRS Measures.”
- (6) Gross margin on adjusted revenue basis equals gross profit divided by adjusted revenue for the same year, multiplied by 100%.
- (7) Adjusted EBITDA margin on adjusted revenue basis equals adjusted EBITDA divided by adjusted revenue for the same year, multiplied by 100%. For the reconciliations from adjusted EBITDA to operating profit/(loss) and from adjusted revenue to revenue, see “—Non-IFRS Measures.”
- (8) Adjusted net margin on adjusted revenue basis equals adjusted net profit/(loss) divided by adjusted revenue for the same year, multiplied by 100%. For the reconciliation from adjusted profit/(loss) to profit/(loss), see “—Non-IFRS Measures.”

See “— Financial Information of Tongcheng Online Business — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015” and “— Financial Information of Tongcheng Online Business — Year Ended December 31, 2017 Compared to Year Ended December 31, 2016” for discussions of the factors affecting our results of operations during the respective periods.

LIQUIDITY AND CAPITAL RESOURCES

We fund our liquidity needs mainly from cash from business operations. Going forward, we believe that we will be able to meet our liquidity requirements by using a combination of cash from business operations and the net [REDACTED] received from the [REDACTED]. We currently do not have any plans for material additional external financing.

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We had cash and cash equivalents of RMB710.4 million, RMB339.3 million and RMB701.7 million as of December 31, 2015, 2016 and 2017, respectively. We generally deposit our excess cash in time deposits, which are bank deposits maturing within one year, as well as short-term investments, which are mostly wealth management products offered by commercial banks and other financial institutions in China with variable interest rates and terms generally not longer than one year. The primary objective of short-term investments is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation. Our investment decisions were made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to the market conditions, the anticipated investment conditions, the investment costs, the duration of the investment and expected benefit and potential loss of the investment.

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

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Net cash (outflow)/inflow from operating activities.....	(776,192)	(410,161)	719,894
Net cash inflow/(outflow) from investing activities.....	1,125,147	117,400	(541,955)
Net cash (outflow)/inflow from financing activities.....	(61,183)	(79,905)	185,875
Net increase/(decrease) in cash and cash equivalents.....	287,772	(372,666)	363,814
Effect of exchange rate changes on cash and cash equivalents	9,739	1,562	(1,365)
Cash and cash equivalents at the beginning of the year	412,892	710,403	339,299
Cash and cash equivalents at the end of the year.....	710,403	339,299	701,748

Net Cash (Outflow)/Inflow From Operating Activities

In 2017, net cash inflow from operating activities was RMB719.9 million, which was primarily attributable to the profit before income tax of RMB134.0 million, as adjusted by (i) depreciation of property, plant and equipment of RMB45.1 million, amortization of intangible assets of RMB39.1 million, share-based compensation of RMB56.8 million, and fair value change on redeemable convertible preferred shares measured at fair value through profit or loss of RMB97.6 million and (ii) changes in working capital, which primarily consisted of a decrease in trade receivables of RMB343.5 million, a decrease in prepayment and other receivables of RMB84.9 million, a decrease in accrued expenses and other current liabilities of RMB73.8 million, and an increase in trade payables of RMB199.6 million.

In 2016, net cash outflow from operating activities was RMB410.2 million, which was primarily attributable to loss before income tax of RMB2,159.6 million, as adjusted by (i) selling and marketing expenses of RMB1,044.9 million in the form of redeemable convertible preferred shares issued to a shareholder of the Company to compensate its promotion and marketing service rendered; (ii) charges for re-designation of ordinary shares to the preferred shares in connection with the eLong Cayman Privatization of RMB742.5 million; (iii) share-based compensation of RMB72.3 million; (iv) depreciation of property, plant and equipment of RMB52.8 million; (v) fair value change on redeemable convertible preferred shares measured at fair value through profit or loss of RMB36.8 million; and (vi) changes in working capital, which primarily consisted of an increase in trade payables of RMB263.1 million, an increase in trade receivables of RMB452.0 million, an increase in prepayment and other receivables of RMB35.2 million, and a decrease in accrued expenses and other current liabilities of RMB30.8 million.

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In 2015, net cash outflow from operating activities was RMB776.2 million, which was primarily attributable to loss before income tax of RMB957.8 million, as adjusted by (i) share-based compensation of RMB211.5 million; (ii) impairment of intangible assets of RMB40.4 million; (iii) gains on disposal in 2015 of our equity interest in Nanjing Xici, a then subsidiary of our Group, of RMB71.1 million; (iv) depreciation of property, plant and equipment of RMB52.1 million; and (v) changes in working capital, which primarily consisted of an increase in trade receivables of RMB122.7 million, an increase in trade payables of RMB88.6 million, an increase in prepayment and other receivables of RMB21.5 million and an increase in accrued expenses and other payables of RMB16.7 million.

Net Cash Inflow/(Outflow) From Investing Activities

In 2017, net cash outflow from investing activities was RMB542.0 million, which was primarily attributable to (i) purchases of property, plant, and equipment of RMB392.1 million, and (ii) payments for purchases of wealth management products of RMB1,673.4 million. The aforesaid cash outflow was partially offset by proceeds from maturity of such wealth management products of RMB1,520.4 million and proceeds from disposal of available-for-sale financial assets of RMB20.0 million.

In 2016, net cash inflow from investing activities was RMB117.4 million, which was primarily attributable to proceeds from maturity of wealth management products of RMB656.0 million, partially offset by (i) payments for purchases of wealth management products of RMB475.1 million; and (ii) purchases of property, plant and equipment of RMB56.5 million.

In 2015, net cash inflow from investing activities was RMB1,125.1 million, which was primarily attributable to (i) proceeds from maturity of wealth management products of RMB2,103.4 million; (ii) proceeds from disposal of a subsidiary of RMB64.3 million; and (iii) proceeds from disposal of investment in certain affiliated companies of RMB19.4 million. The aforesaid cash inflow was partially offset by (i) payments for purchases of wealth management products of RMB917.3 million, (ii) payments for investments in associates of RMB58.1 million, (iii) purchases of property, plant and equipment of RMB44.0 million; and (iv) increase in restricted cash of RMB22.5 million.

Net Cash (Outflow)/Inflow From Financing Activities

In 2017, net cash inflow from financing activities was RMB185.9 million, which was primarily attributable to proceeds from bank borrowings of RMB196.9 million, as adjusted by repayments of bank borrowings of RMB6.7 million and purchase of RMB4.4 million of vested equity awards granted pursuant to a share incentive plan of eLong Cayman from holders of such equity awards.

In 2016, net cash outflow from financing activities was RMB79.9 million, which was primarily attributable to repurchase of RMB81.6 million of vested equity awards granted pursuant to a share incentive plan of eLong Cayman from holders of such equity awards, as adjusted by exercise of stock options of RMB1.7 million.

In 2015, net cash outflow from financing activities was RMB61.2 million, which was primarily attributable to settlement of share-based awards of RMB86.6 million, as adjusted by exercise price of RMB25.4 million received for stock options exercise.

INDEBTEDNESS

As of April 30, 2018, being the latest practicable date for determining our indebtedness, our indebtedness included (i) total outstanding borrowings of RMB238.4 million, comprising secured bank borrowings of RMB188.2 million under the Loan Agreement (as defined below) which were secured by the properties as construction in progress with carrying amounts of RMB359.2 million included in our property, plant and equipment and unsecured amount due to a related party of RMB50.2 million; and (ii) cash deposit of RMB89.0 million placed with commercial banks in the PRC to secure the banking facilities offered to us in exchange for letter of guarantees issued by such commercial banks to our business partners.

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The following table sets forth details of our bank borrowings and amount due to a related party as of December 31, 2015, 2016 and 2017 and April 30, 2018 (being the latest practicable date for determining our indebtedness).

	As of December 31,			As of April 30 ⁽¹⁾ ,
	2015	2016	2017	2018
	<i>(RMB in thousands)</i>			
Bank borrowings	—	—	192,284	188,194
Amount due to a related party	—	—	—	50,190
Total	<u>—</u>	<u>—</u>	<u>192,284</u>	<u>238,384</u>

Note:

- (1) The financial information as of April 30, 2018 presented herein takes into account the financial position of Tongcheng Online Business of Tongcheng Network which merged into our Group in March 2018. For more information about the merger, see “— The Tongcheng-eLong Merger.” The relevant financial information as of April 30, 2018 is based on our unaudited management accounts that have not been reviewed, confirmed or audited by our auditors and may differ from the information to be disclosed in the audited or unaudited consolidated financial statements to be published by us.

The agreement between us and the lending bank (the “**Loan Agreement**”) with respect to the bank borrowings outstanding as of April 30, 2018 was entered into in October 2017. The Loan Agreement will expire on October 23, 2027. Under the Loan Agreement, the principal loan amount is RMB196.9 million with an annual floating interest rate of China Interbank Offered Rate (CHIBOR) multiplied by 110% per annum. The proceeds from the bank borrowings under the Loan Agreement were primarily used to finance our purchase of office premises. Our bank borrowings under the Loan Agreement are secured by properties as construction in progress with carrying amounts of RMB359.2 million.

Our Group’s amount due to a related party as of April 30, 2018 consisted of outstanding principal and interest under a one-year loan facility provided to Tongcheng Network by one of its related parties of up to RMB50 million with an interest rate of 4.35% per annum. The proceeds of such facility are intended to finance the operation needs of one of Tongcheng Network’s subsidiaries. We intend to repay such amount due to a related party before the Listing.

As of April 30, 2018, being the latest practicable date for determining our indebtedness, we had cash deposit of RMB89.0 million placed with commercial banks in the PRC to secure the banking facilities offered to us in exchange for letter of guarantees issued by such commercial banks to our business partners. For more information of such banking facilities, see “— Off-Balance Sheet Commitments and Arrangements — Banking Facilities.”

During the Track Record Period and up to the Latest Practicable Date, we did not have any material default on debt covenants of our indebtedness.

Except as disclosed above, as of April 30, 2018, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since April 30, 2018 and up to the Latest Practicable Date.

CONTINGENT LIABILITIES

As of December 31, 2015, 2016 and 2017, we did not have any significant contingent liabilities.

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CAPITAL EXPENDITURES

Our historical capital expenditures primarily included purchase of property and equipment. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from our operations as well as bank borrowings. The following table sets forth our capital expenditures for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Purchase of property and equipment.....	44,012	56,530	392,134
Purchase of intangible assets.....	5,000	—	—
Total capital expenditures	49,012	56,530	392,134

CONTRACTUAL OBLIGATIONS

Operating Lease Commitments

We lease certain of our offices under non-cancellable operating lease agreements, with lease terms ranging from one to five years. A majority of these lease agreements are renewable at the end of the lease at market rates. The following table sets forth the future aggregate minimum lease payments under such non-cancellable operating leases as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
No later than one year	19,800	19,278	15,131
Between one and two years.....	15,971	15,083	5,736
Between two and five years	20,146	10,771	7,027
Total.....	55,917	45,132	27,894

Purchase Commitments

Our purchase commitments mainly include the minimum payment that we are contractual obligated to pay for the prepurchase of room nights for which we take inventory risk pursuant to our agreements with accommodation suppliers. As of December 31, 2015, 2016 and 2017, we had purchase commitments of RMB15.7 million, RMB48.9 million and RMB54.4 million, respectively.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Banking Facilities

We provide to certain of our business partners security in the form of letters of guarantee from commercial banks to guarantee the performance of our contractual obligations. As of December 31, 2015, 2016 and 2017, we had banking facilities available in the form of letters of guarantee of RMB40.0 million, RMB63.2 million and RMB39.1 million, respectively, all of which had been utilized and provided to a business partner in connection with our air ticketing business as of the respective dates.

Other than as disclosed above, as of December 31, 2017, we had no off-balance sheet commitments or arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors consider that the related party transactions set out in Note 35 to the Accountants’ Report in Appendix I to this [REDACTED] were conducted in the ordinary course of business on an arm’s length basis and with

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reference to normal commercial terms of each party. Our Directors also believe that our related party transactions during the Track Record Period do not distort our track record results or make our historical results not reflective of our future performance.

We expect that certain of our related party transactions will continue after the [REDACTED]. See “Connected Transactions” for our connected transactions under Chapter 14A of the Listing Rules.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including foreign exchange risk, interest rate risk, credit risk, price risk and liquidity risk.

Market Risk

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our functional currency. We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures. We did not hedge against any fluctuation in foreign currency during the Track Record Period.

Our subsidiaries and Consolidated Affiliated Entities in the PRC operate mainly in the PRC with most of the transactions settled in RMB. We consider our business not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of our Group denominated in the currencies other than the respective functional currencies of our Group’s subsidiaries and Consolidated Affiliated Entities operating in the PRC.

Interest Rate Risk

We are subject to interest rate risk primarily arise from borrowings with floating rates, time deposits and cash and cash equivalents. Floating rate instruments expose us to cash flow interest rate risk, whereas fixed rate instruments expose us to fair value interest risk.

If the interest rate of borrowings with floating rate had been 10% higher/lower, the profit before income tax for the year ended December 31, 2017 would have been approximately RMB 264,000 lower/higher.

If the interest rate of time deposits had been 10% higher/lower, the profit before income tax for the year ended December 31, 2015 would have been approximately RMB28,000 higher/lower.

If the interest rate of short-term investments measured at fair value through profit or loss had been 10% higher/lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB3,437,000 higher/lower, RMB195,000 higher/lower and RMB745,000 higher/lower, respectively.

Credit Risk

We are exposed to credit risk in relation to our cash and bank deposits, trade and other receivables and short-term investments measured at fair value through profit or loss. The carrying amounts of each class of these financial assets represent our maximum exposure to credit risk in relation to financial assets.

To manage this risk arising from cash and bank deposits and wealth management products issued by commercial banks, we only transact with reputable commercial banks which are all high-credit-quality financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions.

As of December 31, 2015, 2016 and 2017, our trade receivables were mainly due from third-party customers including hotels and TSPs we cooperated with, and our other receivables, which mainly include deposits. We consider the probability of default upon initial recognition of our trade and other receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, we

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compare the risk of a default occurring on the trade and other receivables as of the reporting date with the risk of default as at the date of initial recognition. We consider available reasonable and supportive forwarding-looking information, including particularly the following factors:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors’ ability to meet their obligations;
- conditions that are expected to cause a significant change to the debtors’ ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors.

A default on our trade and other receivables occurs when the counterparty fails to make contractual payments within 180 days of when they fall due. We make periodic assessment on the credit risk of our trade and other receivables based on the history of cooperation with customers, settlement records and past experience. Our Directors believe that the credit risk inherent in the outstanding trade and other receivables due from the debtors is not material.

Price Risk

We are exposed to price risk in respect of the long-term investments and short-term investments measured at fair value through profit or loss held by us. We are not exposed to commodity price risk. We seek to diversify our portfolio to manage our price risk arising from the investments and have each investment managed by our senior management on a case-by-case basis. For details of a sensitivity analysis performed by our management, see Note 4.3 to the Accountants’ Report in Appendix I to this [REDACTED].

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the businesses we operate, we maintain flexibility in funding by maintaining adequate cash and cash equivalents. During the Track Record Period, we funded our cash requirements principally from cash from our business operations and bank borrowings.

For the analysis of our financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date, see Note 4.1 to the Accountants’ Report in Appendix I to this [REDACTED].

Our Directors have reviewed our profitability, working capital and capital expenditure requirements and determined that we have no significant liquidity risk.

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FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS

Basis of Presentation

The historical financial information contained and discussed in this subsection “— Financial Information of Tongcheng Online Business” presents the combined financial statements of Tongcheng Online Business.

Prior to March 2017, the principal businesses of Tongcheng Network and its subsidiaries (the “**Old Tongcheng Network**”) primarily consisted of two business units: (i) online business unit which comprised transportation ticketing, accommodation reservation, and certain other travel-related online products and services offered through its online platforms (“**Tongcheng Online Business**”); and (ii) offline business unit which mainly comprised sales of travel packages and attraction tickets and provision of financial services (“**Tongcheng Offline Business**”). In March 2017, Tongcheng Network and Tongcheng Holdings entered into a spin-off agreement (the “**Spin-off Agreement**”), pursuant to which the Tongcheng Offline Business was spun off from the Old Tongcheng Network (the “**Tongcheng Spin-off**”). The Tongcheng Spin-off was substantially completed in 2017.

Following the Tongcheng Spin-off, on December 28, 2017, the shareholders of Tongcheng Network entered into a restructuring agreement with the shareholders of our Company, and Image Frame, whereby our Company acquired Tongcheng Online Business and agreed to issue to the shareholders of Tongcheng Network certain number of ordinary shares of our Company in return for the signing of a series of contractual agreements with Longyue Tiancheng WFOE and issue to Image Frame a certain number of ordinary shares of our Company for a total cash consideration of US\$30,032,589 (collectively, the “**Acquisition Share Issuance**”). The Acquisition Share Issuance was completed on March 9, 2018.

In connection with the Acquisition Share Issuance, carve-out financial statements of Tongcheng Online Business (the “**Carve-out Financial Statements**”) have been derived from the historical accounting records of the Old Tongcheng Network, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board (“**IASB**”). The Carve-out Financial Statements were purported to reflect the historical results of operations and the historical assets and liabilities of Tongcheng Online Business that was the subject of the Acquisition Share Issuance. As Tongcheng Online Business was not conducted by a separate group of legal entities within the Old Tongcheng Network, for the purpose of preparing the Carve-out Financial Statements, certain account balances of the financial statements of the Old Tongcheng Network were allocated between Tongcheng Network and Tongcheng Holdings, and these allocations were made either on specifically identifiable basis or using the ratio of GMV, headcount, other reasonable methods.

The Directors of our Company consider that it is appropriate to present the Historical Financial Information on a carve-out basis in view of the following factors: (i) the scope of Tongcheng Online Business is clearly defined in the Spin-off Agreement and can be clearly delineated from the Tongcheng Offline Business; (ii) Tongcheng Online Business and Tongcheng Offline Business of the Old Tongcheng Network were developed and operated separately under different management, sales and business strategies, although there were certain extent of sharing of common resources of the Old Tongcheng Network among the two businesses; (iii) majority of the revenue generated and expenses incurred by Tongcheng Online Business and its assets and liabilities were recorded in the specific departmental codes within the Old Tongcheng Network’s accounting records or the accounting records of the legal entities which operate Tongcheng Online Business. The Directors further believe that the allocation bases underlying the preparation of the Carve-out Financial Statements are reasonable reflections of the financial performance and financial position of Tongcheng Online Business according to its utilization of the resources of the Old Tongcheng Network.

For more information, see Notes 1 and 2 to the Accountants’ Report contained in Appendix II to this [REDACTED].

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Summary Combined Statements of Comprehensive (Loss)/Income of Tongcheng Online Business

	For the Year Ended December 31,		
	2015	2016	2017
	RMB	RMB	RMB
	(in thousands)		
Revenue	580,523	1,434,957	2,707,499
Cost of revenue	(228,465)	(530,211)	(858,806)
Gross profit	352,058	904,746	1,848,693
Service development expenses.....	(164,277)	(371,720)	(514,800)
Selling and marketing expenses.....	(580,764)	(515,174)	(670,732)
Administrative expenses.....	(56,830)	(91,119)	(132,772)
Other income	3,574	2,097	7,583
Other gains/(losses), net	516	(1,864)	31,545
Operating (loss)/profit	(445,723)	(73,034)	569,517
Finance income	2,177	2,732	2,955
(Loss)/profit before income tax	(443,546)	(70,302)	572,472
Income tax credit/(expense)	108,437	(20,796)	(81,134)
(Loss)/profit for the year	(335,109)	(91,098)	491,338

Description of Major Components of the Results of Operations of Tongcheng Online Business

Revenue

During the Track Record Period, the revenue of Tongcheng Online Business was generated primarily from the transportation ticketing business and, to a lesser extent, accommodation reservation business. Transportation ticketing revenue of Tongcheng Online Business also included revenue generated from ancillary value-added travel products and services provided in conjunction with the transportation tickets.

The following table sets forth a breakdown of the revenue of Tongcheng Online Business in absolute amount and as a percentage of its total revenue for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Transportation ticketing services..	509,819	87.8	1,348,374	94.0	2,468,398	91.2
Accommodation reservation services	70,243	12.1	82,398	5.7	101,379	3.7
Others	461	0.1	4,185	0.3	137,722	5.1
Total revenue	580,523	100.0	1,434,957	100.0	2,707,499	100.0

Transportation ticketing services. Transportation ticketing represents the largest component of the revenue of Tongcheng Online Business. During the Track Record Period, Tongcheng Online Business generated transportation ticketing revenue primarily by (i) charging commissions from transportation ticket suppliers and suppliers of travel insurance; and (ii) charging users service fees for certain ancillary value-added travel products and services (such as VIP lounge services).

Accommodation reservation services. Tongcheng Online Business generates accommodation reservation revenue primarily from commissions received from accommodation suppliers. Tongcheng Online Business primarily acts as an agent and receives commissions from accommodation suppliers for facilitating sale of room nights to users through its online platforms.

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Others. Other revenue of Tongcheng Online Business primarily consist of (i) fees collected from Tongcheng Holdings for selling its travel products and services through Tongcheng Online Business’ online platforms; (ii) revenues generated from ancillary value-added user services, such as online e-commerce marketplace and sales of premium membership; and (iii) travel-related advertising services. Tongcheng Online Business began to collect fees from Tongcheng Holdings for providing online sales channel following the Tongcheng Spin-off which was substantially completed in 2017. See “—Financial Information of Tongcheng Online Business — Basis of Presentation” for more information about the Tongcheng Spin-off.

Cost of Revenue

The cost of revenue of Tongcheng Online Business consists primarily of (i) order processing costs, which mainly include the fees paid to third-party payment channels for processing user payments; (ii) employee benefit expenses, which represent the wages, salaries and other benefits paid to user services and TSP services employees associated with Tongcheng Online Business; (iii) procurement costs, which represents the costs for sourcing ancillary value-added travel products and services from service providers; (iv) depreciation and amortization expenses; (v) bandwidth and server fees; and (vi) others, which mainly include user fulfilment fees, namely compensation paid to users due to user complaints, and rental and utility fees.

The following table sets forth a breakdown of the cost of revenue of Tongcheng Online Business in absolute amount and as a percentage of its total cost of revenue for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
<i>(in thousands, except percentages)</i>						
Order processing costs	132,792	58.1	343,820	64.8	550,192	64.1
Employee benefit expenses .	30,761	13.5	85,427	16.1	125,326	14.6
Procurement costs	13,172	5.8	16,181	3.1	48,911	5.7
Depreciation and amortization expenses	20,848	9.1	35,524	6.7	42,032	4.9
Bandwidth and server fees ...	4,713	2.1	10,039	1.9	34,497	4.0
Others	26,179	11.4	39,220	7.4	57,848	6.7
Total.....	228,465	100.0	530,211	100.0	858,806	100.0

Gross Profit

As a result of the foregoing, the gross profit of Tongcheng Online Business was RMB352.1 million, RMB904.7 million and RMB1,848.7 million, respectively, and its gross margin (expressed as gross profit as a percentage of the revenue) was 60.6%, 63.1%, and 68.3%, respectively, in 2015, 2016 and 2017.

Operating Expenses

The operating expenses of Tongcheng Online Business consist primarily of service development expenses, selling and marketing expenses, administrative expenses, other income, and other gains/(losses), net.

Service Development Expenses

The service development expenses of Tongcheng Online Business represent the expenses incurred to develop and diversify the travel products and services that Tongcheng Online Business sources from its TSPs as well as the expenses in relation to the research and development of the TSP support systems and online platforms of Tongcheng Online Business. The service development expenses of Tongcheng Online Business consist primarily of (i) employee benefit expenses, which primarily include the wages, salaries and other benefits paid to IT, product development and product

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procurement employees associated with Tongcheng Online Business; (ii) rental and utility fees; and (iii) others, which primarily include (a) depreciation and amortization expenses; (b) travel expenses, and (c) telephone and communication expenses.

The following table sets forth a breakdown of the service development expense of Tongcheng Online Business in absolute amount and as a percentage of its total service development expenses for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Employee benefit expenses .	137,420	83.7	335,814	90.3	463,754	90.1
Rental and utility fees.....	6,787	4.1	7,328	2.0	21,761	4.2
Others.....	20,070	12.2	28,578	7.7	29,285	5.7
Total.....	164,277	100.0	371,720	100.0	514,800	100.0

Selling and Marketing Expenses

The selling and marketing expenses of Tongcheng Online Business consist primarily of (i) advertising and promotion expenses, which primarily include advertising fees paid to online and offline advertising channels, including traditional media, web portals, mobile apps and search engines; (ii) depreciation and amortization expenses; (iii) employee benefit expenses, which primarily include wages, salaries and benefits paid to sales and marketing employees associated with Tongcheng Online Business; and (iv) others, which mainly include rental and utility fees and travel expenses.

The following table sets forth a breakdown of the selling and marketing expenses of Tongcheng Online Business in absolute amount and as a percentage of its selling and marketing expenses for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Advertising and promotion expenses.....	476,737	82.1	320,044	62.1	425,074	63.4
Depreciation and amortization expenses	75,546	13.0	151,442	29.4	151,550	22.6
Employee benefit expenses ..	27,065	4.7	41,653	8.1	86,835	12.9
Others	1,416	0.2	2,035	0.4	7,273	1.1
Total.....	580,764	100.0	515,174	100.0	670,732	100.0

Administrative Expenses

The administrative expenses of Tongcheng Online Business consist primarily of (i) employee benefit expenses, which primarily includes wages, salaries and benefits paid to administrative employees, including finance, legal, human resources, auditing and executive employees, associated with Tongcheng Online Business; (ii) service fees, which primarily include consulting fee and other professional service fees; (iii) depreciation and amortization expenses; (iv) rental and utility fees; and (vi) others, which primarily include telephone and communication expenses.

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The following table sets forth a breakdown of the administrative expenses of Tongcheng Online Business in absolute amount and as a percentage of its administrative expenses for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except percentages)</i>					
Employee benefit expenses ..	34,986	61.6	65,285	71.6	91,823	69.2
Service fees	13,157	23.2	12,137	13.3	21,351	16.1
Depreciation and amortization expenses	5,050	8.9	7,141	7.8	7,766	5.8
Rental and utility fees	1,120	2.0	1,837	2.0	4,580	3.4
Others	2,517	4.3	4,719	5.3	7,252	5.5
Total	56,830	100.0	91,119	100.0	132,772	100.0

Other Income

Other income of Tongcheng Online Business mainly consists of discretionary incentives and grants from local governments. Tongcheng Online Business received government grants of RMB3.6 million, RMB2.1 million and RMB7.6 million, respectively, in 2015, 2016 and 2017.

Other Gains/(losses), Net

Other gains/(losses), net of Tongcheng Online Business consist primarily of (i) fair value gains from wealth management products, which are classified as short-term investments measured at fair value through profit or loss; (ii) impairment provision for receivables; (iii) net gains/(losses) on disposal of assets; and (iv) net foreign exchange (loss)/gain due to exchange rate fluctuations.

Finance Income

Finance income of Tongcheng Online Business consists primarily of interest income from bank deposits.

Non-IFRS Measures

To supplement the combined financial statements of Tongcheng Online Business which are presented in accordance with IFRS, we use adjusted EBITDA, a non-IFRS measure, as an additional financial metric. Adjusted EBITDA is not required by or presented in accordance with IFRS.

We believe that non-IFRS measure facilitates comparisons of the operating performance of Tongcheng Online Business by eliminating potential impacts of items that our management do not consider indicative of the operating performance of Tongcheng Online Business. We believe that such non-IFRS measure presents useful information in understanding and evaluating the results of operations of Tongcheng Online Business in the same manner as they help our management. However, the presentation of such non-IFRS measure may not be comparable to similarly titled measures presented by other companies. The use of the non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the results of operations or financial condition of Tongcheng Online Business as reported under IFRS.

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The following table reconciles adjusted EBITDA to operating (loss)/profit for the year, the most directly comparable financial measure calculated and presented in accordance with IFRS, of Tongcheng Online Business for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Operating (loss) / profit	(445,723)	(73,034)	569,517
Add:			
Amortization of intangible assets	78,581	153,085	153,542
Amortization of land use rights	—	79	329
Depreciation of property, plant and equipment	26,383	51,888	59,019
Adjusted EBITDA	<u>(340,759)</u>	<u>132,018</u>	<u>782,407</u>

Period-to-Period Comparison of Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

The revenue of Tongcheng Online Business increased by 88.7% from RMB1,435.0 million in 2016 to RMB2,707.5 million in 2017, driven by increases in all of its sources of revenue, including transportation ticketing, accommodation reservation, and others.

- *Transportation ticketing services.* The revenue of Tongcheng Online Business from transportation ticketing increased by 83.1% from RMB1,348.4 million in 2016 to RMB2,468.4 million in 2017, driven by increases in revenue from both air ticketing and other transportation ticketing. The increase in air ticketing revenue was primarily due to an increase in flight segments sold, which, in turn, was primarily driven by sales efforts through its Tencent-based platforms and to a lesser extent, increased revenue per air segment (including revenue generated from both commissions on flight segments sold and sale of ancillary value-added products and services). The increase in other transportation ticketing revenue was primarily due to increased revenue generated from train tickets and related ancillary travel products and services, which was mainly driven by increased sales of train tickets.
- *Accommodation reservation services.* The revenue of Tongcheng Online Business from accommodation reservation increased by 23.0% from RMB82.4 million in 2016 to RMB101.4 million in 2017, primarily due to increased room nights sold, which was driven by its enhanced efforts in expanding accommodation choices available.
- *Others.* Other revenue of Tongcheng Online Business increased significantly from RMB4.2 million in 2016 to RMB137.7 million in 2017, primarily because (i) advertising business of Tongcheng Online Business expanded in 2017; and (ii) following the Tongcheng Spin-off which was substantially completed in 2017, Tongcheng Online Business began to collect fees from Tongcheng Holdings for the sale of Tongcheng Holdings’ travel and travel related products and services.

Cost of revenue

The cost of revenue of Tongcheng Online Business increased by 62.0% from RMB530.2 million in 2016 to RMB858.8 million in 2017, primarily due to increases in order processing costs, procurement costs, employee benefit expenses, and bandwidth and server fees. Order processing costs increased by 60.0% in 2016 from RMB343.8 million to RMB550.2 million in 2017, which was largely driven by increased transaction volume during the period. Employee benefit expenses increased by 46.7% from RMB85.4 million in 2016 to RMB125.3 million in 2017, which was primarily driven by

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an increase in the number of user service employees associated with Tongcheng Online Business which, in turn, was driven by its business growth during the same period. Procurement costs increased by 202.3% from RMB16.2 million in 2016 to RMB48.9 million in 2017, primarily due to the increased sales of ancillary value-added travel products and services. From 2016 to 2017, depreciation and amortization expenses increased by 18.3% from RMB35.5 million in 2016 to RMB42.0 million in 2017, and bandwidth and server fees increased by 243.6% from RMB10.0 million in 2016 to RMB34.5 million in 2017, both of which were largely attributable to the increased number of servers and other IT equipment which, in turn, was driven by growth in Tongcheng Online Business during the same period.

Gross profit

As a result of the foregoing, from 2016 to 2017, the gross profit of Tongcheng Online Business increased by 104.3% from RMB904.7 million to RMB1,848.7 million and its gross margin increased from 63.1% to 68.3%.

Service development expenses

The service development expenses of Tongcheng Online Business increased by 38.5% from RMB371.7 million in 2016 to RMB514.8 million in 2017. This increase was primarily due to (i) a 38.1% increase in employee benefit expenses from RMB335.8 million in 2016 to RMB463.8 million in 2017, driven by an increase in the number of IT, product development and product procurement employees associated with Tongcheng Online Business as such business continued to grow; and (ii) a significant increase in rental and utility fee, from RMB7.3 million in 2016 to RMB21.8 million in 2017 due to increased rentals associated with relocation of the office premise associated with Tongcheng Online Business.

Selling and marketing expenses

The selling and marketing expenses of Tongcheng Online Business increased by 30.2% from RMB515.2 million in 2016 to RMB670.7 million in 2017, which was primarily due to (i) a 32.8% increase in advertising and promotion expenses from RMB320.0 million in 2016 to RMB425.1 million in 2017, primarily due to an increase in advertising spending on search engines and mobile channels; and (ii) a 108.5% increase in employee benefit expenses from RMB41.7 million in 2016 to RMB86.8 million in 2017, primarily due to an increase in the number of sales and marketing employees associated with Tongcheng Online Business as such business continued to grow.

Administrative expenses

The administrative expenses of Tongcheng Online Business increased by 45.7% from RMB91.1 million in 2016 to RMB132.8 million in 2017. This increase was primarily due to (i) a 40.6% increase in employee benefit expenses from RMB 65.3 million in 2016 to RMB91.8 million in 2017, mainly due to increased number of administrative employees associated with Tongcheng Online Business as such business continued to grow; and (ii) a 75.9% increase in service fees from RMB12.1 million in 2016 to RMB21.4 million in 2017, driven by increases in consulting service, which was mainly associated with the Tongcheng Spin-off which was substantially completed in 2017 and the Tongcheng-eLong Merger.

Other income

In 2016 and 2017, other income of Tongcheng Online Business, which consisted mainly of discretionary government grants, was RMB2.1 million and RMB7.6 million, respectively.

Other gains/(losses), net

Tongcheng Online Business recorded other gains, net, of RMB31.5 million in 2017 as it recorded fair value gains of RMB42.7 million through redemption of wealth management products, while it recorded other losses, net, of RMB1.9 million in 2016, which was mainly due to exchange loss resulting from unfavorable movement in exchange rate of U.S. dollars against RMB and net losses on disposal of assets.

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Operating profit/(loss)

As a result of the foregoing, Tongcheng Online Business recorded operating loss of RMB73.0 million in 2016 and operating profit of RMB569.5 million in 2017.

Finance income

The finance income of Tongcheng Online Business increased by 8.2% from RMB2.7 million in 2016 to RMB3.0 million in 2017, which was primarily due to an increase in interest income from bank deposits which in turn was attributable to an increase in the amount of bank deposits associated with Tongcheng Online Business.

(Loss)/profit before income tax

As a result of the foregoing, Tongcheng Online Business recorded a profit before income tax of RMB572.5 million in 2017, compared with a loss before income tax of RMB70.3 million in 2016.

Income tax expense

The income tax expense of Tongcheng Online Business increased by 290.1% from RMB20.8 million in 2016 to RMB81.1 million in 2017, which was primarily due to the profit gained in 2017.

(Loss)/profit for the year

As a result of the foregoing, Tongcheng Online Business recorded profit for the year of RMB491.3 million in 2017, compared with a loss for the year of RMB91.1 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenue

The revenue of Tongcheng Online Business increased by 147.2% from RMB580.5 million in 2015 to RMB1,435.0 million in 2016, driven by increases in all of its sources of revenue, including transportation ticketing, accommodation reservation, and others.

- *Transportation ticketing services.* Revenue of Tongcheng Online Business from transportation ticketing increased by 164.5% from RMB509.8 million in 2015 to RMB1,348.4 million in 2016, driven by increases in revenue from both air ticketing and other transportation ticketing. Increase in air ticketing revenue was primarily due to the increased flight segments sold, which was, in turn, driven by the sales efforts through the Tencent-based platforms, partially offset by a slight decline in the revenue per air segment (including revenue from both commissions on flight segments sold, and sale of ancillary travel products and services provided in conjunction with air tickets) which was mainly due to enhanced promotional efforts to increase market share. The increase in other transportation ticketing revenue was primarily due to increased revenue generated from train tickets and related ancillary travel products and services, which was mainly driven by increased sales of train tickets.
- *Accommodation reservation services.* Revenue from accommodation reservation increased by 17.3% from RMB70.2 million in 2015 to RMB82.4 million in 2016, primarily due to increased room nights sold, driven by enhanced efforts in expanding accommodation choices available on its online platforms.
- *Others.* Other revenue increased significantly from RMB0.5 million in 2015 to RMB4.2 million in 2016, primarily because value-added user services, such as online e-commerce marketplace, were introduced in 2016 and Tongcheng Online Business began to generate revenue from such services in the same year.

Cost of revenue

Cost of revenue increased by 132.1% from RMB228.5 million in 2015 to RMB530.2 million in 2016. This increase was primarily due to increased order processing costs, employee benefit expenses,

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user fulfilment fees (which represents compensation paid to users due to user complaints), depreciation and amortization expenses, bandwidth and server fees, and procurement costs. Order processing costs increased by 158.9% from RMB132.8 million in 2015 to RMB343.8 million in 2016, primarily due to increased transaction volume of Tongcheng Online Business during the same period. Employee benefit expenses increased by 177.7% from RMB30.8 million in 2015 to RMB85.4 million in 2016, as the number of employees associated with Tongcheng Online Business increased, which was generally in line with its growth during the same period. From 2015 to 2016, depreciation and amortization expenses increased by 70.4% from RMB20.8 million to RMB35.5 million, and bandwidth and server fees increased by 113.0%, from RMB4.7 million to RMB10.0 million, both of which were driven largely by growth in Tongcheng Online Business during the same period. Procurement costs increased by 22.8% from RMB13.2 million in 2015 to RMB16.2 million in 2016, which was primarily due to increased sales in ancillary value-added travel products and services.

Gross profit

As a result of the foregoing, the gross profit of Tongcheng Online Business increased by 157.0% from RMB352.1 million in 2015 to RMB904.7 million in 2016. Tongcheng Online Business' gross margin increased from 60.6% in 2015 to 63.1% in 2016.

Service development expenses

The service development expenses of Tongcheng Online Business increased by 126.3% from RMB164.3 million in 2015 to RMB371.7 million in 2016. This increase was primarily due to a 144.4% increase in employee benefit expenses from RMB137.4 million in 2015 to RMB335.8 million in 2016, which was mainly due to an increase in the number of IT, product development and product procurement employees associated with Tongcheng Online Business as it increased its technical and product development spending along with its business growth.

Selling and marketing expenses

The selling and marketing expenses of Tongcheng Online Business decreased by 11.3% from RMB580.8 million in 2015 to RMB515.2 million in 2016. This decrease was primarily due to a 32.9% decrease in advertising and promotion expenses from RMB476.7 million in 2015 to RMB320.0 million in 2016, primarily due to a decline in promotional and marketing spending in light of the reduced price competition among Chinese OTAs from 2015 to 2016. The decrease in selling and marketing expenses was partially offset by a 53.9% increase in employee benefit expenses from RMB27.1 million to RMB41.7 million, which was primarily due to an increase in the number of sales and marketing employees associated with Tongcheng Online Business as such business grew during the same period.

Administrative expenses

The administrative expenses of Tongcheng Online Business increased by 60.3% from RMB56.8 million in 2015 to RMB91.1 million in 2016. This increase was primarily due to a 86.6% increase in employee benefit expenses from RMB35.0 million in 2015 to RMB65.3 million in 2016 as a result of an increase in the number of the administrative employees associated with Tongcheng Online Business as such business grew during the same period.

Other income

Tongcheng Online Business had total other incomes, which consisted solely of government grants, of RMB3.6 million and RMB2.1 million, respectively, in 2015 and 2016.

Other gains/(losses), net

Tongcheng Online Business recorded other losses, net, of RMB1.9 million in 2016 as opposed to other gains, net, of RMB0.5 million in 2015, which was mainly because Tongcheng Online Business recorded a net exchange loss of RMB0.7 million in 2016 which was mainly due to exchange loss resulting from unfavorable movement in exchange rate of U.S. dollars against RMB and net losses on disposal of assets.

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Operating (loss)/profit

As a result of the foregoing, Tongcheng Online Business recorded operating losses of RMB445.7 and RMB73.0 million in 2015 and 2016, respectively.

Finance income

The finance income of Tongcheng Online Business increased by 25.5% from RMB2.2 million in 2015 to RMB2.7 million in 2016, which was generally in line with changes in the amount of bank deposits associated with Tongcheng Online Business from 2015 to 2016.

(Loss)/profit before income tax

As a result of the foregoing, Tongcheng Online Business recorded losses before income tax of RMB443.5 million and RMB70.3 million in 2015 and 2016, respectively.

Income tax expense

Tongcheng Online Business had an income tax expense of RMB20.8 million in 2016, compared with an income tax credit of RMB108.4 million in 2015. This was primarily due to a decrease of net loss and an increase in expenses not deductible for taxation purpose in 2016.

(Loss)/profit for the year

As a result of the foregoing, Tongcheng Online Business recorded loss for the year of RMB335.1 million and RMB91.1 million, respectively, in 2015 and 2016.

Discussion of Certain Key Balance Sheet Items of Tongcheng Online Business

The table below sets forth selected information from the combined statements of financial position of Tongcheng Online Business, which have been extracted from the audited combined financial statements of Tongcheng Online Business included in Appendix II to this [REDACTED], as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Total current assets	674,297	2,466,635	2,106,004
Total non-current assets	964,313	873,375	719,318
Total assets	1,638,610	3,340,010	2,825,322
Total current liabilities.....	372,715	1,221,125	1,380,355
Total non-current liabilities	—	—	—
Total liabilities.....	372,715	1,221,125	1,380,355
Total assets less current liabilities	1,265,895	2,118,885	1,444,967
Equity	1,265,895	2,118,885	1,444,967
Total equity and liabilities	1,638,610	3,340,010	2,825,322

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Current Assets and Liabilities

The following table sets forth the current assets and current liabilities of Tongcheng Online Business as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Current assets			
Trade receivables	129,760	418,257	227,041
Prepayment and other receivables	295,628	1,058,644	388,031
Short-term investments measured at fair value through profit or loss	—	35,000	204,650
Restricted cash.....	5,740	7,394	18,076
Cash and cash equivalents.....	243,169	947,340	1,268,206
Total current assets	674,297	2,466,635	2,106,004
Current liabilities			
Trade payables	94,866	323,486	489,562
Other payables and accruals	272,807	887,797	851,212
Contract liabilities	5,036	5,697	37,217
Current income taxes liabilities.....	6	4,145	2,364
Total current liabilities.....	372,715	1,221,125	1,380,355
Net current assets.....	301,582	1,245,510	725,649

The net current assets of Tongcheng Online Business decreased by 41.7% from RMB1,245.5 million as of December 31, 2016 to RMB725.6 million as of December 31, 2017. This was primarily driven by (i) a 63.3% decrease in prepayment and other receivables from RMB1,058.6 million as of December 31, 2016 to RMB388.0 million as of December 31, 2017; (ii) a 45.7% decrease in trade receivables from RMB418.3 million as of December 31, 2016 to RMB227.0 million as of December 31, 2017; and (iii) a 51.3% increase in trade payables from RMB323.5 million as of December 31, 2016 to RMB489.6 million as of December 31, 2017; partially offset by (i) a 33.9% increase in cash and cash equivalents from RMB947.3 million as of December 31, 2016 to RMB1,268.2 million as of December 31, 2017; and (ii) a 484.7% increase in short-term investments measured at fair value through profit or loss from RMB35.0 million as of December 31, 2016 to RMB204.7 million as of December 31, 2017.

The net current assets increased by 313.0% from RMB301.6 million as of December 31, 2015 to RMB1,245.5 million as of December 31, 2016. This was primarily driven by (i) a 258.1% increase in prepayment and other receivables from RMB295.6 million as of December 31, 2015 to RMB1,058.6 million as of December 31, 2016; (ii) a 289.6% increase in cash and cash equivalents from RMB243.2 million as of December 31, 2015 to RMB947.3 million as of December 31, 2016; and (iii) a 222.3% increase in trade receivables from RMB129.8 million as of December 31, 2015 to RMB418.3 million as of December 31, 2016, partially offset by (i) a 225.4% increase in other payables and accruals from RMB272.8 million as of December 31, 2015 to RMB887.8 million as of December 31, 2016; and (ii) a 241.0% increase in trade payables from RMB94.9 million as of December 31, 2015 to RMB323.5 million as of December 31, 2016.

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Trade receivables

The trade receivables of Tongcheng Online Business consist of amounts due from third parties and related parties. Trade receivables from third parties consist primarily of commissions due from TSPs, while trade receivables due from related parties mainly include amounts due from (i) Tongcheng Holdings and its affiliates (or, prior to the Tongcheng Spin-off, the entities and business units operating Tongcheng Offline Business); and (ii) Ctrip and its affiliates.

The following table sets forth a breakdown of Tongcheng Online Business’ trade receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Trade receivables from third parties	100,153	267,824	165,551
Trade receivables from related parties	30,044	151,275	63,636
	130,197	419,099	229,187
Less: allowance for impairment of trade receivables	(437)	(842)	(2,146)
Trade receivables, net	129,760	418,257	227,041

Trade receivables of Tongcheng Online Business decreased by 45.7% from RMB418.3 million as of December 31, 2016 to RMB227.0 million as of December 31, 2017, primarily due to (i) a decrease in trade receivables due from third parties, which was due to faster collection of accounts receivable due from TSPs as a result of the streamlined account receivable collection process with TSPs and reduced transactions with TSPs that had delayed in payment; and (ii) a decrease in trade receivables due from related parties, mainly due to accelerated settlement of amounts due from Tongcheng Holdings following the Tongcheng Spin-off.

Trade receivables of Tongcheng Online Business increased significantly by 222.3% from RMB129.8 million as of December 31, 2015 to RMB418.3 million as of December 31, 2016, primarily due to (i) an increase in the trade receivables due from insurance companies (as travel insurance suppliers) which, in turn, was mainly because sales of travel insurance products increased and certain insurance companies had delayed in payment; and (ii) an increase in trade receivables from related parties, which was generally in line with the growth in Tongcheng Online Business during the same period.

The following table sets forth an aging analysis of the trade receivables of Tongcheng Online Business, based on the invoice date, as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Up to six months	129,749	394,629	227,041
Over six months.....	448	24,470	2,146
Trade receivables, gross	130,197	419,099	229,187
Less: Impairment of trade receivables	(437)	(842)	(2,146)
Trade receivables, net	129,760	418,257	227,041

As of April 30, 2018, RMB225.3 million, or 99.3% of the trade receivables of Tongcheng Online Business as of December 31, 2017 were subsequently settled.

Prepayment and other receivables included in current assets

The prepayment and other receivables included in current assets of Tongcheng Online Business consist primarily of (i) deposits and guarantee; (ii) amounts due from related parties; (iii) advances

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to suppliers and related parties; and (iv) others, which mainly include VAT recoverable. As of December 31, 2015, 2016 and 2017, the prepayment and other receivables included in current assets of Tongcheng Online Business included in current assets were RMB295.6 million, RMB1,058.6 million, and RMB388.0 million, respectively.

The following table sets forth a breakdown of the prepayment and other receivables included in current assets of Tongcheng Online Business as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Deposits and guarantee.....	56,448	107,068	133,672
Amounts due from related parties	78,578	785,676	100,900
Advances to suppliers and related parties	42,730	82,899	83,596
Others ⁽¹⁾	117,872	83,001	69,863
Total	295,628	1,058,644	388,031

Note:

(1) Mainly include VAT recoverable.

The prepayment and other receivables included in current assets of Tongcheng Online Business decreased by 63.3% from RMB1,058.6 million as of December 31, 2016 to RMB388.0 million as of December 31, 2017, mainly driven by a decrease in amounts due from related parties, which, in turn, was associated with the settlement of the indebtedness of Tongcheng Offline Business due to Tongcheng Online Business following the Tongcheng Spin-off which was substantially completed in 2017. This decrease was partially offset by an increase in deposits and guarantee, which was due to increased deposits placed with the air ticketing business partners, which was generally in line with the increase in such business during the same period.

The prepayment and other receivables included in current assets of Tongcheng Online Business increased by 258.1% from RMB295.6 million as of December 31, 2015 to RMB1,058.6 million as of December 31, 2016. This increase was mainly driven by (i) an increase in amounts due from related parties, which is attributable to funding from Tongcheng Online Business to Tongcheng Offline Business to finance its short-term operational needs; and (ii) an increase in deposits and guarantee due to increased deposits placed with air ticketing business partners, which was generally in line with the increase in the air ticketing business during the same period.

Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss of Tongcheng Online Business represent the wealth management products issued by commercial banks with variable interest rates which generally range from 2.59% to 4.95%. As of December 31, 2015, 2016 and 2017, the amount of short-term investments measured at fair value through profit or loss of Tongcheng Online Business was nil, RMB35.0 million, and RMB204.7 million, respectively. The significant increase in the amount of short-term investments measured at fair value through profit or loss from 2016 to 2017 was primarily due to increased investment in short-term wealth management products.

Restricted cash

Restricted cash of Tongcheng Online Business mainly represents deposits with commercial banks in return for guarantee provided by these commercial banks to a business partner (in connection with the air ticketing business) to guarantee performance of contractual obligations. These deposits are subject to bank restrictions and are therefore not available for general use by Tongcheng Online Business. Restricted cash increased by 28.8% from RMB5.7 million as of December 31, 2015 to

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RMB7.4 million as of December 31, 2016 and increased further by 144.5% to RMB18.1 million as of December 31, 2017 which was mainly due to increased deposits with commercial banks as the air ticketing business continued to grow during such period.

Trade payables

Trade payables of Tongcheng Online Business consist primarily of obligations to pay for services that are acquired from suppliers in the ordinary course of business. The following table sets forth trade payables of Tongcheng Online Business as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Amounts due to related parties	41,067	129,075	73,575
Payables due to third parties	53,799	194,411	415,987
	<u>94,866</u>	<u>323,486</u>	<u>489,562</u>

The trade payables of Tongcheng Online Business increased by 51.3% from RMB323.5 million as of December 31, 2016 to RMB489.6 million as of December 31, 2017, primarily driven by an increase by 114.0% from RMB194.4 million to RMB416.0 million in payables due to third parties, primarily due to increased volume of transactions completed on the online platforms of Tongcheng Online Business and more favorable settlement terms provided by some suppliers in 2017, which was partially offset by a 43.0% decrease from RMB129.1 million to RMB73.6 million in amounts due to related parties associated with the settlement of trade payables due to a related party of Tongcheng Online Business.

The trade payables of Tongcheng Online Business increased by 241.0% from RMB94.9 million as of December 31, 2015 to RMB323.5 million as of December 31, 2016, primarily driven by (i) an increase by 261.4% from RMB53.8 million to RMB194.4 million in payable due to third parties, primarily due to increased volume of transactions completed on the online platforms of Tongcheng Online Business and, to a lesser extent, (ii) a 214.3% increase from RMB41.1 million to RMB129.1 million in amounts due to related parties associated with the increase in trade payables due to a related party of Tongcheng Online Business.

The following table sets forth an aging analysis of the trade payables of Tongcheng Online Business, based on the transaction date, as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Up to one year	93,606	323,419	485,303
Over one year	1,260	67	4,259
Total	<u>94,866</u>	<u>323,486</u>	<u>489,562</u>

As of April 30, 2018, RMB462.4 million, or 94.5% of the trade payables of Tongcheng Online Business as of December 31, 2017 were subsequently settled.

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Other payables and accruals

Other payables and accruals of Tongcheng Online Business primarily consist of (i) advance from users; (ii) accrued payroll and welfare; (iii) amounts due to related parties; and (iv) amounts collected on behalf of third parties. The following table sets forth other payables and accruals of Tongcheng Online Business as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Amounts due to related parties.....	3,467	17,368	100,008
Amounts collected on behalf of third parties.....	95,048	202,923	83,029
Payable of advertising and promotion expenses.....	75,688	23,327	22,257
Accrued expense	11,364	12,073	23,356
Others	28,833	52,390	71,891
Total financial liabilities	214,400	308,081	300,541
Amounts prepaid by related parties for services.....	63	1,012	865
Advance from users	11,283	463,262	387,698
Accrued payroll and welfare	45,146	107,210	148,267
Taxes other than income taxes payable.....	1,915	8,232	13,841
Total non-financial liabilities	58,407	579,716	550,671
Total.....	272,807	887,797	851,212

Other payables and accruals of Tongcheng Online Business decreased by 4.1% from RMB887.8 million as of December 31, 2016 to RMB851.2 million as of December 31, 2017, primarily due to (i) a decrease in amounts collected on behalf of third parties (mainly comprising insurance companies as the suppliers of the travel products and services offered on the online platforms of Tongcheng Online Business) which is primarily because Tongcheng Online Business fastened its settlement with these insurance companies; and (ii) a decrease in advance from users. The advance from users of Tongcheng Online Business as of the year end includes advances from users for the purchase of train tickets during the Chinese New Year holiday in the next year, and the decrease in advance from users of Tongcheng Online Business as of December 31, 2017 as compared to December 31, 2016 was primarily because the Chinese New Year holiday in 2018 fell on a later date than 2017. The decrease in other payables and accruals of Tongcheng Online Business was partially offset by (i) an increase in amounts due to related parties, which was primarily attributable to increased payables due to Tongcheng Holdings incurred in connection with the Tongcheng Spin-off (see “Financial Information of Tongcheng Online Business — Basis of Presentation” for more information about the Tongcheng Spin-off); and (ii) an increase in accrued payroll and welfare which was largely attributable to an increase in the number of employees associated with Tongcheng Online Business.

Other payables and accruals of Tongcheng Online Business increased significantly from RMB272.8 million as of December 31, 2015 to RMB887.8 million as of December 31, 2016, primarily due to (i) an increase in advance from users, which was due to increased advances from users for purchase of train tickets; and (ii) the amounts collected on behalf of third parties, driven by increased sales of travel insurance products through the online platforms of Tongcheng Online Business in 2016.

Contract liabilities

The contract liabilities of Tongcheng Online Business consists primarily of liabilities arising from the unused portion of coupons sold to users.

The contract liabilities of Tongcheng Online Business increased by 13.1% from RMB5.0 million as of December 31, 2015 to RMB5.7 million as of December 31, 2016, and further increased significantly to RMB37.2 million as of December 31, 2017, which was primarily due to increased sale of coupons as Tongcheng Online Business intensified its sales and promotion efforts during the same period.

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Current income taxes liabilities

The current income taxes liabilities of Tongcheng Online Business decreased by 43.0% from RMB4.1 million as of December 31, 2016 to RMB2.4 million as of December 31, 2017. This decrease was primarily due to higher pre-paid income tax for the first three quarters of 2017 that resulted in reduced income tax liabilities as of the year end of certain subsidiaries of Tongcheng Network.

The current income taxes liabilities of Tongcheng Online Business increased significantly from RMB6,000 as of December 31, 2015 to RMB4.1 million as of December 31, 2016, which was primarily due to increased profitability of certain subsidiaries of Tongcheng Network.

Non-current Assets and Liabilities

The following table sets forth the non-current assets of Tongcheng Online Business as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Property, plant and equipment	93,989	145,596	207,777
Land use rights	—	16,236	15,907
Intangible assets	712,886	570,033	421,793
Deferred income tax assets.....	151,686	140,480	65,892
Prepayment and other receivables	5,752	1,030	7,949
Total non-current assets	964,313	873,375	719,318

Property, plant and equipment

Property, plant and equipment of Tongcheng Online Business consist primarily of IT equipment, construction in progress and leasehold improvements.

The net book value of property, plant and equipment of Tongcheng Online Business increased by 42.7% from RMB145.6 million as of December 31, 2016 to RMB207.8 million as of December 31, 2017, primarily due to a significant increase in construction in progress from RMB2.2 million as of December 31, 2016 to RMB68.7 million as of December 31, 2017, which mainly relates to a building to be used for the research and development and administrative functions of Tongcheng Online Business that remained under construction as of December 31, 2017.

The net book value of property, plant and equipment of Tongcheng Online Business increased by 54.9% from RMB94.0 million as of December 31, 2015 to RMB145.6 million as of December 31, 2016, primarily due to a 58.5% increase in IT equipment from RMB85.3 million as of December 31, 2015 to RMB135.1 million as of December 31, 2016, which was generally in line with the growth in Tongcheng Online Business during the same period.

Land use rights

The land use rights of Tongcheng Online Business represent the payments made to local government for the land use rights for a new office building. Such building remained under construction as of December 31, 2017. As of December 31, 2016 and 2017, the amount of land use rights of Tongcheng Online Business was RMB16.2 million and RMB15.9 million, respectively.

Intangible assets

Intangible assets of Tongcheng Online Business primarily consist of (i) domain name and the acquisition cost of a business cooperation arrangement entered into in July 2015 between Tongcheng Network and one of its shareholders; (ii) trademark right; (iii) software; and (iv) goodwill.

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Intangible assets of Tongcheng Online Business decreased by 20.0% from RMB712.9 million as of December 31, 2015 to RMB570.0 million as of December 31, 2016, and decreased further by 26.0% to RMB421.8 million as of December 31, 2017 primarily due to normal amortization.

Deferred income tax assets

Deferred income tax assets recognized primarily related to tax losses, impairment of assets and future deductible expenses.

Deferred income tax assets of Tongcheng Online Business decreased by 53.1% from RMB140.5 million as of December 31, 2016 to RMB65.9 million as of December 31, 2017, primarily due to utilization of tax losses and deductible temporary differences.

Deferred income tax assets of Tongcheng Online Business decreased by 7.4% from RMB151.7 million as of December 31, 2015 to RMB140.5 million as of December 31, 2016, primarily due to utilization of deductible temporary differences.

Key Financial Ratios

The following table sets forth key financial ratios of Tongcheng Online Business for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
		(%)	
Revenue growth	N/A	147.2	88.7
Gross margin ⁽¹⁾	60.6	63.1	68.3
Adjusted EBITDA margin ⁽²⁾	(58.7)	9.2	28.9
Net margin ⁽³⁾	(57.7)	(6.3)	18.1

Notes:

- (1) Gross margin equals gross profit divided by revenue for the same year, multiplied by 100%.
- (2) Adjusted EBITDA margin equals adjusted EBITDA divided by revenue for the same year and multiplied by 100%. For the reconciliation from adjusted EBITDA to operating profit/(loss), see “— Financial Information of Tongcheng Online Business — Non-IFRS Measures.”
- (3) Net margin equals net profit divided by revenue for the same year, multiplied by 100%.

See “— Financial Information of Tongcheng Online Business — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015” and “— Financial Information of Tongcheng Online Business — Year Ended December 31, 2017 Compared to Year Ended December 31, 2016” for a discussion of the factors affecting the results of operations of Tongcheng Online Business during the respective periods.

Liquidity and Capital Resources

Cash requirements arising from Tongcheng Online Business have principally been satisfied with cash generated from business activities and equity contributions from shareholders.

The cash and cash equivalents of Tongcheng Online Business were RMB243.2 million, RMB947.3 million and RMB1,268.2 million as of December 31, 2015, 2016 and 2017, respectively. Tongcheng Online Business generally deposits its excess cash in short-term investments, which are mostly wealth management products offered by commercial banks in China with variable interest rate and terms generally not longer than one year. The primary objective of short-term investments is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation. The investment decisions of Tongcheng Online Business were made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to market conditions, anticipated investment conditions, investment costs, duration of the investment, and expected benefit and potential loss of the investment.

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The following table sets forth cash flows of Tongcheng Online Business for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Net cash inflow from operating activities.....	905,264	372,107	1,303,940
Net cash (outflow)/inflow from investing activities.....	(669,953)	(612,024)	182,182
Net cash (outflow)/inflow from financing activities.....	(111,440)	944,088	(1,165,256)
Net increase in cash and cash equivalents.....	123,871	704,171	320,866
Cash and cash equivalents at the beginning of the year	119,298	243,169	947,340
Cash and cash equivalents at the end of the year.....	243,169	947,340	1,268,206

Net Cash Inflow from Operating Activities

In 2017, net cash inflow from operating activities was RMB1,303.9 million, which was primarily attributable to profit for the year before income tax of RMB572.5 million, as adjusted by (i) amortization charge of intangible assets of RMB153.5 million; (ii) property, plant and equipment depreciation charge of RMB59.0 million; (iii) fair value gains of investments (which mainly included wealth management products) of RMB42.7 million; and (iv) changes in working capital, which primarily consisted of decrease in prepayment and other receivables of RMB213.2 million, decrease in trade receivable of RMB189.9 million, and increase in trade payables of RMB166.1 million.

In 2016, net cash inflow from operating activities was RMB372.1 million, which was primarily attributable to loss for the year before income tax of RMB70.3 million, as adjusted by (i) amortization charge of intangible assets of RMB153.1 million; (ii) depreciation in property, plant and equipment of RMB51.9 million; and (iii) changes in working capital, which primarily consisted of an increase in accrued expenses and other current liabilities of RMB657.3 million, increase in prepayment and other receivables of RMB355.6 million, increase in trade receivables of RMB288.9 million, and increase in trade payables of RMB228.6 million.

In 2015, net cash inflow from operating activities was RMB905.3 million, which was primarily attributable to loss for the year before income tax of RMB443.5 million, as adjusted by (i) amortization charge of intangible assets of RMB78.6 million; (ii) property, plant and equipment depreciation charge of RMB26.4 million; and (iii) changes in working capital, which primarily consisted of decrease in prepayment and other receivables of RMB1,032.2 million, increase in accrued expenses and other current liabilities of RMB235.5 million, increase in trade receivable of RMB118.9 million, and increase in trade payables of RMB94.9 million.

Net Cash (Outflow)/Inflow from Investing Activities

In 2017, net cash inflow from investing activities was RMB182.2 million, which was primarily attributable to (i) redemption of short-term investments measured at fair value through profit or loss of RMB4,119.4 million; and (ii) temporary funding received from related parties, net of RMB449.8 million, which was primarily due to expedited settlement of the historical indebtedness of the entities and business units operating Tongcheng Offline Business due to Tongcheng Network following the Tongcheng Spin-off which was substantially completed in 2017. The aforesaid cash inflow was partially offset by (i) purchase of short-term investments measured at fair value through profit or loss of RMB4,246.4 million; and (ii) purchases of property, plant and equipment of RMB122.6 million.

In 2016, net cash outflow from investing activities was RMB612.0 million, which was primarily attributable to (i) temporary funding provided to related parties, net of RMB402.4 million, which was associated with funding from Tongcheng Online Business to Tongcheng Offline Business to finance its short-term operational needs; (ii) purchases of property, plant and equipment of RMB104.0 million;

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(iii) payments for acquisition of subsidiaries of RMB42.8 million; (iv) purchase of short-term investments measured at fair value through profit or loss of RMB35.0 million; (v) purchase of land use rights of RMB16.3 million which was used for the office building of Tongcheng Online Business; and (vi) purchase of intangible assets of RMB10.0 million.

In 2015, net cash outflow from investing activities was RMB670.0 million, which was primarily attributable to (i) purchase of intangible assets of RMB740.2 million; and (ii) purchases of property, plant and equipment of RMB60.3 million. The aforesaid cash outflow was partially offset by temporary funding received from related parties of RMB131.0 million.

Net Cash (Outflow)/Inflow from Financing Activities

In 2017, net cash outflow from financing activities was RMB1,165.3 million, as a result of the reduced shareholders' equity as a result of the Tongcheng Spin-off. See “— Financial Information of Tongcheng Online Business — Basis of Presentation” for more information about the Tongcheng Spin-off.

In 2016, net cash inflow from financing activities was RMB944.1 million, which was primarily attributable to capital injection by a shareholder of Tongcheng Network in 2016.

In 2015, net cash outflow from financing activities was RMB111.4 million, mainly due to cash outflows from Tongcheng Online Business to Tongcheng Offline Business, which reflects the effect of the Tongcheng Spin-off.

Contingent Liabilities

As of December 31, 2015, 2016 and 2017, Tongcheng Online Business did not have any contingent liabilities.

Capital Expenditures

The following table sets forth the capital expenditures of Tongcheng Online Business for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Property and equipment	58,612	103,622	116,023
Purchase of land use right	—	16,315	—
Acquisition of subsidiaries	6,500	42,755	—
Purchase of intangible assets ⁽¹⁾	740,187	10,023	7,373
Leasehold improvements	1,681	400	6,608
Total capital expenditures	806,980	173,115	130,004

Note:

(1) Primarily include (i) business cooperation arrangement and domain name; (ii) trademark right; and (iii) software.

Capital Commitments

The table below sets forth the capital commitments of Tongcheng Online Business related to investments at the balance sheet date but not yet provided for in the balance sheets at of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Property and equipment	—	9,340	160,997

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Operating Lease Commitments

Tongcheng Online Business leases office space and lounge (which is used to provide VIP lounge services to its users) under non-cancellable operating lease agreements with terms ranging from one to five years. A majority of these lease agreements are renewable at the end of the lease at market rates. The following table sets forth the operating lease commitments of Tongcheng Online Business by lease term as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
No later than one year	3,176	16,053	27,393
Between one year to five years	7,317	8,785	14,215
Total	<u>10,493</u>	<u>24,838</u>	<u>41,608</u>

Off-Balance Sheet Commitments and Arrangements

Banking Facilities

Tongcheng Online Business provided to certain of its business partners security in the form of letters of guarantee from commercial banks to guarantee the performance of its contractual obligations. As of December 31, 2015, 2016 and 2017, Tongcheng Online Business had banking facilities available in the form of letters of guarantee of RMB640.0 million, RMB633.0 million and RMB1,183 million, respectively, in which nil, RMB183.4 million and RMB298.5 million, respectively, were utilized and provided to overseas hotels (in connection with the accommodation reservation business) and a business partner (in connection with the air ticketing business).

Except as disclosed above, as of December 31, 2017, Tongcheng Online Business had not entered into any off-balance sheet arrangements.

Related Party Transactions

During the Track Record Period, Tongcheng Online Business entered into transactions with its related parties from time to time.

Please see Note 32 to the Accountants’ Report in Appendix II to this [REDACTED] for more information about such related party transactions. Our Directors consider that these related party transactions were conducted in the ordinary course of business on an arm’s length basis and with reference to normal commercial terms of each party. Our Directors also believe that such related party transactions during the Track Record Period do not distort Tongcheng Online Business, track record results or make Tongcheng Online Business historical results not reflective of its future performance.

DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. Any future decision to declare and pay any dividends will be at the discretion of our Board and will depend on, among other things, the availability of dividends received from our subsidiaries, our earnings, capital and investment requirements, level of indebtedness, and other factors that our Board deems relevant. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. As of December 31, 2015, 2016 and 2017, no dividends had been paid or declared by our Company.

WORKING CAPITAL STATEMENT

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and the estimated net [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this [REDACTED].

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DISTRIBUTABLE RESERVES

As of December 31, 2017, we did not have any distributable reserves.

[REDACTED] EXPENSE

Based on the mid-point [REDACTED] of HK\$[REDACTED] (being the mid-point of our [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), the total [REDACTED] expenses (including [REDACTED]) payable by our Company are estimated to be approximately HK\$[REDACTED] (equivalent to RMB[REDACTED]), assuming the [REDACTED] is not exercised. These [REDACTED] expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED].

As of December 31, 2017, the [REDACTED] expenses (excluding [REDACTED]) incurred by our Company in relation to the [REDACTED] was [REDACTED]. We estimate that [REDACTED] expenses of RMB[REDACTED] (including [REDACTED] of RMB[REDACTED], assuming the [REDACTED] is not exercised and based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]) will be incurred by our Company, of which approximately RMB[REDACTED] is expected to be charged to our combined statement of comprehensive income and approximately RMB[REDACTED] is expected to be charged against equity upon the [REDACTED].

[REDACTED]

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[REDACTED]

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this [REDACTED], there has been no material adverse change in our financial position or prospects since December 31, 2017, being the end date of the periods reported on in the Accountant’s Report included in Appendix I to this [REDACTED], and there is no event since December 31, 2017 that would materially affect the information as set out in the Accountant’s Report included in Appendix I to this [REDACTED].

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this [REDACTED], as of December 31, 2017, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See “Business—Our Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

The table below sets forth the estimated net [REDACTED] of the [REDACTED] which we will receive after deduction of [REDACTED] and estimated expenses, payable by us in connection with the [REDACTED]:

	Assuming the [REDACTED] is not exercised	Assuming the [REDACTED] is exercised in full
Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] stated in this [REDACTED]).....	HK\$[REDACTED]	HK\$[REDACTED]
Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] stated in this [REDACTED]).....	HK\$[REDACTED]	HK\$[REDACTED]
Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] stated in this [REDACTED]).....	HK\$[REDACTED]	HK\$[REDACTED]

We intend to use the net [REDACTED] of the [REDACTED] for the following purposes:

- (i) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the net [REDACTED]) is expected to be used to support our efforts to (a) expand our products and services offerings by building and enhancing our relationships with emerging and existing TSPs and by developing and introducing innovative travel products and services in partnership with TSPs; (b) expand our user base by strengthening our user acquisition channels, particularly our proprietary mobile apps; (c) enhance user stickiness by improving membership loyalty programs; and (d) increase our brand awareness through advertising and promotional activities.
- (ii) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the net [REDACTED]) is expected to be used to fund potential acquisition, investment, joint venture and partnership opportunities that we believe are in line with our overall business strategies, including, in particular, (a) acquisition of other online platforms that complement our existing products and services offerings; (b) minority investment in TSPs across different travel verticals; and (c) strategic investment in or partnership with technology companies to further improve our user and TSP services;
- (iii) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the net [REDACTED]) is expected to be used to enhance our overall technology capabilities by building our big data and AI strengths, improving our IT infrastructure, and providing competitive compensation to recruit and retain IT talents; and
- (iv) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED], representing [REDACTED]% of the net [REDACTED]) is expected to be used for working capital and general corporate purposes.

The above allocation of the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED].

Additional net [REDACTED] received due to the exercise of any [REDACTED] will be used for the above purposes on a pro rata basis in the event that the [REDACTED] is exercised.

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FUTURE PLANS AND USE OF [REDACTED]

To the extent our net [REDACTED] are either more or less than expected, we will increase or decrease the allocation of the net [REDACTED] to the above purposes on a pro-rata basis.

To the extent that the net [REDACTED] are not immediately applied to the above purposes and to the extent permitted by the relevant law and regulations, we intend to deposit the net [REDACTED] into short-term demand deposits and/or money market instruments with banks or financial institutions in Hong Kong or the PRC. We will make an appropriate announcement if there is any change to the above proposed use of [REDACTED] or if any amount of the [REDACTED] will be used for general corporate purpose.

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[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

INDEPENDENCE OF THE JOINT SPONSORS

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

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STRUCTURE OF THE [REDACTED]

[REDACTED]

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STRUCTURE OF THE [REDACTED]

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STRUCTURE OF THE [REDACTED]

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HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

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HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

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 HKSIR 200 Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[DRAFT]

[Letterhead of PricewaterhouseCoopers]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TONGCHENG-ELONG HOLDINGS LIMITED AND MORGAN STANLEY ASIA LIMITED, J.P. MORGAN SECURITIES (FAR EAST) LIMITED AND CMB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial statements of Tongcheng-Elong Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages [I-3] to [I-81], which comprises the consolidated statements of financial position as of December 31, 2015, 2016 and 2017, the statements of financial position of the Company as of December 31, 2016 and 2017, and the consolidated statements of comprehensive (loss)/income, the consolidated statements of changes in equity, and the consolidated statements of cash flows for each of the years then ended (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-81] 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 and preparation set out in Notes 1.3 and 2.1 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 and preparation set out in Notes 1.3 and 2.1 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.

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APPENDIX I

ACCOUNTANT’S REPORT - THE GROUP

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 purpose of the accountant’s report, a true and fair view of the financial position of the Company as of December 31, 2016 and 2017 and the consolidated financial position of the Group as of December 31, 2015, 2016 and 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page [I-3] have been made.

Dividends

We refer to Note 29 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[date]

APPENDIX I

ACCOUNTANT’S REPORT - THE GROUP

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (“IAASB”) (“Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise stated.

Consolidated statements of comprehensive (loss)/income

		Year ended December 31,		
		2015	2016	2017
		RMB’000	RMB’000	RMB’000
	Note			
Revenue	5	1,026,124	2,204,565	2,518,591
Cost of revenue.....	6	(639,723)	(1,032,913)	(811,781)
Gross profit		386,401	1,171,652	1,706,810
Service development expenses.....	6	(399,073)	(517,648)	(522,018)
Selling and marketing expenses.....	6	(775,464)	(1,882,779)	(1,094,977)
Administrative expenses.....	6	(272,584)	(898,337)	(97,379)
Fair value changes on investments measured at fair value through profit or loss.....	17	17,646	(4,031)	863
Other income	9	49,006	10,547	12,805
Other gains/(losses), net.....	10	51,107	4,689	22,610
Operating (loss)/profit		(942,961)	(2,115,907)	28,714
Finance income	11	9,156	8,402	10,145
Finance costs	11	(5,831)	(4,114)	(163)
Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss.....	24	—	(36,781)	97,576
Share of results of associates	15	(18,177)	(11,218)	(2,251)
(Loss)/profit before income tax		(957,813)	(2,159,618)	134,021
Income tax (expense)/credit	12	(5,206)	(978)	60,356
(Loss)/profit for the year		(963,019)	(2,160,596)	194,377
(Loss)/profit attributable to:				
- Equity holders of the Company		(916,266)	(2,139,267)	195,575
- Non-controlling interests		(46,753)	(21,329)	(1,198)
		<u>(963,019)</u>	<u>(2,160,596)</u>	<u>194,377</u>

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APPENDIX I

ACCOUNTANT’S REPORT - THE GROUP

		Year ended December 31,		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
	Note			
(Loss)/earnings per share				
(expressed in RMB per share)	13			
- Basic		<u>(12.50)</u>	<u>(46.01)</u>	<u>7.51</u>
- Diluted		<u>(12.50)</u>	<u>(46.01)</u>	<u>1.12</u>
(Loss)/profit for the year		(963,019)	(2,160,596)	194,377
Other comprehensive income/(loss)				
<i>Items that will not be reclassified to profit or loss:</i>				
- Fair value change relating to preferred shares due to own credit risk	24	—	36,781	(46,592)
Other comprehensive income/(loss) for the year, net of tax		<u>—</u>	<u>36,781</u>	<u>(46,592)</u>
Total comprehensive (loss)/income for the year		<u>(963,019)</u>	<u>(2,123,815)</u>	<u>147,785</u>
Total comprehensive (loss)/income attributable to:				
- Equity holders of the Company		(916,266)	(2,102,486)	148,983
- Non-controlling interests		<u>(46,753)</u>	<u>(21,329)</u>	<u>(1,198)</u>
		<u>(963,019)</u>	<u>(2,123,815)</u>	<u>147,785</u>

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APPENDIX I

ACCOUNTANT’S REPORT - THE GROUP

Consolidated statements of financial position

		As of December 31,		
		2015	2016	2017
	Note	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	14	98,800	101,074	441,722
Investments accounted for using the equity method	15	51,087	39,869	37,618
Investments measured at fair value through profit or loss	17	49,881	45,685	25,239
Intangible assets	18	209,146	347,904	308,831
Deferred income tax assets.....	19	—	—	61,877
Prepayment and other receivables	20	48,149	49,761	49,172
		<u>457,063</u>	<u>584,293</u>	<u>924,459</u>
Current assets				
Trade receivables	21	461,431	883,382	539,217
Prepayment and other receivables	20	235,867	274,188	195,938
Short-term investments measured at amortized cost	17	224,507	—	—
Short-term investments measured at fair value through profit or loss.....	17	21,046	71,041	236,107
Restricted cash	22	146,480	153,606	170,541
Cash and cash equivalents.....	22	710,403	339,299	701,748
		<u>1,799,734</u>	<u>1,721,516</u>	<u>1,843,551</u>
Total assets		<u><u>2,256,797</u></u>	<u><u>2,305,809</u></u>	<u><u>2,768,010</u></u>
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	27	—	84	99
Share premium	27	—	1,514,310	1,514,310
Treasury stock	27	—	—	(15)
Other reserves	28	2,658,337	(3,275,866)	(3,270,057)
Accumulated losses		(1,637,460)	(3,776,727)	(3,581,152)
		<u>1,020,877</u>	<u>(5,538,199)</u>	<u>(5,336,815)</u>
Non-controlling interests		<u>27,510</u>	<u>6,079</u>	<u>4,881</u>
Total equity		<u><u>1,048,387</u></u>	<u><u>(5,532,120)</u></u>	<u><u>(5,331,934)</u></u>
LIABILITIES				
Non-current liabilities				
Borrowings	23	—	—	172,305
Deferred income tax liabilities	19	3,738	4,283	201
Redeemable convertible preferred shares.....	24	—	6,398,631	6,347,647
Other payables and accruals	26	2,950	2,375	1,839
		<u>6,688</u>	<u>6,405,289</u>	<u>6,521,992</u>
Current liabilities				
Borrowings	23	—	—	19,692
Trade payables	25	658,566	921,633	1,114,917
Other payables and accruals	26	540,753	510,593	437,358
Current income taxes liabilities		2,403	414	5,985
		<u>1,201,722</u>	<u>1,432,640</u>	<u>1,577,952</u>
Total liabilities		<u><u>1,208,410</u></u>	<u><u>7,837,929</u></u>	<u><u>8,099,944</u></u>
Total equity and liabilities		<u><u>2,256,797</u></u>	<u><u>2,305,809</u></u>	<u><u>2,768,010</u></u>

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APPENDIX I

ACCOUNTANT’S REPORT - THE GROUP

Statements of Financial Position of the Company

	As of December 31,	
	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>
ASSETS		
Non-current assets		
Investment in subsidiaries	7,913,025	7,913,025
Prepayment and other receivables	—	15
Total assets	<u>7,913,025</u>	<u>7,913,040</u>
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	84	99
Share premium	1,514,310	1,514,310
Other reserves	(36,781)	46,592
Retained profits	36,781	4,392
Total equity	<u>1,514,394</u>	<u>1,565,393</u>
LIABILITIES		
Non-current liabilities		
Redeemable convertible preferred shares	6,398,631	6,347,647
Total liabilities	<u>6,398,631</u>	<u>6,347,647</u>
Total equity and liabilities	<u>7,913,025</u>	<u>7,913,040</u>

APPENDIX I

ACCOUNTANT’S REPORT - THE GROUP

Consolidated statements of changes in equity

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury stock	Other reserves	Accumulated losses	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2015	—	—	—	2,504,792	(715,033)	1,789,759	76,650	1,866,409
Comprehensive loss								
Loss for the year	—	—	—	—	(916,266)	(916,266)	(46,753)	(963,019)
Total comprehensive loss	—	—	—	—	(916,266)	(916,266)	(46,753)	(963,019)
Transactions with owners								
Share-based compensations (Note 8)	—	—	—	208,296	—	208,296	—	208,296
Statutory reserves	—	—	—	6,161	(6,161)	—	—	—
Exercise of stock options (Note 8)	—	—	—	25,397	—	25,397	—	25,397
Share based compensation of a subsidiary	—	—	—	3,278	—	3,278	(226)	3,052
Disposal of a subsidiary	—	—	—	—	—	—	(2,161)	(2,161)
Purchase of vested eLong Equity Awards in connection with the Expedia Transaction (Note 8)	—	—	—	(89,587)	—	(89,587)	—	(89,587)
Total transactions with owners recognized directly in equity	—	—	—	153,545	(6,161)	147,384	(2,387)	144,997
As of December 31, 2015	—	—	—	2,658,337	(1,637,460)	1,020,877	27,510	1,048,387

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	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Treasury stock	Other reserves	Accumulated losses	Sub-total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2016	—	—	—	2,658,337	(1,637,460)	1,020,877	1,048,387
Comprehensive loss							
Loss for the year	—	—	—	—	(2,139,267)	(2,139,267)	(2,160,596)
Changes in fair value of the preferred shares — attributable to its credit risk	—	—	—	36,781	—	36,781	36,781
Total comprehensive loss	—	—	—	36,781	(2,139,267)	(2,102,486)	(2,123,815)
Transactions with owners							
Share-based compensations (Note 8)	—	—	—	71,325	—	71,325	71,325
Exercise of stock options (Note 8)	—	—	—	1,719	—	1,719	1,719
Exchange of high-vote ordinary shares to preferred shares in connection with the Restructuring (Note 24)	—	—	—	(3,527,596)	—	(3,527,596)	(3,527,596)
Re-designation of ordinary shares to preferred shares in connection with the Restructuring (Note 24)	—	—	—	(920,414)	—	(920,414)	(920,414)
Purchase of vested Equity Awards (Note 8)	—	—	—	(81,624)	—	(81,624)	(81,624)
Incorporation of the Company and consummation of the Restructuring	84	1,514,310	—	(1,514,394)	—	—	—
Purchase of non-controlling interest	—	—	—	—	—	—	(102)
Total transactions with owners recognized directly in equity	84	1,514,310	—	(5,970,984)	—	(4,456,590)	(4,456,692)
As of December 31, 2016	84	1,514,310	—	(3,275,866)	(3,776,727)	(5,538,199)	(5,532,120)

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	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Treasury stock	Other reserves	Accumulated losses		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2017	84	1,514,310	—	(3,275,866)	(3,776,727)	6,079	(5,532,120)
Comprehensive income/(loss)							
Profit/(loss) for the year.....	—	—	—	—	195,575	(1,198)	194,377
Changes in fair value of the preferred shares — attributable to its credit risk	—	—	—	(46,592)	—	—	(46,592)
Total comprehensive income/(loss)	—	—	—	(46,592)	195,575	(1,198)	147,785
Transactions with owners							
Share-based compensations (Note 8)	—	—	—	56,783	—	—	56,783
Issuance of RSUs (Note 8)	15	—	(15)	—	—	—	—
Purchase of vested Equity Awards (Note 8)	—	—	—	(4,382)	—	—	(4,382)
Total transactions with owners recognized directly in equity	15	—	(15)	52,401	—	—	52,401
As of December 31, 2017	99	1,514,310	(15)	(3,270,057)	(3,581,152)	4,881	(5,331,934)

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Consolidated statements of cash flows

		Year ended December 31,		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
	Note			
Cash flows from operating activities				
Cash (used in)/generated from operations.....	31	(794,526)	(413,844)	715,021
Interest received		35,206	6,700	4,310
Income tax (paid)/refund.....		(16,872)	(3,017)	563
Net cash (outflow)/inflow from operating activities		(776,192)	(410,161)	719,894
Cash flows from investing activities				
Payments for investments accounted for using the equity method.....		(58,142)	—	—
Payments for investments measured at fair value through profit or loss		(15,000)	—	—
Payment for business combination	30	(5,000)	—	—
Purchases of property, plant and equipment.....		(44,012)	(56,530)	(392,134)
Proceeds from disposal of property, plant and equipment and intangible assets.....		56	108	62
Proceeds from disposal of a subsidiary		64,310	—	—
Proceeds from disposal of investments accounted for using the equity method.....		19,350	—	—
Proceeds from disposal of long-term investments measured at fair value through profit or loss		—	—	20,000
Increase in restricted cash.....		(22,543)	(7,126)	(16,935)
Payments for purchases of short-term investments.....		(917,311)	(475,075)	(1,673,388)
Proceeds from redemptions of short-term investments.....		2,103,439	656,023	1,520,440
Net cash inflow/(outflow) from investing activities		1,125,147	117,400	(541,955)
Cash flows from financing activities				
Purchase of vested eLong Equity Awards		—	(81,624)	(4,382)
Proceeds from bank borrowings		—	—	196,920
Repayments of bank borrowings.....		—	—	(6,663)
Settlement of share-based awards.....		(86,580)	—	—
Exercise of stock options		25,397	1,719	—
Net cash (outflow)/inflow from financing activities		(61,183)	(79,905)	185,875
Net increase/(decrease) in cash and cash equivalents		287,772	(372,666)	363,814
Cash and cash equivalents at beginning of the year.....	22	412,892	710,403	339,299
Effect of exchange rate changes on cash and cash equivalents		9,739	1,562	(1,365)
Cash and cash equivalents at end of the year	22	710,403	339,299	701,748

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information, history of the Group, material acquisitions and basis of presentation

1.1 General information

Tongcheng-Elong Holdings Limited (the “Company”, formerly known as China E-Dragon Holdings Limited) is an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 14, 2016.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of travel related services, including accommodation reservation services, transportation ticketing services, and online advertising services (the “Listing Business”) in the People’s Republic of China (the “PRC”).

1.2 History of the Group, material acquisitions and group structure

1.2.1 *History of the Group*

eLong Inc. (“eLong”) and its subsidiaries (collectively, the “eLong Group”) was the group of companies operating the Listing Business throughout the Track Record Period. Prior to May 31, 2016, the ordinary shares of eLong were listed and traded on NASDAQ Global Select Market (“NASDAQ”) in the form of American Depositary Shares (“ADS”). eLong had a dual-class share structure with each ordinary share entitled to one vote and each high-vote ordinary share entitled to fifteen votes.

eLong used to be controlled by Expedia, Inc. (“Expedia”) with the majority ownership and voting rights of eLong held by Expedia. Another major shareholder of eLong at the time was TCH Sapphire Limited, a company wholly owned by Tencent Holdings Limited (“Tencent”). On May 22, 2015, Expedia sold all of its equity interest in eLong to several investors, including C-Travel International Limited, a wholly owned subsidiary of Ctrip.com International Ltd. (“Ctrip”), Keystone Lodging Holdings Limited (“Keystone”), Plateno Group Limited (“Plateno”), and Luxuriant Holdings Limited (“Luxuriant”) (the “Expedia Transaction”). In connection with the Expedia Transaction, the board of directors and certain management of eLong were changed. After the Expedia Transaction, eLong no longer has any controlling shareholder and its substantial shareholders include Ctrip and Tencent. On August 17, 2015, Keystone and Plateno transferred their respective shareholding in eLong to Ocean Imagination L.P. (“Ocean Imagination”).

On May 31, 2016, eLong consummated a restructuring pursuant to which eLong was acquired by the Company, with all of the then existing ordinary shares of eLong being exchanged with an equivalent number of ordinary shares or convertible and redeemable preferred shares (the “Preferred Shares”) of the Company (the “Restructuring”). In conjunction with the Restructuring, Tencent, Ocean Imagination and certain management members (collectively the “Buyers”) purchased all the ordinary shares of eLong that were not owned by Ctrip, Luxuriant and the Buyers. These ordinary shares purchased by the Buyers were exchanged to the same number of the Preferred Shares of the Company. Thereafter, the ADSs of eLong ceased to be listed on NASDAQ and eLong became a wholly owned subsidiary of the Company.

On March 27, 2018, the Company changed its name to Tongcheng-Elong Holdings Limited.

1.2.2 *Material acquisitions*

On December 28, 2017, the Company entered into an agreement with Tongcheng Network Technology Limited (“Tongcheng Network”) and its shareholders whereby the Company acquired Tongcheng Network’s Online Travel Agency Business (“Tongcheng Online Business”) by entering into a series of contractual arrangements with Tongcheng Network and its then shareholders, and the consideration was satisfied by issuing the Company’s 96,721,818 ordinary shares to the then shareholders of Tongcheng Network (the “Acquisition”). In conjunction with the Acquisition, Tencent, through one of its wholly owned subsidiaries, subscribed additional ordinary shares of the Company at a cash consideration of approximately US\$ 30 million. The Acquisition was completed on March 9, 2018 and thereafter, Tongcheng Network became a company controlled by the Company under the

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contractual arrangements as further described below. The Acquisition will be accounted for using the purchase method of accounting when it is consummated thus the Historical Financial Information for the Track Record Period does not include the financial information of Tongcheng Online Business.

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1.2.3 Principal subsidiaries of the Group

During the Track Record Period and up to the date of this report, the Company had direct or indirect interests in the following companies:

Company name	Country/place of operation and date of incorporation	Particulars of issued/paid-in capital	Equity/ beneficial interest held			At the date of this report	Principal activities	Type of legal entity	Statutory auditor (Note)
			2015	2016	2017				
Directly held:									
eLong Inc.	PRC/April 4, 2001	US\$0.01	100%	100%	100%	100%	Investment holding	Limited liability entity	(a)
Indirectly held:									
eLong Net Information Technology (Beijing) Co., Ltd. (藝龍網信息技術(北京)有限公司)	PRC/August 17, 1999	US\$214,277,229	100%	100%	100%	100%	Platform service of hotel business	Limited liability entity	(b)(i)
eLong Information Technology (Hefei) Co., Ltd. (藝龍信息技術(合肥)有限公司)	PRC/July 9, 2012	US\$5,000,000	100%	100%	100%	100%	Hotel business service/business process outsourcing service	Limited liability entity	(b)(i)
Beijing eLong Information Technology Co., Ltd. (北京藝龍信息技術有限公司) (Note e)	PRC/November 28, 2000	RMB16,000,000	100%	100%	100%	100%	Information technology outsourcing/ advertising service	Limited liability entity	(b)(ii)
Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司)	PRC/October 23, 2002	RMB23,000,000	100%	100%	100%	100%	Air ticket service	Limited liability entity	(b)(ii)
Beijing eLong International Travel Co., Ltd. (北京藝龍國際旅行社有限公司)	PRC/July 29, 2004	RMB1,500,000	100%	100%	100%	100%	Hotel business service/other travel service	Limited liability entity	(b)(ii)
Tianjin Chengmei Technology Development Co., Ltd. (天津成美科技發展有限公司)	PRC/December 31, 2013	RMB15,000,000	100%	100%	100%	100%	Investment holding	Limited liability entity	(b)(i)
Shenzhen JL-Tour International Travel Service Co., Ltd. (深圳市捷旅國際旅行社有限公司)	PRC/October 9, 2001	RMB2,430,769	56%	56%	56%	54%	International Travel Service	Limited liability entity	(b)(iii)
Suzhou Chenghuiwan International Travel Agency Co., Ltd. (蘇州程會玩國際旅行社有限公司)	PRC/November 24, 2015	RMB1,000,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(vi)
Nanjing Tongyou Tianxia Car Rental Co., Ltd. (南京同遊天下汽車租賃有限公司)	PRC/October 28, 2016	—	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(vi)
Suzhou Chuanglv Tianxia Information Technology Co., Ltd. (蘇州創旅天下信息技術有限公司)	PRC/December 23, 2015	RMB100,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(v)
Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司)	PRC/January 12, 2011	RMB5,000,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(iv)
Beijing Tianyuan Difang Insurance Agency Company Limited (天圓地方(北京)保險代理有限公司)	PRC/May 28, 2010	RMB50,000,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(viii)
Suzhou Chengyi Internet Technology Limited (蘇州程藝網絡科技有限公司) (Note e)	PRC/March 21, 2018	—	0%	0%	0%	100%	Travel related services	Limited liability entity	(a)
Tongcheng Network Technology Limited (同程網絡科技股份有限公司) (Note e)	PRC/March 10, 2004	RMB111,319,969	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(viii)

- (a) No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective places of incorporation.
- (b) The statutory auditors of these companies for the Track Record Period were as follows:
- (i) 北京中瑞誠會計師事務所有限公司 for the years ended December 31, 2015 and 2016; 上海中瑞誠會計師事務所(特殊普通合夥) for the year ended December 31, 2017
 - (ii) 北京中瑞誠會計師事務所有限公司 for the years ended December 31, 2015, 2016 and 2017
 - (iii) 深圳東海會計師事務所 for the years ended December 31, 2015, 2016 and 2017
 - (iv) 蘇州鑫城會計師事務所有限公司 (Suzhou Xincheng CPAs Co. Ltd.) for the year ended December 31, 2015; 江蘇華星會計師事務所有限公司 (Jiangsu Welsen CPAs Co. Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
 - (v) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the years ended December 31, 2015 and 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
 - (vi) No statutory audit was required for the year ended December 31, 2015; 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
 - (vii) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2015; 華普天健會計師事務所(特殊普通合夥) (Huapu Tianjian CPAs LLP) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
 - (viii) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2015; 北京中兆國際會計師事務所有限公司 (Beijing Zhongzhao International CPAs Co., Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
- (c) The English names of certain subsidiaries referred herein represent the Directors’ best effort at translating the Chinese names of these companies as no English names have been registered.
- (d) All companies comprising the Group have adopted December 31 as their financial year end date.
- (e) The prevailing PRC rules and regulations restrict foreign ownership of companies that provide internet content, call center services, travel agency and transportation ticketing services, which represent the core activities of and services provided by the Group. As a result of such restrictions, the Company does not have equity interests in certain of its PRC operating subsidiaries. However, pursuant to a series of contractual arrangements of the Group with each of Beijing E-dragon Information Technology Limited (北京藝龍信息技術有限公司) (“Beijing E-dragon”), Suzhou Chengyi International Technology Limited (蘇州程藝網絡科技有限公司) (“Suzhou Chengyi”), Tongcheng Network and their respective equity holders (“Beijing E-dragon Contractual Arrangement”, “Suzhou Chengyi Contractual Arrangement”, “Tongcheng Network Contractual Arrangement”, and collectively, the “Contractual Arrangements”), which include powers of attorney, technical services agreements, business operations agreements, equity interest pledge agreements, exclusive purchase right agreements and loan agreement, the Company is able to effectively control, recognize and receive substantially all the economic benefits of the business and operations of the PRC operating subsidiaries. Accordingly, the PRC operating subsidiaries are treated as structured entities controlled by the Company and the financial positions and results of operations of the PRC operating entities have been/will be consolidated based on the respective dates when the Company first obtained control of these PRC operating subsidiaries.

1.3 *Basis of presentation*

Immediately prior to and after the Expedia Transaction and the Restructuring, the Listing Business was carried out by eLong Group. The Expedia Transaction, which was the transaction between shareholders of eLong, did not change the business substance of the Listing Business. Pursuant to the Restructuring, the Listing Business were effectively controlled by the Company through its acquisition of the entire equity interest in eLong. The Company had not been involved in any business prior to the Restructuring and its operations did not meet the definition of a business. Therefore, the Restructuring was merely a recapitalization of the Listing Business and did not change the business substance, management or major shareholders of the Listing Business. Accordingly, the Group resulting from the Expedia Transaction and the Restructuring is regarded as a continuation of the Listing Business conducted by eLong Group. For the purpose of this report, the Historical Financial Information has been prepared and presented using the carrying amounts of the Listing Business as recorded in the consolidated financial statements of eLong for the Track Record Period.

For companies acquired from or disposed of to a third party, including those involved in the Acquisition, their financial information is included in or excluded from the Historical Financial Information from the respective dates of the acquisitions or disposals.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 *Basis of preparation*

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standard Board (“IASB”). In preparing the Historical Financial Information, the Group has early adopted IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”).

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including redeemable convertible preferred shares) which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2017, are consistently applied to the Group for the Track Record Period.

(a) New and amended standards early adopted by the Group

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. The Group has reviewed its financial assets and liabilities and has elected to early apply IFRS 9 which has been applied consistently throughout the Track Record Period.

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IFRS 15, “Revenue from contracts with customers” replaces the previous revenue standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. The Group has elected to early apply IFRS 15 which has been applied consistently throughout the Track Record Period.

(b) New standards and interpretations not yet adopted

The following new standards, amendments and interpretations to existing standards, which are relevant to the Group have been issued and are effective for further reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 40	Transfers of investment property	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle (Note (i))	Retirement of short-term exemptions in IFRS 1 Clarifying measurements of investments under IAS 28	January 1, 2018
IFRS 2 (Amendment) (Note (i))	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
Amendments to IAS 28 (Note (i))	Long-term interest in associate or joint ventures	January 1, 2019
IFRS 16 (Note (ii))	Leases	January 1, 2019
IFRIC 23 (Note (i))	Uncertainty over income tax treatments	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
IFRS 10 and IAS 28 (Amendments) (Note (i))	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Note:

- (i) The Group has already commenced an assessment of the impact of these new or revised standards, and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.
- (ii) IFRS 16, “Leases”, address the definition of a lease, recognition and measurement of leased and established principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that almost all operating leases will be accounted for in the Consolidated Statement of Financial Position for lessees. The accounting for lessors will not significantly change.

The Group is a lessee of certain office spaces which are currently classified as operating leases. The Group’s current accounting policy for such leases, as set out in Note 2.23, is to record the rental expenses in profit or loss when such expenses were incurred, with the related operating lease commitments being separately disclosed (Note 34). IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognize the leases outside of the Consolidated Statement of Financial Position. Instead, all non-current leases should be recognized in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Consolidated Statement of Financial Position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the Consolidated Statement of Financial Position. In the Consolidated Statement of Comprehensive (loss)/Income, as a result, the annual rental and amortization expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard will impact the Consolidated Statement of Financial Position in terms of total assets and liabilities.

The Group has disclosed its non-cancellable operating lease commitments amounting to RMB28 million as of December 31, 2017 in Note 34. The standard will affect primarily the accounting for Group’s operating leases. However, the Group has just commenced its assessment and had not yet determined to what extent its commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s operating results and classification of cash flow. Based on the preliminary assessment results, it is expected that certain portion of these operating lease commitments aforementioned will be required to be recognized in the Consolidated Statements of Financial Position as right-of-use assets and lease liabilities.

The application of IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. The Group does not intend to early adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group’s financial performance and position.

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

(i) Subsidiaries controlled through contractual arrangements

As described in Note 1.2 as at the date of this report, the Company and its wholly-owned subsidiaries have entered into the Contractual Arrangements which enable the Company to:

- govern the financial and operating policies of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi;
- exercise equity holders’ voting rights of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi;
- receive substantially all of the economic interest returns generated by Beijing E-dragon, Tongcheng Network and Suzhou Chengyi, in consideration for the technical services and software license provided by wholly-owned subsidiaries of the Company;
- have the irrevocable and exclusive right, at any time when applicable PRC law permits foreign invested companies to operate an internet content provision business, to purchase from the equity holders of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi for their respective equity interests in Beijing E-dragon, Tongcheng Network and Suzhou Chengyi. The exercise price of the option is equal to the actual paid-in registered capital

(or pro rata portion thereof, as appropriate) unless otherwise specified under PRC law on the date of exercise. If the transfer price of the equity interest is greater than the loan amount, the shareholders are required to immediately return the proceeds from the transfer price in excess of the loan amount to the Company; and

- obtain a pledge over the entire ownership interests of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi from their respective equity holders to secure the payment obligations of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Company has rights to exercise power over Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries, receive variable returns from its involvement with Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries, and has the ability to affect those returns through its power over Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries. Therefore, the Company is considered to have the power to control Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries. Consequently, the Company regards Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries as the controlled entities and consolidates the financial positions and results of operations of these entities in the consolidated financial statements of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries and such uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(ii) *Business combination*

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation are measured at either fair value or the present ownership interests’ proportionate share in the recognized amounts of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is a financial asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of profit or loss.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions - that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Separate financial statements

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor’s share of the profit or loss of the investee after the date of acquisition. The Group’s investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group’s share of the net fair value of the associate’s identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income or loss is reclassified to consolidated statement of comprehensive income or loss where appropriate.

The Group’s share of the associates’ post-acquisition profit or loss is recognized in the consolidated statement of comprehensive income or loss, and its share of post-acquisition movements

in other comprehensive income or loss is recognized in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to “share of results of associates” in the consolidated statement of comprehensive income or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group’s consolidated financial statements only to the extent of unrelated investor’s interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated statement of comprehensive income or loss.

(b) *Investments in associates in the form of redeemable convertible preferred shares*

Investments in associates in the form of redeemable convertible preferred shares or ordinary shares with preferential rights shares are accounted as financial assets measured at fair value through profit or loss (Note 2.9).

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, vice presidents and directors of the Company that makes strategic decisions.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company is Renminbi (“RMB”). The Company’s primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group during the Track Record Period are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Translation differences on non-monetary financial assets and liabilities such as instruments held at fair value through profit or loss are recognized in profit or loss as part of the fair value changes.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.6 Property, plant and equipment

All property, plant and equipment is stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income or loss during the financial period in which they are incurred. Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Software	3 years
IT equipment	2 to 5 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
Furniture and fixtures	5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in “Other gains/(losses), net” in the consolidated statement of comprehensive income or loss.

Construction in progress represents office building and leasehold improvements under construction. Construction in progress is stated at cost less accumulated impairment losses, if any.

Cost includes the costs of construction and acquisition, and capitalized costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as set out above.

2.7 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group’s interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) *Other intangible assets acquired in a business combination*

Other intangible assets acquired in a business combination, mainly including customer lists, trade names, copy rights and internet domain names, are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate the costs of acquired intangible assets over the following estimated useful lives:

Customer lists	5 years
Trade names	5 years
Internet domain names	5 years

(c) *Other intangible assets*

Other intangible assets mainly include business cooperation arrangement. It was initially recognized and measured at cost or estimated fair value of intangible assets acquired at the acquisition date (Note 18). Other intangible assets are amortized over their estimated useful lives (generally 3 to 5 years) using the straight-line method.

(d) *Research and development expenditures*

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

All development costs incurred by the Group during Track Record Period do not meet the R&D capitalization criteria and hence are fully expensed off.

2.8 Impairment of non-financial assets other than goodwill

Intangible assets other than goodwill that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 16 for details about each type of financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (“OCI”), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented in other gains/(losses), net.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in profit or loss within other gains/(losses), net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group’s right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/ (losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) Impairment

The Group has types of financial assets subject to IFRS 9’s new expected credit loss model:

- trade receivables for sales of goods or provision of services; and
- other receivables

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at a amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The

Group uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

2.10 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business.

Trade and other receivables are generally due for settlement within one year and therefore are all classified as current.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.15 Redeemable convertible preferred shares

Redeemable convertible preferred shares issued by the Company are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of the Company or agreed by majority of the holders as detailed in Note 24.

The Group designated the redeemable convertible preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive (loss)/income.

Subsequent to initial recognition, the redeemable convertible preferred shares are carried at fair value with changes in fair value recognized in the consolidated statements of comprehensive (loss)/income in the year in which they arise.

The redeemable convertible preferred shares are classified as non-current liabilities because the Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income or loss, except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity. In this case, the tax is also recognized in other comprehensive income or loss or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries/territories where the company’s subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate’s undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

(a) *Defined contribution plans*

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant governmental authorities. The Group’s liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities.

(b) *Bonus plan*

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

(d) *Share-based compensation*

Equity-settled share-based payment transactions

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units (“RSUs”) and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense in the consolidated statements of comprehensive (loss)/income with a corresponding increase in equity.

In terms of the shares, RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Including the impact of any non-vesting conditions.

Non-marketing performance and service conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statements, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium. Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period.

Cash-settled share-based payment transactions

Share-based compensation awards which are settled in cash upon vesting are classified as liabilities in the consolidated balance sheets. Compensation expense is determined based on the current share price at the balance sheet dates, and the proportionate amount of the requisite service that has been rendered to such date. Changes in the fair value of the liability-classified awards, after the requisite service period has been completed and before the awards are vested, are recognized as compensation expenses in the period in which the change in fair value occurs.

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.19 Revenue recognition

The Group offers a variety of travel related services, including accommodation reservation service, transportation ticketing service and, to a much lesser extent, online advertising service.

Revenues are recognized when or as the control of the goods or services is transferred to the customer. Depending the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

(a) Principal agent consideration

The Group determines the presentation of its revenue by assessing whether it acts as the principal of the services that are rendered. The Group presents its revenues on a net basis (that is, the amount billed to the users less the amount paid to the travel service suppliers) when the Group acts as an agent with no control over the underlying services and does not assume inventory risk. The Group presents its revenue on a gross basis (that is, the amount billed to the users) when the Group assumes inventory risk and acts as a principal by pre-purchasing the hotel room nights or tickets from the travel service suppliers. The purchase payments to the travel suppliers are recorded as “cost of revenue” in the consolidated statements of comprehensive (loss)/income.

The Group presents majority of its revenue on net basis as the supplier is primarily responsible for providing the underlying travel services and the Group does not control the service provided by the supplier prior to its transfer to the user.

(b) *Timing of revenue recognition*

Accommodation reservation services

The Group generates revenue as a result of the booking of travel products and services on its websites and mobile apps and derives its revenue mainly from the commissions earned from intermediating services for facilitating reservations of hotel accommodations. Commissions from accommodation reservation services are recognized when the accommodation reservations placed by users through the Group become non-cancellable.

Transportation ticketing services

Transportation ticketing services primarily consist of the reservation of air tickets and train tickets, sale of travel insurance and other transportation-related services. The commissions from such services are recognized upon the issuance of the tickets or the travel insurance, net of estimated cancellations.

Other Services

Other revenues are primarily derived from technical development service and advertising business. The revenues are recognized over the service period.

(c) *Contract asset and contract liability*

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the Group’s performance and the customer’s payment. A contract asset is the Group’s right to consideration in exchange for services that the Group has transferred to its customer. A contract liability is the Group’s obligation to transfer services to its customer for which the Group has received consideration from the customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as contract assets and subsequently amortized when the related revenue is recognized. The Group did not recognize any significant contract asset or liability for the services it rendered in the Track Record Period.

(d) *Users incentive programs*

The Company provides various users incentive programs. Where participating travelers are awarded incentives on current transactions that can be redeemed for future reservations through the Company’s platforms or redeemed for cash, the estimated fair value of the incentives that are expected to be redeemed is recognized as a reduction of revenues at the time the incentives are granted.

2.20 Service development expense

Service development expense represents the expenses incurred to develop and diversify the travel products and services the Company sources from its travel service providers as well as the expenses in relation to research and development of service providers assist system and the Company’s online platforms.

2.21 Interest income

Interest income is recognized on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.22 Government grants/subsidies

Grants/subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognized as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income or loss on a straight-line basis over the period of the lease.

2.24 Dividends distribution

Dividends distribution to the Company’s shareholders is recognized as a liability in the Group’s and the Company’s financial information in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

3 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Apart from the PRC operating entities under the Group’s control through the Contractual Arrangements being accounted for as subsidiaries as described in Note 2.2(a) above, the estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) *Impairment of non-financial assets*

The Group tests annually whether goodwill has suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group’s financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income or loss.

(b) *Valuation of redeemable convertible preferred shares*

The preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the preferred shares. Key assumptions, such as discount rate, risk-free interest rate, lack of marketability discount and volatility are disclosed in Note 24.

(c) *Useful lives and amortization charges of intangible assets*

The Group’s management determines the estimated useful lives and related amortization charges for the Group’s intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortization charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

(d) *Current and deferred income taxes*

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4 Financial risk management

4.1 *Financial risk factors*

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. Risk management is carried out by the senior management of the Group.

(a) *Market risk*

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities’ functional currency. The Group manages its foreign exchange risk by performing regular reviews of the Group’s net foreign exchange exposures. The Group does not hedge against any fluctuation in foreign currency during the Track Record Period.

The Group operates mainly in the PRC with most of the transactions settled in RMB, management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Group are denominated in the currencies other than the respective functional currencies of the Group’s entities.

(ii) Interest rate risk

The Group’s interest rate risk primarily arose from borrowings with floating rates (Note 23), time deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 10 percent higher/lower, the profit before income tax for the year ended December 31, 2017 would have been approximately RMB264,000 lower/higher.

If the interest rate of time deposits had been 10 percent higher/lower, the profit before income tax for the year ended December 31, 2015 would have been approximately RMB28,000 higher/lower.

If the interest rate of short-term investments measured at fair value through profit or loss had been 10 percent higher/lower, the profit before income tax the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB3,437,000 higher/lower, RMB195,000 higher/lower and RMB745,000 higher/lower, respectively.

(b) *Credit risk*

The Group is exposed to credit risk in relation to its cash and bank deposits, trade and other receivables and short-term investments measured at fair value through profit or loss.

The carrying amounts of each class of the above financial assets represent the Group’ maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and bank deposits and wealth management products issued by commercial banks, The Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions.

Trade receivables at each end of Track Record Period are mainly due from the third-party customers including hotels or related agents, etc. in cooperation with the Group and other receivables mainly include deposits and others (“Receivables”). The Group considers the probability of default upon initial recognition of Receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, The Group compares the risk of a default occurring on the Receivables as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors’ ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors, etc.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on Receivables are when the counterparty fails to make contractual payments within 180 days of when they fall due.

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The Group makes periodic assessment on the credit risk of the Receivables based on the history of cooperation with customers, settlement records and past experience, the Directors believe that the credit risk inherent in the outstanding Receivables due from the debtors is not material.

(c) *Price risk*

The Group is exposed to price risk in respect of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 4.3 for detail.

(d) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyzes the Group’s financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
At December 31, 2015					
Trade payables	658,566	—	—	—	658,566
Other payables and accruals	256,339	—	—	—	256,339
	<u>914,905</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>914,905</u>
At December 31, 2016					
Trade payables	921,633	—	—	—	921,633
Redeemable convertible preferred shares	—	—	6,398,631	—	6,398,631
Other payables and accruals	123,624	—	—	—	123,624
	<u>1,045,257</u>	<u>—</u>	<u>6,398,631</u>	<u>—</u>	<u>7,443,888</u>
At December 31, 2017					
Borrowings	29,643	28,581	79,375	106,141	243,740
Trade payables	1,114,917	—	—	—	1,114,917
Redeemable convertible preferred shares	—	—	6,347,647	—	6,347,647
Other payables and accruals	120,610	—	—	—	120,610
	<u>1,265,170</u>	<u>28,581</u>	<u>6,427,022</u>	<u>106,141</u>	<u>7,826,914</u>

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4.2 Capital risk management

The Group’s objectives when managing capital (including funding from the Group and related parties) are to safeguard the Group’s ability to continue as a going concern in order to provide returns for the Group and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity value in the long-term.

4.3 Fair value estimation

The table below analyzes the Group’s financial instruments carried at fair value as of December 31, 2015, 2016 and 2017, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group’s assets and liabilities that are measured at fair value as of December 31, 2015.

	Level 1	Level 2	Level 3	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of December 31, 2015				
Assets				
- Long-term investments measured at fair value through profit or loss (Note 17) ..	—	—	49,881	49,881
- Short-term investments measured at fair value through profit or loss (Note 17) ..	—	—	21,046	21,046
	<u>—</u>	<u>—</u>	<u>70,927</u>	<u>70,927</u>

The following table presents the Group’s assets and liabilities that are measured at fair value as of December 31, 2016.

	Level 1	Level 2	Level 3	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As of December 31, 2016				
Assets				
- Long-term investments measured at fair value through profit or loss (Note 17) ..	—	—	45,685	45,685
- Short-term investments measured at fair value through profit or loss (Note 17) ..	—	—	71,041	71,041
	<u>—</u>	<u>—</u>	<u>116,726</u>	<u>116,726</u>
Liabilities				
- Redeemable convertible preferred shares (Note 24)	<u>—</u>	<u>—</u>	<u>6,398,631</u>	<u>6,398,631</u>

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The following table presents the Group’s assets and liabilities that are measured at fair value as of December 31, 2017.

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
As of December 31, 2017				
Assets				
- Long-term investments measured at fair value through profit or loss (Note 17) ..	—	—	25,239	25,239
- Short-term investments measured at fair value through profit or loss (Note 17) ..	—	—	236,107	236,107
	<u>—</u>	<u>—</u>	<u>261,346</u>	<u>261,346</u>
Liabilities				
- Redeemable convertible preferred shares (Note 24)	<u>—</u>	<u>—</u>	<u>6,347,647</u>	<u>6,347,647</u>

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) *Financial instruments in level 3*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

Level 3 instruments of the Group’s assets and liabilities include long-term investment measured at fair value through profit or loss, short-term investments measured at fair value through profit or loss and redeemable convertible preferred shares.

The changes in level 3 instruments of the Preferred Shares for the years ended December 31, 2015, 2016 and 2017 are presented in the Note 24.

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The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	15,000	49,881	45,685
Addition	15,000	—	—
Reclassify from investments accounted for using the equity method.....	2,424	—	—
Disposal.....	—	—	(19,247)
Changes in fair value	17,457	(4,196)	(1,199)
At the end of the year.....	<u>49,881</u>	<u>45,685</u>	<u>25,239</u>

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the year ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	91,998	21,046	71,041
Addition	226,298	425,623	1,673,388
Disposal.....	(302,247)	(383,064)	(1,520,439)
Changes in fair value.....	4,997	6,436	12,117
At the end of the year	<u>21,046</u>	<u>71,041</u>	<u>236,107</u>
Net unrealized gains for the year	<u>189</u>	<u>165</u>	<u>2,062</u>

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The valuation of the level 3 instruments mainly included the Preferred Shares (Note 24), long-term investments measured at fair value through profit or loss in unlisted companies (Note 17) and short-term investments measured at fair value through profit or loss (Note 17). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc. Major assumptions used in the valuation for the preferred shares are presented in Note 24.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements of the short-term and long-term investments.

Description	Fair Values As of December 31,			Valuation techniques	Significant unobservable inputs	Range of inputs As of December 31,			Relationship of unobservable inputs to fair values
	2015	2016	2017			2015	2016	2017	
	RMB'000	RMB'000	RMB'000			RMB'000	RMB'000	RMB'000	
Investments measured at fair value through profit or loss	49,881	45,685	25,239	Market approach	Expected volatility	48.8%~59.9%	47.2%~52%	35%~43.1%	The higher the expected volatility, the lower the fair value
					Risk-free rate	2.6%~3.2%	2.7%~2.8%	3.8%~3.9%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	21,046	71,041	236,107	Discounted cash flows	Expected rate of return	0.4%-5.4%	0.8%-6.0%	1.5%-6.0%	The higher the expected rate of return, the higher the fair value

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB7.1 million higher/lower, RMB11.7 million higher/lower and RMB26.1 million higher/lower, respectively.

Fair value of the Preferred Shares is affected by changes in the Company’s equity value, if the Company’s equity value had increased/decreased by 10% with all other variables held constant, the profit before income tax for the years ended December 31, 2016 and 2017 would have been approximately RMB604 million lower/RMB605 million higher and RMB591 lower/RMB595 million higher, respectively.

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2015, 2016 and 2017.

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5. Revenue and segment information

The CODM assesses the performance of the operating segment mainly based on the measure of operating profit, excluding items which are not directly related to the segment performance (“combined results”). These include non-operating income/(expenses) such as government subsidies, fair value gains on short-term investments measured at fair value through profit or loss, and other non-operating items. The CODM reviews the combined results when making decisions about allocating resources and assessing performance of the Group as a whole. Therefore, the Group has only one reportable segment which mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC. As of December 31, 2015, 2016 and 2017, substantially all of the non-current assets of the Group were located in the PRC. Therefore, no geographical segments are presented. No analysis of segment assets or segment liabilities is presented as they are not used by the CODM when making decisions about allocating resources and assessing performance of the Group.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Operating (loss)/profit per consolidated statements of comprehensive (loss)/income.....	(942,961)	(2,115,907)	28,714
Less: Other income	(49,006)	(10,547)	(12,805)
Fair value changes on investments measured at fair value through profit or loss.....	(17,646)	4,031	(863)
Other gains/(losses), net.....	(51,107)	(4,689)	(22,610)
Operating (loss)/profit presented to the CODM.....	<u>(1,060,720)</u>	<u>(2,127,112)</u>	<u>(7,564)</u>

Revenue by service type for the years ended December 31, 2015, 2016 and 2017 are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accommodation reservation services	907,649	2,094,050	2,361,625
Transportation ticketing services	89,378	86,650	61,295
Others	29,097	23,865	95,671
Total revenue	<u>1,026,124</u>	<u>2,204,565</u>	<u>2,518,591</u>

Since no revenue derived from sale to single customer of the Group has individually accounted for over 10% of the Group’s total revenue during each of the years presented, no information about major customers in accordance with IFRS 8 *Operating Segment* is presented.

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6. Expenses by nature

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Commission expenses	182,002	473,276	659,761
Employee benefit expense (Note 7)	722,577	688,790	635,186
Cost of pre-purchased inventory risk-taking room nights.....	239,686	677,359	532,870
Advertising and promotion expenses.....	567,557	1,357,769	356,776
Depreciation and amortization expense (Note 14 & 18)	73,292	77,333	84,150
Order processing cost	52,371	46,708	51,841
Rental and utility fees	44,583	42,995	38,963
Telephone and communication	35,375	38,022	37,779
Professional fees	18,932	39,596	35,032
Audit fees	7,352	4,158	1,491
Travelling and entertainment expenses.....	25,736	21,762	23,613
Bandwidth and server fees.....	18,426	20,949	23,581
Tax and surcharges	56,896	21,549	7,815
Charges related to re-designation of ordinary shares to the Preferred Shares in connection with the Restructuring (Note 24).....	—	742,467	—
Others	42,059	78,944	37,297
	<u>2,086,844</u>	<u>4,331,677</u>	<u>2,526,155</u>

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7. Employee benefit expense (including directors’ emoluments)

	Year ended December 31,		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Wages, salaries and bonuses	372,506	458,322	446,399
Pension costs - defined contribution plans	55,813	62,167	62,881
Other social security costs, housing benefits and other employee benefits	82,758	95,958	69,123
Share-based compensation expenses (Note 8)	211,500	72,343	56,783
	<u>722,577</u>	<u>688,790</u>	<u>635,186</u>

(a) Pension costs — defined contribution plans

Employees of the Group in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. The Group contributes funds which are calculated on a fixed percentage of 14% of the employees’ salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

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(b) Directors’ emoluments

With the completion of the Acquisition, the emoluments of individual directors of the Company are set out below which accounts for the directors of the Company after the Acquisition:

Emoluments paid or receivable in respect of a person’s services as a Director, whether of the Company or its subsidiaries undertaking									
	Fees	Salary	Discretionary Bonuses	Housing allowance	Estimated money value of other benefits	Employer’s contribution of a retirement benefit scheme	Share-based compensation expenses	Other emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the Company or its subsidiaries undertaking	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Year ended December 31, 2015									
Executive Director — Mr. Jiang Hao	—	328	—	7	14	21	3,943	—	4,313
Year ended December 31, 2016									
Executive Director — Mr. Jiang Hao	—	675	—	14	26	42	11,055	—	11,812
Year ended December 31, 2017									
Executive Director — Mr. Jiang Hao	—	925	1,662	16	26	46	9,447	—	12,122

The remuneration shown above represents remuneration received from the Group by the director in his capacity as employee to the companies comprising the Group. No directors waived any emolument during the Track Record Period.

No director fees were paid to the director in his capacity as director of the Company. No emoluments were paid by the Company or the companies comprising the Group as an inducement to join the Company or the companies comprising the Group, or as compensation for loss of office during the Track Record Period.

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Mr. Wu Zhixiang was appointed as the Company’s Co-chairman and executive director on March [9], 2018.

Mr. Ma Heping, Mr. Jiang Hao were appointed as the Company’s executive director on March [9], 2018 and March [9], 2018 respectively.

Mr. Liang Jianzhang was appointed as the Company’s Co-chairman and non-executive director on March [9], 2018.

Mr. Lin Haifeng, and Mr. Brent Richard Irvin were appointed as the Company’s non-executive directors on March [9], 2018 and March [9], 2018 respectively.

Mr. Wu Haibing, Mr. Dai Xiaojing and Ms. Han Yuling were appointed as the Company’s independent non-executive directors on [●], [●], and [●] respectively. During the Track Record Period, the independent non-executive directors have not yet been appointed and did not receive any remuneration.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Track Record Period include 0, 1 and 1 director whose emoluments are reflected in the analysis shown in “Directors’ emoluments”. The emoluments payable to the remaining 5, 4 and 4 individuals for the Track Record Period are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Wages, salaries and bonuses	6,247	4,234	5,306
Pension costs - defined contribution plans	201	172	198
Other social security costs, housing benefits and other employee benefits	392	292	234
Share-based compensation expenses (Note 8)	119,344	9,285	6,105
	<u>126,184</u>	<u>13,983</u>	<u>11,843</u>

The emoluments fell within the following band:

	Number of individuals		
	2015	2016	2017
HKD 2 million to HKD 3 million	—	—	3
HKD 3 million to HKD 4 million	—	3	—
HKD 4 million to HKD 5 million	—	—	—
HKD 5 million to HKD 10 million	4	1	1
Over HKD 10 million	<u>1</u>	<u>—</u>	<u>—</u>

8. Share-based compensation expenses

(a) Share incentive plans

In July 2004, eLong adopted a share and annual incentive plan (the “2004 Plan”), which allows eLong grants share options, share appreciation rights, restricted shares or Restricted Share Units (“RSUs”) to officers, employees, non-employees, directors or consultants of eLong up to a maximum of 4,000,000 ordinary shares of eLong.

In May 2009, eLong adopted a share and annual incentive plan (the “2009 Plan”), which allows eLong to grant share options, share appreciation rights, restricted shares or RSUs to officers, employees, directors or consultants of eLong up to an aggregate of 17,000,000 ordinary shares of eLong.

In August 2016, the Company adopted a 2016 share incentive plan (the “2016 Plan”), which allows officers, employees, non-employees, directors of the Company to (i) acquire ordinary shares of the Company pursuant to options granted hereunder, (ii) receive RSU awards, and (iii) make direct purchases of restricted shares. The maximum number of ordinary shares that may be subject to the awards granted under the 2016 Plan is 10,136,000.

Share options granted under the 2004 Plan expired in five or ten years, and generally vested and became exercisable ratably over three to five years from the date of grant. Options granted under the 2009 Plan generally expired in five years and vested and became exercisable over one to three years from the date of grant.

RSUs are rights to receive the ordinary shares of eLong or the Company, when applicable in the case of grants to the Company’s independent directors, a cash award linked to the Company’s ordinary share value. RSUs generally vest over a two to five-year period, and are not entitled to dividends or voting rights.

(b) Equity Awards in connection with the Expedia Transaction

In May 2015, in connection with the Expedia Transaction which resulted in the change of control of eLong, the Board of Directors of eLong resolved the follows:

- to accelerate the vesting and cash settlement of unvested restricted share units held by certain then directors for a price of US\$14.635 per RSU. The associated cost for the accelerating vesting of these RSU amounted to RMB4.1 million and was recognized in administrative expenses for the year ended December 31, 2015;
- to accelerate the vesting of 3,655,722 then un-vested RSUs previously granted to the then CEO of eLong. The associated cost for the accelerating vesting of these RSUs amounted to RMB110.3 million and was recognized in administrative expenses for the year ended December 31, 2015;
- eLong to repurchase 253,804 then unvested RSUs and share options held by certain senior management at a price of US\$14.635 per share. The cost for such repurchase amounted to RMB6.8 million and was recognized in administrative expenses for the year ended December 31, 2015.
- to accelerate the vesting of then-unvested options and RSUs held by employees and granted to such employees a right to sell to eLong the ordinary shares issued upon vesting, for a price of \$14.635 per share. In this connection, the Company repurchased 740,226 vested RSUs and share options from the employees who exercised the right. The cost arising from the acceleration of the vesting amounted to RMB98.4 million and was recognized in administrative expenses for the year ended December 31, 2015;

In connection with the Expedia Transaction, the then CEO of eLong sold 1,588,692 ordinary shares of eLong to Ctrip at a price of \$14.635 per share. As Ctrip became the largest shareholder of eLong upon the completion of the Expedia Transaction, the aggregate difference between the selling

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price and the then market price of related shares amounted to RMB22.1 million was recognized in administrative expenses for the year ended December 31, 2015. In addition, Ctrip also granted an option to the then CEO of eLong to exchange 529,564 ordinary shares of eLong for 27,679 ordinary shares of Ctrip, which was exercised on November 22, 2015. The fair value of such option amounted to RMB23.7 million was recorded in administrative expenses for the year ended December 31, 2015.

(c) Equity Awards in connection with the Restructuring

In August 2017, to align the interests of key employees with that of the Company, the Company established several employees’ equity awards entities in the form of limited liability partnerships in 2017 (the “EAEs”) and the EAEs jointly established an employees’ equity awards holding company (the “EAE Holdco”). According to the agreements between the EAEs and EAE Holdco, the Company has the discretion to invite any employee of the Company to participate in the EAEs by subscribing for their partnership interest. The participating employees are entitled to all the economic benefits generated by the EAEs with the requisition service period. As the general partner of these EAEs are designated by the Company, the EAEs and EAE Holdco are therefore controlled and consolidated by the Company as structured entities and all the ordinary shares issued to EAE Holdco for the purpose of equity incentives are recorded as treasury stock of the Company.

(d) Equity Awards after the Restructuring

After the incorporation of EAEs and EAE Holdco, to assume and replace the RSUs of eLong granted under eLong Equity Awards as aforementioned, the Company issued 2,068,671 ordinary shares to EAE Holdco which represented the then outstanding RSUs under eLong Equity Awards held by the related employees of these RSUs participated in EAEs.

On September 1, 2017, the Company, through EAEs and EAE Holdco, granted 2,350,000 RSUs to certain selected employees, 662,667 of which were immediately vested upon the grant with the remaining portion to be vested in 5 instalments over a 2.5 year requisite service period.

The share-based compensation expense recognized for employee services received during the Track Record Period is shown in the following table:

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Expense arising from equity-settled share-based payment transactions.....	<u>211,500</u>	<u>72,343</u>	<u>56,783</u>

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Share options

The following table summarizes information with respect to share options outstanding as of December 31, 2015, 2016 and 2017 and the weighted average exercise prices (“WAEP”).

	<u>2015 number</u>	<u>2015 WAEP</u>	<u>2016 number</u>	<u>2016 WAEP</u>	<u>2017 number</u>	<u>2017 WAEP</u>
	<i>USD</i>		<i>USD</i>			
Outstanding at January 1.....	972,139	7.39	183,513	8.35	n/a	n/a
Forfeited and expired during the year.....	(101,288)	8.48	(97,216)	8.74	n/a	n/a
Exercised during the year.....	(603,786)	6.83	(29,872)	7.14	n/a	n/a
Repurchased during the year	<u>(83,552)</u>	<u>8.02</u>	<u>(56,425)</u>	<u>8.36</u>	<u>n/a</u>	<u>n/a</u>
Outstanding at December 31	<u>183,513</u>	<u>8.35</u>	<u>—</u>	<u>—</u>	<u>n/a</u>	<u>n/a</u>
Exercisable at December 31	<u>183,513</u>	<u>8.35</u>	<u>—</u>	<u>—</u>	<u>n/a</u>	<u>n/a</u>

There was no new share option granted during the year ended December 31, 2015, 2016 and 2017.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2015 was 2.13 years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

Share options outstanding at the end of 2015 have the following expiry date and exercise prices:

<u>Expiry date — December 31,</u>	<u>Exercise price in USD per share option</u>	<u>Number of share options 2015</u>
2016	3.18~10.26	40,676
2017	7.19~8.5	87,037
2020	8.82	<u>55,800</u>
		<u><u>183,513</u></u>

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RSUs

The following table summarizes information with respect to RSUs arrangements through EAEs and EAE Holdco as aforementioned as of December 31, 2015, 2016 and 2017 and the weighted average fair value (“WAFV”).

	<u>2015 number</u>	<u>2015 WAFV</u>	<u>2016 number</u>	<u>2016 WAFV</u>	<u>2017 number</u>	<u>2017 WAFV</u>
		USD		USD		USD
Outstanding at January 1.....	6,156,728	8.09	3,937,415	8.33	2,158,679	8.54
Granted during the year	2,619,913	8.49	410,000	8.77	2,350,000	9.54
Forfeited and expired during the year	(1,197,022)	8.07	(504,384)	7.94	(3,229)	9.00
Exercised during the year.....	(2,731,726)	8.16	(211,433)	8.04	—	—
Repurchased during the year	(910,478)	8.02	(1,472,919)	8.32	(86,779)	7.35
Outstanding at December 31	<u>3,937,415</u>	<u>8.33</u>	<u>2,158,679</u>	<u>8.54</u>	<u>4,418,671</u>	<u>9.09</u>
Exercisable at December 31	<u>3,937,415</u>	<u>8.33</u>	<u>2,158,679</u>	<u>8.54</u>	<u>4,418,671</u>	<u>9.09</u>

The fair value of RSUs grants during years ended December 31, 2015 and 2016 were determined by the trading price of eLong’s ADR or ordinary share on NASDAQ Global Select Market. While, to determine the fair value of RSUs granted during fiscal year 2017, the Company used discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share.

9. Other income

	<u>Year ended December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Government subsidies.....	20,955	10,547	12,805
Interest income from time deposit	<u>28,051</u>	<u>—</u>	<u>—</u>
	<u>49,006</u>	<u>10,547</u>	<u>12,805</u>

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10. Other gains/(losses), net

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fair value gains from short-term investments measured at fair value through profit or loss.....	4,808	6,271	10,056
Foreign exchange gain/(loss)	2,931	(3,086)	1,294
Gain on disposal of long-term investments	—	—	753
Impairment of goodwill and other intangible assets (Note 18)	(40,402)	—	—
Impairment loss on equity investments (Note 15)	(459)	—	—
Gain on disposal of equity investments (Note 15).....	13,191	—	—
Gain from disposal of a subsidiary (a).....	71,082	—	—
Others	(44)	1,504	10,507
	<u>51,107</u>	<u>4,689</u>	<u>22,610</u>

- (a) On March 15, 2015, the Group disposed all of the Group’s equity interest in Nanjing Xici Information Technology Share Co., Ltd. (“Nanjing Xici”) to an independent third party for cash consideration of RMB75,820,000 with a gain of RMB71,081,854.

11. Finance income and costs

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Finance income			
Interest income on bank deposits.....	8,601	7,972	9,800
Others	555	430	345
	<u>9,156</u>	<u>8,402</u>	<u>10,145</u>
Finance costs			
Service fee for bank guarantee	(585)	(879)	(475)
Others	(5,246)	(3,235)	312
	<u>(5,831)</u>	<u>(4,114)</u>	<u>(163)</u>
Net finance income	<u>3,325</u>	<u>4,288</u>	<u>9,982</u>

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12. Income tax expense/(credit)

The income tax expense/(credit) of the Group for the years ended December 31, 2015, 2016 and 2017 is analyzed as follows:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	20,040	433	5,603
Deferred income tax (Note 19)	(14,834)	545	(65,959)
	<u>5,206</u>	<u>978</u>	<u>(60,356)</u>

(a) Cayman Islands income tax

Under the current laws of the Cayman Islands, the Company is not subject to tax on the Company’s income or capital gains. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

(b) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(c) PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the years ended December 31, 2015, 2016 and 2017, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% in 2015, 2016 and 2017.

One subsidiary of the Company is qualified as High and New Technology Enterprise, and accordingly, its subject to a reduced preferential CIT rate of 15% for the years ended December 31, 2015, 2016 and 2017 according to the applicable CIT law.

(d) PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the Track Record Period, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was provided as of December 31, 2015, 2016 and 2017.

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The tax on the Group’s profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2015, 2016 and 2017, being the tax rate of the major subsidiaries of the Group. The difference is analyzed as follows:

	Year ended December 31		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
(Loss)/profit before income tax	<u>(957,813)</u>	<u>(2,159,618)</u>	<u>134,021</u>
Tax calculated at PRC statutory tax rate of 25%.....	(239,453)	(539,905)	33,505
Tax effects of:			
Preferential income tax rates.....	108,683	228,595	(18,075)
Super deduction for research and development expenses*	(10,911)	(14,190)	(18,142)
Expenses not deductible for tax purposes	3,044	272,023	16,148
Utilization/(recognition) of previously unrecognized tax losses and temporary differences**	140,536	57,083	(74,079)
Others	<u>3,307</u>	<u>(2,628)</u>	<u>287</u>
Income tax expense/(credit)	<u><u>5,206</u></u>	<u><u>978</u></u>	<u><u>(60,356)</u></u>

* According to the relevant tax laws and regulations in the PRC, that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year

** The Group did not recognize the deferred tax assets for its tax losses in 2015 and 2016 considering that there is substantial uncertainty in utilization of the tax losses when the Company’s PRC subsidiaries were still in loss making position. In 2017, with its major PRC subsidiaries turning to be profitable, the Group recognized the associated deferred tax assets based on its best estimate of the future utilization of the tax losses.

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13. Earnings/(loss) per share

(a) Basic

Basic earnings or loss per share for the years ended December 31, 2015, 2016 and 2017 are calculated by dividing the profit or loss attribute to the Company’s equity holders by the weighted average number of ordinary shares in issue during the respective years.

As of December 31, 2015, 2016 and 2017, 3,937,415, 2,158,679 and 4,418,671 ordinary shares were issued to certain employees respectively. However, the shareholder’s rights of these shares were restricted and would be vested over certain service periods. Accordingly, these shares were accounted for as RSUs. The Group did not include these ordinary shares in the calculation of basic earnings/(loss) per share for the years ended December 31, 2015, 2016 and 2017 as these shares are not considered outstanding for earnings/(loss) per share calculation purposes.

	Year ended December 31,		
	2015	2016	2017
Net profit/(loss) attributable to the owners of the Company (RMB’000)	(916,266)	(2,139,267)	195,575
Weighted average number of ordinary shares in issue (’000)	73,300	46,497	26,052
Basic earnings/(loss) per share (RMB).....	<u>(12.50)</u>	<u>(46.01)</u>	<u>7.51</u>

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

As the Group incurred losses for the years ended December 31, 2015 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended December 31, 2015 and 2016 are the same as basic loss per share of the respective years.

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	Year ended December 31,		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net profit/(loss) attributable to the owners of the Company (RMB’000)	(916,266)	(2,139,267)	195,575
Adjustment for redeemable convertible preferred shares (RMB’000)	—	—	(97,576)
Net profit/(loss) for calculation of diluted earnings/(loss) per share (RMB’000).....	(916,266)	(2,139,267)	97,999
Weighted average number of ordinary shares in issue (’000)	73,300	46,497	26,052
Adjustments for redeemable convertible preferred shares (’000).....	—	—	60,534
Adjustments for RSUs granted to employees (’000).....	—	—	1,167
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share (’000)	73,300	46,497	87,753
Diluted earnings/(loss) per share (RMB).....	<u>(12.50)</u>	<u>(46.01)</u>	<u>1.12</u>

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14. Property, plant and equipment

	IT equipment	Furniture and fixtures	Software	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015						
Cost.....	117,458	12,506	153,306	16,049	—	299,319
Accumulated depreciation	(63,857)	(7,793)	(105,535)	(9,778)	—	(186,963)
Net book amount.....	53,601	4,713	47,771	6,271	—	112,356
Year ended December 31, 2015						
Opening net book amount	53,601	4,713	47,771	6,271	—	112,356
Additions.....	15,051	1,228	24,267	1,126	—	41,672
Depreciation charge	(20,154)	(1,827)	(28,443)	(1,643)	—	(52,067)
Disposal	(2,722)	(273)	(36)	(130)	—	(3,161)
Closing net book amount	45,776	3,841	43,559	5,624	—	98,800
At December 31, 2015						
Cost.....	121,225	11,669	170,681	16,209	—	319,784
Accumulated depreciation	(75,449)	(7,828)	(127,122)	(10,585)	—	(220,984)
Net book amount	45,776	3,841	43,559	5,624	—	98,800
Year ended December 31, 2016						
Opening net book amount	45,776	3,841	43,559	5,624	—	98,800
Additions.....	40,173	1,128	13,066	1,063	—	55,430
Depreciation charge	(22,799)	(1,748)	(27,094)	(1,204)	—	(52,845)
Disposal	(217)	(87)	(7)	—	—	(311)
Closing net book amount	62,933	3,134	29,524	5,483	—	101,074

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	IT equipment RMB'000	Furniture and fixtures RMB'000	Software RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At December 31, 2016						
Cost.....	158,034	12,222	174,824	13,719	—	358,799
Accumulated depreciation	(95,101)	(9,088)	(145,300)	(8,236)	—	(257,725)
Net book amount	62,933	3,134	29,524	5,483	—	101,074
Year ended December 31, 2017						
Opening net book amount	62,933	3,134	29,524	5,483	—	101,074
Additions.....	30,239	446	130	138	356,565	387,518
Depreciation charge	(24,311)	(1,387)	(18,054)	(1,325)	—	(45,077)
Disposal	(1,532)	(179)	—	(82)	—	(1,793)
Closing net book amount	67,329	2,014	11,600	4,214	356,565	441,722
At December 31, 2017						
Cost.....	174,841	11,420	174,167	13,564	356,565	730,557
Accumulated depreciation	(107,512)	(9,406)	(162,567)	(9,350)	—	(288,835)
Net book amount	67,329	2,014	11,600	4,214	356,565	441,722

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Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	45,935	47,250	39,961
Service development expenses	4,511	4,244	4,072
Administrative expenses	1,305	1,184	905
Selling and marketing expenses	316	167	139
	<u>52,067</u>	<u>52,845</u>	<u>45,077</u>

Note: Construction in progress with carrying amount of RMB356,564,820 were pledged as security for the Group’s bank borrowings of RMB191,997,000 as of December 31, 2017 (Note 23).

15. Investments accounted for using the equity method

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year.....	78,306	51,087	39,869
Shares of results.....	(18,177)	(11,218)	(2,251)
Impairment loss (Note 10).....	(459)	—	—
Reclassify to long-term investment measured as fair value through profit or loss (b)	(2,424)	—	—
Disposal of investments accounted for using the equity method	<u>(6,159)</u>	<u>—</u>	<u>—</u>
At the end of the year	<u>51,087</u>	<u>39,869</u>	<u>37,618</u>

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Set out below are the particulars of the associate of the Group as of December 31, 2015, 2016 and 2017.

Name of associate	Place of incorporation	Principal activities	Equity interest held as of December 31,		
			2015	2016	2017
2012 Affiliate Company ^(a)	The PRC	Property management software development	46.5%	46.5%	46.5%

Note:

(a) *Equity Method Investment - 2012 Affiliate Company*

In 2012, the Group acquired 30% equity interest in an unlisted company (the “2012 Affiliate Company”) at RMB5.6 million. The Company accounted for its investment using the equity method. In 2013, the 2012 Affiliate Company changed its business focus to property management software development, which was considered as better business collaboration with the Group. As such, in 2014, the Group acquired an additional 19% equity interest in the associate at consideration of RMB76,663,200.

In 2015, the Group reached an agreement with a third party to sell a 2.5% equity interest in the 2012 Affiliate Company for cash consideration of RMB13,750,000, and recognized a gain of RMB10,014,455 on the date of the disposal.

(b) *Equity Method Investment - 2014 Affiliate Company*

On December 12, 2014, the Group invested RMB5,600,000 to acquire a 30% equity interest in 2014 Affiliate Company and accounted for this investment using the equity method. On July 20, 2015, the Group disposed of a 15% equity interest in 2014 Affiliate Company for proceeds of RMB5,600,000 and realized a gain of RMB3,176,066. Upon the completion of the disposition, the Group held a remaining 15% equity interest in 2014 Affiliate Company and switched to short-term investment measured at fair value through profit or loss due to the Group’s lack of ability to exercise significant influence.

The Company’s investments in affiliates, either accounted for under equity method or measured at fair value through profit and loss, are not considered material in individual or aggregated basis in the Track Record Period.

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16. Financial instruments by category

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Assets as per consolidated statement of financial position			
Financial assets at fair value through profit or loss:			
- Long term investments measured at fair value through profit or loss (Note 17).....	49,881	45,685	25,239
- Short-term investments measured at fair value through profit or loss (Note 17).....	21,046	71,041	236,107
Financial assets at amortized costs:			
- Trade receivables (Note 21).....	461,431	883,382	539,217
- Other receivables (Note 20).....	118,126	128,015	115,400
- Time deposits (Note 17)	224,507	—	—
- Restricted cash (Note 22)	146,480	153,606	170,541
- Cash and cash equivalents (Note 22)	710,403	339,299	701,748
	<u>1,731,874</u>	<u>1,621,028</u>	<u>1,778,252</u>
Liabilities as per consolidated statement of financial position			
Financial liabilities at amortized cost:			
- Trade payables (Note 25).....	658,566	921,633	1,114,917
- Other payables (Note 26)	256,339	123,624	120,610
- Borrowings (Note 23).....	—	—	191,997
Financial liabilities at fair value through profit or loss:			
- Redeemable convertible preferred shares (Note 24)	—	6,398,631	6,347,647
	<u>914,905</u>	<u>7,443,888</u>	<u>7,775,171</u>

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17. Investments

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current assets			
Short-term investments measured at			
-Amortized cost (a)	224,507	—	—
-Fair value through profit or loss (b).....	21,046	71,041	236,107
	<u>245,553</u>	<u>71,041</u>	<u>236,107</u>
Non-current assets			
Long-term investments measured at fair value through profit or loss (c)	<u>49,881</u>	<u>45,685</u>	<u>25,239</u>

(a) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are time deposits with maturities above 3 months to one year with fixed interest rates and denominated in RMB. The investments are held for collection of contractual cash flow and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.

(b) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products denominated in RMB and with expected rates of return ranging from 0.4% to 5.4%, 0.8% to 6.0%, and 1.5% to 6.0% per annum for the years ended December 31, 2015, 2016 and 2017, respectively. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

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(c) Long-term investments measured at fair value through profit or loss

As of December 31, 2015, 2016 and 2017, long-term investments measured at fair value through profit or loss are equity interests held by the Group in several private companies in the PRC.

The equity interests held by the Group in the private companies are (i) less than 20% of each entity and the Group does not have control nor significant influence over each of these entities, or (ii) not considered to be common equity due to the investment having a substantive liquidation preference or redemption rights. Therefore, these investments are classified as long-term investments measured at fair value through profit or loss.

The fair values of the long-term investments are measured using a valuation technique with unobservable inputs and hence classified as Level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 4.3.

(d) Amounts recognized in profit or loss

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fair value changes in long-term investments	17,457	(4,196)	(1,199)
Fair value changes in short-term investments measured at fair value through profit or loss.....	189	165	2,062
	<u>17,646</u>	<u>(4,031)</u>	<u>863</u>

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18. Intangible assets

	Goodwill (Note c)	Customer lists	Trade names	Copy-rights	Business cooperation and internet domain names (Note a)	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015							
Cost	186,846	9,191	86,467	192	3,904	4,930	291,530
Accumulated amortization	—	(7,410)	(7,730)	(192)	(2,162)	(1,886)	(19,380)
Impairment	(5,524)	—	—	—	(555)	—	(6,079)
Net book amount	181,322	1,781	78,737	—	1,187	3,044	266,071
Year ended December 31, 2015							
Opening net book amount	181,322	1,781	78,737	—	1,187	3,044	266,071
Addition	2,920	510	1,570	—	—	37	5,037
Amortization charge	—	(714)	(18,435)	—	(454)	(1,622)	(21,225)
Disposal	—	—	—	—	(335)	—	(335)
Impairment loss (Note b)	—	—	(40,402)	—	—	—	(40,402)
Closing net book amount	184,242	1,577	21,470	—	398	1,459	209,146
At December 31, 2015							
Cost	189,766	9,701	88,037	192	3,049	4,967	295,712
Accumulated amortization	—	(8,124)	(26,165)	(192)	(2,096)	(3,508)	(40,085)
Impairment	(5,524)	—	(40,402)	—	(555)	—	(46,481)
Net book amount	184,242	1,577	21,470	—	398	1,459	209,146

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	Goodwill (Note c)	Customer lists	Trade names	Copy-rights	Business cooperation and inter-net domain names (Note a)	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2016							
Opening net book amount	184,242	1,577	21,470	—	398	1,459	209,146
Addition (Note a)	—	—	—	—	163,246	—	163,246
Amortization charge	—	(682)	(5,728)	—	(16,723)	(1,355)	(24,488)
Closing net book amount	184,242	895	15,742	—	146,921	104	347,904
At December 31, 2016							
Cost	189,766	9,701	88,037	192	166,295	4,967	458,958
Accumulated amortization	—	(8,806)	(31,893)	(192)	(18,819)	(4,863)	(64,573)
Impairment	(5,524)	—	(40,402)	—	(555)	—	(46,481)
Net book amount	184,242	895	15,742	—	146,921	104	347,904
Year ended December 31, 2017							
Opening net book amount	184,242	895	15,742	—	146,921	104	347,904
Amortization charge	—	(683)	(5,727)	—	(32,649)	(14)	(39,073)
Closing net book amount	184,242	212	10,015	—	114,272	90	308,831
At December 31, 2017							
Cost	189,766	9,701	88,037	192	166,295	4,967	458,958
Accumulated amortization	—	(9,489)	(37,620)	(192)	(51,468)	(4,877)	(103,646)
Impairment	(5,524)	—	(40,402)	—	(555)	—	(46,481)
Net book amount	184,242	212	10,015	—	114,272	90	308,831

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Note:

(a) Business cooperation arrangement

In July 2016, the Company entered into a Strategic Cooperation Arrangement with one of its shareholders (the “Shareholder”), which includes a Business Cooperation Arrangement and a compensation to promotion and marketing service rendered by the Shareholder to the Company by issuing 11,111,111 Preferred Shares of the Company. The Business Cooperation Arrangement has a term of five years and the shareholder will deploy certain agreed-upon business resources to the Company to increase the user traffic in 2016 of the Company’s platform. The Company assessed and concluded that the Business Cooperation Arrangement was qualified as an intangible asset to recognize in separate from the total consideration. Based on the valuation performed by the Company with assistance from the independent appraisal, the fair value of the 11,111,111 newly issued Preferred Shares was RMB1,208 million, out of which RMB163 million was attributable to the fair value of Business Cooperation Arrangement which is recorded as intangible asset and amortized over five years under straight line method, the remaining RMB1,045 million represented the compensation for the promotion and marketing service rendered by the Shareholder and was recorded as selling and marketing expense upon the issuance of the Preferred Shares.

(b) Impairment tests for trade names

In 2015, changes in circumstances in the geographical territory covered by one of the Company’s subsidiary indicated that the carrying value of the trade name might not be recoverable. With the assistance of an external valuer, the management of the Group decided to write down the value of trade name to its fair value less cost of disposal, which was measured using the relief from royalty method. As such, an impairment charge of RMB40,401,740 was recorded as “Other gain/(loss), net” in the consolidated statements of comprehensive (loss)/income for the year ended December 31, 2015.

(c) Impairment tests for goodwill

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount. Management reviews the business performance of the Group at group level as a single segment which goodwill is monitored. The recoverable amount for goodwill impairment assessment is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the Directors for the next five-year period using the estimated growth in revenue with a range of 5.9% to 19.8% and gross profit margin with a range from 67.8% to 74.8%. Thereafter, the cash flows are extrapolated using the terminal growth rate not exceeding the long-term average growth rate for the Group. The key assumptions such as discount rate and the constant growth rate used for value-in-use calculations in 2015, 2016 and 2017 are as follows:

	As of December 31,		
	2015	2016	2017
Discount rate	14.5%	14.50%	14.50%
Constant growth rate	3%	3%	3%

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Amortization charges were expensed in the following categories in the consolidated statements of comprehensive (loss)/income:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cost of revenue	—	—	—
Service development expenses	—	—	—
Selling and marketing expenses	—	16,324	32,649
Administrative expenses	21,225	8,164	6,424
	<u>21,225</u>	<u>24,488</u>	<u>39,073</u>

19. Deferred income tax

The amount of offsetting deferred income tax assets and liabilities is RMB5,343,000, RMB4,165,000 and RMB3,071,000 for the years ended 2015, 2016 and 2017, respectively. The analysis of deferred income tax assets and liabilities is as follows:

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
— to be recovered after more than 12 months.....	5,343	4,165	50,506
— to be recovered within 12 months.....	—	—	14,442
	<u>5,343</u>	<u>4,165</u>	<u>64,948</u>
Deferred tax liabilities:			
— to be recovered after more than 12 months.....	<u>(9,081)</u>	<u>(8,448)</u>	<u>(3,272)</u>

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The movements in the deferred income tax assets are as follows:

	Accrued liabilities and provisions	Impairment on investment, trade receivables and prepayment and other receivables	Future deductible expenses and others	Tax losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2015	—	—	—	—	—
Statement of profit or loss credit/(charge) (Note 12).....	—	—	—	5,343	5,343
At December 31, 2015.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,343</u>	<u>5,343</u>
At January 1, 2016	—	—	—	5,343	5,343
Statement of profit or loss credit/(charge) (Note 12).....	—	—	—	(1,178)	(1,178)
At December 31, 2016.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,165</u>	<u>4,165</u>
At January 1, 2017	—	—	—	4,165	4,165
Statement of profit or loss credit/(charge) (Note 12).....	14,576	4,247	35,217	6,743	60,783
At December 31, 2017.....	<u>14,576</u>	<u>4,247</u>	<u>35,217</u>	<u>10,908</u>	<u>64,948</u>

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The movements in the deferred income tax liability are as follows:

	Intangible assets acquired in business combination	Fair value changes in investments measured at fair value through profit or loss	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2015	(18,534)	—	(38)	(18,572)
Statement of profit or loss credit/(charge) (Note 12)	13,935	(4,444)	—	9,491
At December 31, 2015	<u>(4,599)</u>	<u>(4,444)</u>	<u>(38)</u>	<u>(9,081)</u>
At January 1, 2016	(4,599)	(4,444)	(38)	(9,081)
Statement of profit or loss credit/(charge) (Note 12)	1,200	(592)	25	633
At December 31, 2016	<u>(3,399)</u>	<u>(5,036)</u>	<u>(13)</u>	<u>(8,448)</u>
At January 1, 2017	(3,399)	(5,036)	(13)	(8,448)
Statement of profit or loss credit/(charge) (Note 12)	1,200	3,976	—	5,176
At December 31, 2017	<u>(2,199)</u>	<u>(1,060)</u>	<u>(13)</u>	<u>(3,272)</u>

Details of unrecognized deferred tax are as follows:

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB164,686,000 and RMB243,907,000 and RMB236,713,000 as of December 31, 2015, 2016 and 2017, respectively, in respect of tax losses amounting to RMB986,710,000 and RMB1,394,086,000 and RMB1,381,382,000 of certain subsidiaries comprising the Group as at those dates, respectively, that can be carried forward against future taxable income, and will expire between 2021 and 2022 under PRC tax regulations.

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20. Prepayment and other receivables

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Included in non-current assets			
Deposits (financial assets) (Note 22(b)).....	38,303	38,303	38,303
Others (financial assets)	9,846	11,458	10,869
	<u>48,149</u>	<u>49,761</u>	<u>49,172</u>
Included in current assets			
Advances to accommodation suppliers	109,454	174,155	51,682
Prepaid taxation	15,403	74	46,588
Advances to tickets suppliers	4,733	4,247	12,389
Prepayment for advertising	23,396	4,052	4,875
Prepayment for office rental	3,773	3,320	2,656
Others	9,131	10,086	11,520
Total non-financial assets	<u>165,890</u>	<u>195,934</u>	<u>129,710</u>
Deposits	60,268	70,247	52,386
Interest receivables	2,059	357	6,192
Receivables from Nanjing Xici disposal	7,650	7,650	7,650
Total financial assets	<u>69,977</u>	<u>78,254</u>	<u>66,228</u>
Current, total	<u>235,867</u>	<u>274,188</u>	<u>195,938</u>

- (a) The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Other receivables that are measured at amortized costs mainly included deposits, interest receivables and receivables from Nanjing Xici disposal. The Group considers the probability of default upon initial recognition of other receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Based on the assessment and analysis conducted by the Directors, no actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant increase of credit risk, and thus the impairment provisions, excluding that of receivable from Nanjing Xici disposal, recognized during the years ended December 31, 2015, 2016 and 2017 were limited to 12 months expected losses. For the receivables from Nanjing Xici disposal, it was arising from the Group’s disposal of equity interest in Nanjing Xici in 2015 (Note 10(a)) and secured by collateral assets. The Directors do not expect any significant credit risk relating to the receivables after considering the collateral assets.

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(b) Movement in impairment of other receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	338	4,753	2,350
Reverse for impairment	—	(2,767)	(521)
Provision for impairment	4,415	364	398
At the end of the year	<u>4,753</u>	<u>2,350</u>	<u>2,227</u>

21. Trade receivables

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Receivables from third parties	251,619	354,040	213,696
Receivables from related parties (Note 35)	<u>216,331</u>	<u>534,812</u>	<u>329,618</u>
	467,950	888,852	543,314
Less: allowance for impairment of trade receivables....	<u>(6,519)</u>	<u>(5,470)</u>	<u>(4,097)</u>
	<u>461,431</u>	<u>883,382</u>	<u>539,217</u>

Note:

(a) Movements on the Group’s allowance for impairment of trade receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year.....	(4,991)	(6,519)	(5,470)
Provision for doubtful receivables	(7,505)	(30,042)	(700)
Receivables written off during the year as uncollectible	<u>5,977</u>	<u>31,091</u>	<u>2,073</u>
At the end of the year	<u>(6,519)</u>	<u>(5,470)</u>	<u>(4,097)</u>

(b) The Group normally allows a credit period of 30 days to its customers. An ageing analysis of trade receivables based on invoice date is as follows:

	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 6 months	461,431	883,382	539,217
Over 6 months.....	<u>6,519</u>	<u>5,470</u>	<u>4,097</u>
	<u>467,950</u>	<u>888,852</u>	<u>543,314</u>

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- (c) Trade receivables are classified as financial assets measured at amortized cost under “loan and receivables”. The carrying amount of trade receivable approximated their fair values due to their short maturities.
- (d) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision is determined as follows:

	Not past due	Up to 2 months past due	2 to 3 months past due	Over 3 months past due	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2015					
Expected loss rate	0.27%	0.66%	3.81%	14.01%	
Gross carrying amount.....	317,226	97,657	23,517	29,550	467,950
Loss allowance provision	843	640	895	4,141	6,519
As of December 31, 2016					
Expected loss rate	0.11%	0.30%	2.70%	12.11%	
Gross carrying amount.....	633,606	200,649	26,176	28,421	888,852
Loss allowance provision	719	601	707	3,443	5,470
As of December 31, 2017					
Expected loss rate	0.22%	0.80%	11.28%	46.78%	
Gross carrying amount.....	466,582	65,505	7,632	3,595	543,314
Loss allowance provision	1,032	522	861	1,682	4,097

22. Bank balances and cash

- (a) Cash and cash equivalents

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash on hand	26	95	82
Cash at bank	710,377	339,204	701,666
Cash at bank and on hand	710,403	339,299	701,748

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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(b) Restricted cash

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deposits to business partners.....	146,480	153,606	170,541

Restricted cash represents cash that cannot be withdrawn without the permission of third parties. In connection with the Group’s air ticket business and the accommodation reservation services, the Group was required by its business partners to pay deposits as guarantee in order for the issuance of air tickets and timely payment. As of December 31, 2015, 2016 and 2017, the amount of the deposit placed in commercial banks under these guarantee arrangements was approximately RMB134 million, RMB91 million and RMB115 million, respectively and recorded as restricted cash; and the amount of the deposit deployed in commercial institution under these guarantee arrangements was approximately RMB38 million, RMB38 million and RMB38 million, respectively and recorded as prepayment and other receivables (Note 20).

23. Borrowings

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Secured bank borrowings (note a)	—	—	191,997
Less: current portion	—	—	(19,692)
Non-current portion	—	—	172,305

Notes:

- (a) The borrowings were secured by property, plant and equipment of the Group (Note 14) and bear interest at CHIBOR floating rate with 10% per annum.

At December 31, 2015, 2016 and 2017, the Group’s borrowings were repayable as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	19,692
1-2 years	—	—	19,692
2-5 years	—	—	59,076
Over 5 years.....	—	—	93,537
	—	—	191,997

The exposure of the Group’s borrowings to interest rate change at December 31, 2017 is disclosed in Note 4.1.

The Group is in compliance with all banking covenants as of December 31, 2015, 2016 and 2017.

24. Redeemable convertible preferred shares

In connection with the Restructuring as discussed in Note 1, all of eLong’s then outstanding ordinary shares were cancelled and all of its then existing ordinary shares were exchanged for the ordinary shares or the Preferred Shares of the Company in the following manner:

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- All the then outstanding ordinary shares of eLong were exchanged to the same number of ordinary shares of the Company;
- All the then outstanding high-vote ordinary shares of eLong were exchanged to the same number of the Preferred Shares of the Company; and
- In connection with the Restructuring, the ordinary shares of eLong that were purchased by the Buyers were re-designated and exchanged to the same number of the Preferred Shares of the Company.

After the completion of the Restructuring, the equity shareholdings of eLong, as if-converted basis, by its then existing shareholders have not changed. The Preferred Shares were recognized based on its fair value of RMB3,527 million, and the difference between the fair value of the Preferred Shares and the carrying value of the high-vote ordinary shares relinquished was recorded against the other reserve of RMB3,527 million.

The Company also assessed the re-designation of ordinary shares purchased by the Buyers and concluded that the difference between the fair value of the Preferred Shares that the Buyers obtained and the fair value of the ordinary shares purchased and relinquished by the Buyers should be recognized as expenses to reflect the benefit received by the Buyers. Therefore, the total difference between the carrying value of the ordinary shares that the Buyers purchased and the fair value of the Preferred Shares that the Buyers obtained with amount to RMB1,662 million was further allocated as (1) RMB742 million, being the difference between the fair value of the Preferred Shares that the Buyers obtained and the fair value of the ordinary shares purchased and relinquished by the Buyers, was deemed as share based payment received by Buyers and recorded as administrative expenses for the year ended December 31, 2016; and (2) RMB920 million, being the difference between the carrying value and fair value of the ordinary shares that the Buyers purchased was recorded as deduction of other reserve.

In July 2016, the Company issued 11,111,111 preferred shares to one of its shareholders with the total fair value of RMB1,208 million on the issuance date. Please refer to Note 18 for details.

The key terms of the Preferred Shares of the Company are as follows:

Voting

Each ordinary share has one vote. Each of the Preferred Shares carries a number of votes equal to the number of ordinary shares into which such preferred share could be converted into. The holders of ordinary shares and the Preferred Shares shall vote together as a single class.

Dividends

The holders of the Preferred Shares shall rank senior to the holders of ordinary shares in respect of any dividends declared by the Company and shall be entitled to participate in dividends on the ordinary shares on an as-converted basis.

Liquidation

Upon any liquidation or winding up of the Company, whether voluntary or involuntary or any deemed liquidation event, to the extent lawfully possible, before any distribution or payment shall be made to the holders of any ordinary shares, the holders of the Preferred Shares shall be entitled to receive an amount with respect to each preferred share equal to the greater of:

- (a) the liquidation preference (“Liquidation Preference”) means the higher of (i) \$13.50 or (ii) \$9.00 plus an 8% compounding annual rate commencing on the date of issuance; and
- (b) the amount distributable to such holder of the Preferred Shares if the funds and assets of the Company available for distribution to the prefer shareholders are distributed pro rata amongst all the shareholders of the Company on an as-converted basis.

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Conversion

Each of the Preferred Shares shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Liquidation Preference by the applicable Conversion Price in effect at the time of conversion. The “Conversion Price” shall initially be equal to the Original Issue Price and such Conversion Price shall be subject to adjustment.

On December 28, 2017, in connection with the merger agreement entered into among the Company, Tongcheng Network and Tongcheng Network’s shareholders, the holders of the Preferred Shares agreed to change the conversion of the Preferred Shares as immediately prior to the completion of the Acquisition, each of the Preferred Share shall be converted into one ordinary share of the Company. Such change of the conversion constituted a modification to the Preferred Shares and resulted in, excluding other factors, a decrease in fair value of the Preferred Shares.

Redemption Rights

If (i) a Qualified IPO has not been completed before the fifth (5th) anniversary of May 31, 2016, or (ii) the Company or any other group company is in material breach of the shareholders’ agreement, each of the preferred shareholders shall have the right but not the obligation, to require the Company to redeem and purchase all (but not part) of the Preferred Shares held by such preferred shareholder (the “Redemption Right”) at a price (the “Redemption Price”) equal to the Liquidation Preference per preferred share to be paid in cash, subject to applicable bankruptcy, insolvency, corporate “solvency” requirements or similar laws. The Redemption Right may be exercised at each preferred shareholder’s discretion but may only be exercised once.

The Company designated the Preferred Shares as financial liabilities at fair value through profit or loss. The Preferred Shares are initially recognized at fair value.

The movement of the Preferred Shares is set as below:

	<u>Number of Shares</u>	<u>RMB’000</u>
At January 1, 2016		
Exchange of high-vote ordinary shares to the Preferred Shares in connection with the Restructuring	33,589,204	3,527,596
Re-designation of ordinary shares to the Preferred Shares in connection with the Restructuring	15,833,693	1,662,882
Issuance of the Preferred Shares to one of shareholders.....	11,111,111	1,208,153
Changes in fair value — attribute to changes in the credit risk of the financial liability		(36,781)
Changes in fair value — others		36,781
At December 31, 2016		<u><u>6,398,631</u></u>
At January 1, 2017		6,398,631
Changes in fair value — attribute to changes in the credit risk of the financial liability		46,592
Changes in fair value — others		(97,576)
At December 31, 2017		<u><u>6,347,647</u></u>

The Group has used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Preferred Shares as of the dates of issuance and at the end of each reporting period.

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Key valuation assumptions used to determine the fair value of the Preferred Shares are as follows:

	As of December 31,		
	2015	2016	2017
Discount rate.....	N/A	14.50%	14.50%
Risk-free interest rate.....	N/A	1.93%	1.60%
Discounts for lack of marketability (“DLOM”).....	N/A	16.50%	16.00%
Volatility	<u>N/A</u>	<u>48.00%</u>	<u>45.30%</u>

Discount rate (post-tax) was estimated by weighted average cost of capital as of each valuation date. The risk-free interest rate based on the yield of US Treasury Strip Bond with a maturity life equal to the expected terms as of valuation date. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for a period from the respective valuation date and with similar span as time to expiration. Probability weight under each of the redemption feature and liquidation preferences was based on the Group’s best estimates. In addition to the assumptions adopted above, the Company’s projections of future performance were also factored into the determination of the fair value of the Preferred Shares on each valuation date.

The fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability amounted to RMB(36,781,000) and RMB46,592,000 for the years ended December 31, 2016 and 2017, respectively.

Changes in fair value of the Preferred Shares were recorded in “Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss” in the consolidated statements of comprehensive (loss)/income.

25. Trade payables

	As of December 31,		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Payables to third parties.....	623,611	789,629	960,940
Payables to related parties (Note 35).....	<u>34,955</u>	<u>132,004</u>	<u>153,977</u>
	<u>658,566</u>	<u>921,633</u>	<u>1,114,917</u>

Trade payables and their aging analysis based on invoice date are as follows:

	As of December 31,		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Up to 6 months	<u>658,566</u>	<u>921,633</u>	<u>1,114,917</u>

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26. Other payables and accruals

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accrual for users incentive program	217,359	75,567	67,862
Payable to travel service suppliers.....	21,501	24,001	25,759
Deposits from sales channel	16,924	23,675	26,336
Payables to related parties (Note 35).....	555	381	653
Total financial liabilities.....	256,339	123,624	120,610
Advances from users	92,364	177,389	116,044
Accrued payroll and welfare.....	69,669	94,277	77,919
Accrued commissions	27,279	23,851	13,701
Business and other taxes	24,076	2,023	13,573
Accrued advertisement expenses.....	17,296	23,310	30,788
Accrued professional fees.....	6,187	9,125	11,100
Others	50,493	59,369	55,462
Total non-financial liabilities	287,364	389,344	318,587
Total	543,703	512,968	439,197

27. Share capital and share premium

	Number of ordinary shares	Ordinary share capital	Ordinary share premium	Treasury stock	Total
	'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015					
Exercise of stock options	—	—	—	—	—
Vesting of RSUs.....	—	—	—	—	—
At December 31, 2015	—	—	—	—	—
At January 1, 2016	—	—	—	—	—
Incorporation of the Company and consummation of the Restructuring (a).....	26,052	84	1,514,310	—	1,514,394
At December 31, 2016	26,052	84	1,514,310	—	1,514,394
At January 1, 2017	26,052	84	1,514,310	—	1,514,394
Issuance of new shares (b)	4,419	15	—	(15)	—
At December 31, 2017	30,471	99	1,514,310	(15)	1,514,394

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- (a) In connection of incorporation of the Company and consummation of the Restructuring, the Company issued 26,051,810 ordinary shares, a share premium of RMB1,514 million arisen from the difference between its fair value and par value.
- (b) In 2017, the Company issued 4,418,671 ordinary shares to EAE Holdco with amount of RMB14,714 for the purpose of granting RSUs to the employees (Note (8)).

28. Other reserves

	Capital reserve	Statutory reserve	Share-based compensations reserve	Others (a)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	563,802	3,665	1,453,712	483,613	2,504,792
Statutory reserves	—	6,161	—	—	6,161
Exercise of stock options	25,397	—	—	—	25,397
Share-based compensation of a subsidiary	—	—	3,278	—	3,278
Share-based compensations (Note 8)	—	—	208,296	—	208,296
Purchase of eLong Equity Awards in connection with the Expedia Transaction	—	—	(89,587)	—	(89,587)
At December 31, 2015	<u>589,199</u>	<u>9,826</u>	<u>1,575,699</u>	<u>483,613</u>	<u>2,658,337</u>
At January 1, 2016	589,199	9,826	1,575,699	483,613	2,658,337
Fair value change of the Preferred Shares attributable to changes in credit risk	—	—	—	36,781	36,781
Exercise of stock options	1,719	—	—	—	1,719
Exchange of high-vote ordinary shares to the Preferred Shares in connection with the Restructuring	(3,527,596)	—	—	—	(3,527,596)
Redesignation of ordinary shares to the Preferred Shares in connection with the Restructuring	(920,414)	—	—	—	(920,414)
Purchase of vested Equity Awards in connection with the Restructuring	—	—	(81,624)	—	(81,624)
Incorporation of the Company and consummation of the Restructuring	(1,514,394)	—	—	—	(1,514,394)
Share-based compensations (Note 8)	—	—	71,325	—	71,325
At December 31, 2016	<u>(5,371,486)</u>	<u>9,826</u>	<u>1,565,400</u>	<u>520,394</u>	<u>(3,275,866)</u>
At January 1, 2017	(5,371,486)	9,826	1,565,400	520,394	(3,275,866)
Fair value change of the Preferred Shares attributable to changes in credit risk	—	—	—	(46,592)	(46,592)
Purchase of Equity Awards in connection with the Restructuring	—	—	(4,382)	—	(4,382)
Share-based compensations (Note 8)	—	—	56,783	—	56,783
At December 31, 2017	<u>(5,371,486)</u>	<u>9,826</u>	<u>1,617,801</u>	<u>473,802</u>	<u>(3,270,057)</u>

(a): Others mainly represents the reserves arising from the conversion of preferred shares of eLong before the Track Record Period and the fair value change of the Preferred Shares attributable to changes in credit risk.

29. Dividend

No dividend has been paid or declared by the Company or the companies now comprising the Group during each of the years ended December 31, 2015, 2016 and 2017.

30. Business combination

In February 2015, the Group acquired the accommodation reservation business (“Accommodation Reservation Business”) from Beijing Jiuyou Technology Co., Ltd. (“Jiuyou”) for RMB5,000,000. The Group accounted for the acquisition of Accommodation Reservation Business as a business combination.

The following table summarizes the allocation of the purchase price for assets related to the Accommodation Reservation Business:

	February 2015
	<i>RMB’000</i>
Consideration	
Cash consideration	5,000
Total consideration paid by the Group	5,000
Fair value of identifiable assets acquired	
Trade name	1,570
Customer list	510
Total identifiable net assets.....	2,080
Goodwill.....	2,920
	5,000

Goodwill, which is not tax deductible, is primarily attributable to the synergies expected to be achieved from the acquisition.

The fair value of the trade name was measured using the relief from royalty method, with a royalty rate of 1.5%, a tax rate of 25% and a discount rate of 19%, while the fair value of the customer list was measured using the multi-period excess earnings method, using an annual revenue growth rate ranging from -5% to 5%, a terminal growth rate of 3% and a discount rate of 19%.

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31. Note to consolidated statements of cash flows

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit/(loss) before income tax	(957,813)	(2,159,618)	134,021
Adjustment for:			
- Foreign exchange losses	(9,739)	(1,562)	1,365
- Impairment of intangible assets (Note 18)	40,402	—	—
- Allowance for doubtful accounts.....	11,920	27,637	1,098
- Loss on disposal of property, plant and equipment (Note 14).....	155	203	534
- Depreciation of property, plant and equipment (Note 14).....	52,067	52,845	45,077
- Amortization of intangible assets (Notes 18).....	21,225	24,488	39,073
- Share-based compensation (Note 8)	211,500	72,343	56,783
- Gain on disposal of a subsidiary.....	(71,082)	—	—
- Gain from disposal of equity investments	(13,191)	—	(753)
- Impairment on equity investment.....	459	—	—
- Fair value changes on investments measured at fair value through profit or loss.....	(17,646)	4,031	(863)
- Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss (Note 24).....	—	36,781	(97,576)
- Finance income	(9,156)	(8,402)	(10,145)
- Other income.....	(28,051)	—	—
- Other gains/(losses), net	(4,808)	(6,271)	(10,056)
- Share of results from investments in associates (Note 15).....	18,177	11,218	2,251
- Selling and marketing expenses which were settled with newly issued preferred shares (Note 24)	—	1,044,908	—
- Charges for re-designation of ordinary shares to the Preferred Shares in connection with the Restructuring (Note 24).....	—	742,467	—
Changes in working capital:			
- Trade receivables.....	(122,702)	(451,991)	343,464
- Prepayment and other receivables	(21,514)	(35,235)	84,881
- Trade payables.....	88,577	263,067	199,640
- Accrued expenses and other current liabilities	16,694	(30,755)	(73,773)
Cash generated from/(used in) operating activities ..	<u>(794,526)</u>	<u>(413,844)</u>	<u>715,021</u>

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In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net book value.....	211	311	596
Loss on disposal of property, plant and equipment	<u>(155)</u>	<u>(203)</u>	<u>(534)</u>
Proceeds from disposal of property, plant and equipment	<u>56</u>	<u>108</u>	<u>62</u>

The principal non-cash transaction is the issue of preferred shares i) as consideration for settlement of selling and marketing expenses, ii) and for re-designation of ordinary shares, as discussed in Note 24.

Reconciliation of liabilities generated from financing activities

	Borrowings due within a year	Borrowings due after a year	Interest payable	Redeemable convertible preferred shares	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of January 1, 2015.....	—	—	—	—	—
Cash flows	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
As of December 31, 2015.....	—	—	—	—	—
Cash flows	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Issuance of the Preferred Shares....	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,398,631</u>	<u>6,398,631</u>
As of December 31, 2016.....	—	—	—	6,398,631	6,398,631
Cash flows	19,692	172,305	(1,740)	—	190,257
Fair value changes of the Preferred Shares	—	—	—	(97,576)	(97,576)
Fair value change relating to preferred shares due to own credit risk	—	—	—	46,592	46,592
Accrued interest expenses	<u>—</u>	<u>—</u>	<u>1,740</u>	<u>—</u>	<u>1,740</u>
As of December 31, 2017.....	<u>19,692</u>	<u>172,305</u>	<u>—</u>	<u>6,347,647</u>	<u>6,539,644</u>

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32 Banking facilities

As of December 31, 2015, 2016 and 2017, the Company had banking facilities available in the form of letters of guarantee of RMB40.0 million, RMB63.2 million and RMB39.1 million, respectively, in which RMB40.0 million, RMB63.2 million and RMB39.1 million, respectively are utilised and provided to a business partner in connection with air ticketing business for financial security.

33. Contingencies

As of December 31, 2015, 2016 and 2017, the Group did not have any significant contingent liabilities.

34. Commitment

(a) Operating lease commitments

The Group leases offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
No later than 1 year.....	19,800	19,278	15,131
Between 1 and 2 years.....	15,971	15,083	5,736
Between 2 and 5 years.....	20,146	10,771	7,027
	<u>55,917</u>	<u>45,132</u>	<u>27,894</u>

(b) Purchase commitments

The purchase commitments represent the minimum payment that the Company would pay for the prepurchase of hotel room nights assuming inventory risk pursuant to the existing agreements with hotels.

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Purchase commitments	15,722	48,947	54,436

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35. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

Save as disclosed in elsewhere of the report, the following significant transactions were carried out between the Group and its related parties during the Track Record Period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during the Track Record Period.

Company	Relationship with the Group
Ctrip and its affiliated companies.....	Shareholder with significant influence over the Group
Tencent and its affiliated companies.....	Shareholder with significant influence over the Group
Plateno and its affiliated hotels.....	Shareholder with significant influence over the Group prior to August 2015
Beijing Miot Technology Co., Ltd. (“Miot”)	Associate
Expedia and its affiliates.....	Shareholder of eLong prior to May 2015

(b) Significant transactions with related parties

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commission and other service income received from related parties:			
- Ctrip and its affiliates	9,532	85,781	243,783
- Expedia and its affiliates	56,542	—	—
- Plateno and its affiliated hotels	5,771	—	—
Total	<u>71,845</u>	<u>85,781</u>	<u>243,783</u>
Commission, settlement and other service fees paid to related parties:			
- Ctrip and its affiliates	7,378	261,140	573,128
- Tencent and its affiliates.....	5,701	1,224,655	31,655
- Others	2,737	50	—
Total	<u>15,816</u>	<u>1,485,845</u>	<u>604,783</u>

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(c) Balance with related parties

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables from related parties (Note 21):			
- Ctrip and its affiliates	187,548	506,461	273,480
- Plateno and its affiliated hotels	323	—	—
- Tencent and its affiliates.....	28,460	28,351	56,138
Total	<u>216,331</u>	<u>534,812</u>	<u>329,618</u>

The receivables from related parties arise mainly from ordinary course of business. The receivables are unsecured, interest-free and with no fixed term of repayment. No provisions have been made against receivables from related parties.

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables and other payables to related parties (Note 25 & 26):			
- Ctrip and its affiliates	34,515	132,382	152,826
- Plateno and its affiliated hotels	654	—	—
- Tencent and its affiliates.....	341	—	362
- Others	—	3	1,442
Total	<u>35,510</u>	<u>132,385</u>	<u>154,630</u>

The payables to related parties are unsecured, interest-free and with no fixed term of repayment.

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d) Key management personnel compensations

The compensations paid or payable to key management personnel (including CEO and other senior executives) for employee services are show below:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	2,380	3,901	6,188
Pension costs - defined contribution plans	146	184	198
Other social security costs, housing benefits and other employee benefits	173	218	234
Share-based compensation expenses (Note 8)	14,137	14,946	11,916
	<u>16,836</u>	<u>19,249</u>	<u>18,536</u>

36. Subsequent events

Save as disclosed in the report, the following significant events took place subsequent to December 31, 2017:

(i) **Acquisition of Tongcheng Online Business**

As disclosed in 1.2.2, on March 9, 2018, the Company consummated the acquisition of Tongcheng Network. The Company accounted for the acquisition of Tongcheng Network as business combination.

The Company performed the valuation with the assistance from the independent appraisals. The preliminary valuation of acquisition cost and the allocation of the purchase price of the assets acquired and liabilities assumed based on their fair values was as follows:

	RMB'000
Current assets	2,680,810
Non-current assets	974,720
Current liabilities	(1,764,774)
Net assets of Tongcheng Network acquired	1,890,756
Identifiable intangible assets - trade name	1,788,360
Identifiable intangible assets - business relationship.....	1,686,704
Identifiable intangible assets - technology platform.....	232,506
Deferred tax liabilities	(594,465)
Goodwill.....	<u>3,652,249</u>
Fair value of total purchase consideration by issued shares.....	<u>8,656,110</u>

As of the date of this report, the Company is still working on the valuation and the above result of purchase price allocation reflects the Company’s current and preliminary estimate, which is subject to change.

(ii) *Capitalisation Issue*

Pursuant to a shareholders’ resolution passed on [●], subject to the share premium account of the Company being credited as a result of the [REDACTED], the Company will allot and issue a total of [1,719,906,084] shares by way of capitalisation of the sum of US\$[859,953] standing to the credit of the share premium account of the Company upon the [REDACTED].

(iii) *Share incentive plan*

In March 2018, the Company adopted a 2018 share incentive plan (the “2018 Plan”), which allows senior management, other employees, non-employees, directors of the Company, with certain vesting conditions being fulfilled, to (i) acquire ordinary shares of the Company pursuant to options granted, (ii) receive RSU awards, and (iii) make direct purchases of restricted shares. The maximum number of ordinary shares that may be subject to the awards granted under the 2018 Plan is 163,240,270.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2017 and up to the date of this report. Save as disclosed in this report, no dividends or distribution has been declared or made by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2017.

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APPENDIX II

ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

The following is the text of a report set out on pages [II-1] to [II-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 HKSIR 200 Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[DRAFT]

[Letterhead of PricewaterhouseCoopers]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS TO THE DIRECTORS OF TONGCHENG-ELONG HOLDINGS LIMITED AND MORGAN STANLEY ASIA LIMITED, J.P. MORGAN SECURITIES (FAR EAST) LIMITED AND CMB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of the online travel agency business of Tongcheng Network Technology Limited and its subsidiaries (“Tongcheng Online Business”) set out on pages [II-3] to [II-54], which comprises the combined statements of financial position as at December 31, 2015, 2016 and 2017, and the combined statements of comprehensive (loss)/income, the combined statements of changes in equity, and the combined statements of cash flows for each of the years then ended (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 [II-3] to [II-54] forms an integral part of this report, which has been prepared for inclusion in the [REDACTED] of Tongcheng-Elong Holdings Limited (the “Company”) dated [●] (the “[REDACTED]”) in connection with the [REDACTED] 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 and preparation set out in Notes [2 and 3.1] 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 and preparation set out in Notes [2 and 3.1] 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.

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ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

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 combined financial position of Tongcheng Online Business as at December 31, 2015, 2016 and 2017 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes [2 and 3.1] to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Carve-out Financial Statements as defined on page [II-3] have been made.

Dividends

We refer to Note [26] to the Historical Financial Information which states that no dividends have been paid by Tongcheng Online Business in respect of the Track Record Period.

[PricewaterhouseCoopers]
Certified Public Accountants

Hong Kong
[●] 2018

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of Tongcheng Online Business for the Track Record Period, on which the Historical Financial Information is based, were prepared by the directors of Tongcheng-Elong Holdings Limited (the “Directors”) and audited by PricewaterhouseCoopers in accordance with International Standards on Auditing (“ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”) (“Carve-out Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

Combined statements of comprehensive (loss)/income

	Note	Year ended December 31,		
		2015	2016	2017
		RMB’000	RMB’000	RMB’000
Revenue	6	580,523	1,434,957	2,707,499
Cost of revenue	7	(228,465)	(530,211)	(858,806)
Gross profit		352,058	904,746	1,848,693
Service development expenses.....	7	(164,277)	(371,720)	(514,800)
Selling and marketing expenses.....	7	(580,764)	(515,174)	(670,732)
Administrative expenses.....	7	(56,830)	(91,119)	(132,772)
Other income	9	3,574	2,097	7,583
Other gains/(losses), net.....	10	516	(1,864)	31,545
Operating (loss)/profit		(445,723)	(73,034)	569,517
Finance income	11	2,177	2,732	2,955
(Loss)/profit before income tax		(443,546)	(70,302)	572,472
Income tax credit/(expense)	12	108,437	(20,796)	(81,134)
(Loss)/profit for the year		(335,109)	(91,098)	491,338
(Loss)/earnings per share	13	Not applicable	Not applicable	Not applicable
Other comprehensive income/(loss)		—	—	—
Total comprehensive (loss)/income for the year		(335,109)	(91,098)	491,338

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APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

Combined statement of financial position

	Note	As of December 31,		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment.....	14	93,989	145,596	207,777
Land use rights	15	—	16,236	15,907
Intangible assets	16	712,886	570,033	421,793
Deferred income tax assets.....	18	151,686	140,480	65,892
Prepayment and other receivables	19	5,752	1,030	7,949
		964,313	873,375	719,318
Current assets				
Trade receivables	20	129,760	418,257	227,041
Prepayment and other receivables	19	295,628	1,058,644	388,031
Short-term investments measured at fair value through profit or loss.....	21	—	35,000	204,650
Restricted cash	22	5,740	7,394	18,076
Cash and cash equivalents.....	22	243,169	947,340	1,268,206
		674,297	2,466,635	2,106,004
Total assets		1,638,610	3,340,010	2,825,322
EQUITY				
Owners' net investments	2	1,265,895	2,118,885	1,444,967
LIABILITIES				
Current liabilities				
Trade payables	23	94,866	323,486	489,562
Other payables and accruals	24	272,807	887,797	851,212
Contract liabilities	25	5,036	5,697	37,217
Current income taxes liabilities		6	4,145	2,364
		372,715	1,221,125	1,380,355
Total liabilities		372,715	1,221,125	1,380,355
Total equity and liabilities		1,638,610	3,340,010	2,825,322

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APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

Combined statements of changes in equity

	<u>Note</u>	<u>Owners’ net investments</u>
		<i>RMB’000</i>
As of January 1, 2015		1,712,444
Comprehensive loss		
Loss for the year.....		(335,109)
Transactions with owners		
Distribution to owners.....	2	<u>(111,440)</u>
As of December 31, 2015		<u><u>1,265,895</u></u>
 As of January 1, 2016		 1,265,895
Comprehensive loss		
Loss for the year.....		(91,098)
Transactions with owners		
Additional capital from owners	2	<u>944,088</u>
As of December 31, 2016		<u><u>2,118,885</u></u>
 As of January 1, 2017		 2,118,885
Comprehensive income		
Profit for the year		491,338
Transactions with owners		
Distribution to owners.....	2	<u>(1,165,256)</u>
 As of December 31, 2017		 <u><u>1,444,967</u></u>

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

Combined statements of cash flows

	Note	Year ended December 31,		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	27	903,087	374,827	1,309,311
Interest received		2,177	2,732	2,955
Income tax paid		—	(5,452)	(8,326)
Net cash inflow from operating activities		905,264	372,107	1,303,940
Cash flows from investing activities				
Purchases of property, plant and equipment.....		(60,293)	(104,022)	(122,631)
Proceeds from disposal of property, plant and equipment and intangible assets.....	27	296	—	—
Purchase of land use rights		—	(16,315)	—
Purchase of intangible assets.....		(740,187)	(10,023)	(7,373)
Purchase of short-term investments measured at fair value through profit or loss.....		—	(35,000)	(4,246,400)
Redemption of short-term investments measured at fair value through profit or loss		—	187	4,119,425
Temporary funding received from/(provided to) related parties, net		130,991	(402,442)	449,843
Acquisition of subsidiaries, net of cash acquired.....		(6,500)	(42,755)	—
Decrease/(increase) in restricted cash		5,740	(1,654)	(10,682)
Net cash (outflow)/inflow from investing activities		(669,953)	(612,024)	182,182
Cash flows from financing activities				
(Distribution to)/contribution from owners		(111,440)	944,088	(1,165,256)
Net increase in cash and cash equivalents ...		123,871	704,171	320,866
Cash and cash equivalents at beginning of the year.....	22	119,298	243,169	947,340
Cash and cash equivalents at end of the year	22	243,169	947,340	1,268,206

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

1.1 General information

Tongcheng Network Technology Co., Ltd. (“Tongcheng Network”) is a limited liability company incorporated in Jiangsu Province of the People’s Republic of China (the “PRC”) on March 10, 2004. Prior to March 2017, the principal businesses of Tongcheng Network and its subsidiaries (the “Old Tongcheng Network”) primarily consisted of two business units, (i) online business unit which comprises transportation ticketing, accommodation reservation and certain travel-related online services offered through its online platforms (“Tongcheng Online Business”); and (ii) offline business unit which primarily comprises sales of travel packages and attraction tickets and provision of financial services (the “Offline Business”). Due to the difference in nature of the two business units, Tongcheng Online Business and the Offline Business of the Old Tongcheng Network were developed and operated separately under different management, sales and business strategies.

In March 2017, in order to promote further growth and development of its online travel business, Tongcheng Network and Tongcheng Holdings Co., Ltd. (“Tongcheng Holdings”) entered into a spin-off agreement (the “Spin-off Agreement”), pursuant to which (i) the capitalization of the Old Tongcheng Network was split between Tongcheng Network and Tongcheng Holdings, while the shareholding structure of both Tongcheng Network and Tongcheng Holdings remained the same; (ii) the assets, liabilities and interests in relation to the Offline Business were allocated to Tongcheng Holdings and the remaining assets, liabilities and interests of the Old Tongcheng Network were retained within Tongcheng Network; and (iii) the employees of the Old Tongcheng Network were allocated between Tongcheng Network and Tongcheng Holdings based on their involvement in the respective businesses (the “Spin-Off”).

The Spin-Off was legally completed in 2017 except for the disposal of the entire equity interest in Guangzhou Firefly Small Sum Loans Co., Ltd. (“Guangzhou Firefly”), which operated the Offline Business but was temporarily retained under Tongcheng Network, pending the completion of the relevant regulatory procedures that are subsequently completed on June 6, 2018.

Following the Spin-Off, Tongcheng Network entered into online platform service agreement with Tongcheng Holdings, pursuant to which Tongcheng Holdings paid Tongcheng Network access fees so as to offer its products and services on the online platforms operated by Tongcheng Network.

On December 28, 2017, the shareholders of Tongcheng Network entered into a restructuring agreement with the shareholders of China E-Dragon Holdings Limited (the “Company”, which subsequently changed its name to Tongcheng-Elong Holdings Limited on March 27, 2018) and Image Frame Investment (HK) Limited (“Image Frame”), whereby the Company acquired Tongcheng Online Business and agreed to issue to the shareholders of Tongcheng Network 96,721,818 ordinary shares of the Company in return for the signing of a series of contractual agreements with Suzhou Longyue Tiancheng Information Technology Co., Ltd. (“Longyue Tiancheng WFOE”), and issue to Image Frame 3,374,369 ordinary shares of the Company for a total cash consideration of US\$30,032,589 (the “Acquisition”). The Acquisition was completed on March 9, 2018. The scope of the Acquisition excluded the entire equity interest in Guangzhou Firefly.

1.2 Carve-out Financial Statements

In connection with the Acquisition, carve-out financial statements of Tongcheng Online Business (the “Carve-out Financial Statements”) have been derived from the historical accounting records of the Old Tongcheng Network. The Carve-out Financial Statements were purported to reflect the historical results of operations and the historical assets and liabilities of Tongcheng Online Business that was the subject of the Acquisition.

As Tongcheng Online Business was not conducted by a separate group of legal entities within the Old Tongcheng Network, for the purpose of preparing the Carve-out Financial Statements, certain account balances of the financial statements of the Old Tongcheng Network were allocated between Tongcheng Network and Tongcheng Holdings, and these allocations were made either on specifically identifiable basis or using the ratio of Gross Merchandise Volume (“GMV”), headcount or other reasonable methods. Please refer to Note 2 below for further details of the allocation basis.

The Directors believe that the allocation bases underlying the preparation of the Carve-out Financial Statements are reasonable reflections of the financial performance and financial position of Tongcheng Online Business according to its utilization of the resources of the Old Tongcheng Network. However, the actual costs and expenses that Tongcheng Online Business would have incurred as a separate group of legal entities could be higher or lower than the allocated costs reflected in the Carve-out Financial Statements. As such, the Carve-out Financial Statements may not necessarily reflect the actual financial position, results of operations or cash flows of Tongcheng Online Business had it been operated as a stand-alone business throughout the periods presented.

APPENDIX II

ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

During the Track Record Period and up to the date of this report, Tongcheng Network had direct or indirect interests in the following principal subsidiaries:

Company name	Country/Place of operation and date of incorporation	Particulars of issued/paid-in capital	Equity/ beneficial interest held as at December 31, 2015	Equity/ beneficial interest held as at December 31, 2016	Equity/ beneficial interest held as at December 31, 2017	Equity/ beneficial interest held as at the date of this report	Principal activities	Type of legal entity	Statutory auditors (Note)
Suzhou Chenghuiwan International Travel Agency Co., Ltd. (蘇州程會玩國際旅行社有限公司)	PRC/November 24, 2015	RMB1,000,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(i)
Nanjing Tongyou Tianxia Car Rental Co., Ltd. (南京同遊天下汽車租賃有限公司)	PRC/October 28, 2016	—	—	100%	100%	100%	Travel related services	Limited liability entity	(a)(i)
Suzhou Chuanglv Tianxia Information Technology Co., Ltd. (蘇州創旅天下信息技術有限公司)	PRC/December 23, 2015	RMB100,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(iii)
Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司)	PRC/January 12, 2011	RMB5,000,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(ii)
Beijing Tianyuan Difang Insurance Agency Company Limited (天圓地方(北京)保險代理有限公司)	PRC/May 28, 2010	RMB50,000,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(iv)

- (a) The statutory auditors of these companies for the Track Record Period were as following:
- (i) No statutory audit was required for the year ended December 31, 2015; 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017;
 - (ii) 蘇州鑫城會計師事務所有限公司 (Suzhou Xincheng CPAs Co., Ltd.) for the year ended December 31, 2015; 江蘇華星會計師事務所有限公司 (Jiangsu Welsen CPAs Co. Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017;
 - (iii) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the years ended December 31, 2015 and 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017;
 - (iv) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2015; 北京中兆國際會計師事務所有限公司 (Beijing Zhongzhao International CPAs Co., Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017.
- (b) The English names of certain subsidiaries referred herein represent the Directors’ best effort at translating the Chinese names of these companies as no English names have been registered.
- (c) All companies comprising Tongcheng Online Business have adopted December 31 as their financial year end date.

2 BASIS OF PRESENTATION

The Historical Financial Information of Tongcheng Online Business have been derived from the consolidated financial statements of the Old Tongcheng Network, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Directors consider that it is appropriate to present the Historical Financial Information on a carve-out basis in view of the following factors: (1) the scope of Tongcheng Online Business is clearly defined in the Spin-off Agreement and can be clearly delineated from the Offline Business; (2) Tongcheng Online Business and the Offline Business of the Old Tongcheng Network were developed and operated separately under different management, sales and business strategies, although there were certain extent of sharing of common resources of the Old Tongcheng Network among the two businesses; (3) majority of the revenue generated and expenses incurred by Tongcheng Online Business and its assets and liabilities were recorded in the specific departmental codes within the Old Tongcheng Network’s accounting records or the accounting records of the legal entities which operate Tongcheng Online Business.

The Historical Financial Information of Tongcheng Online Business comprises the assets, liabilities, revenue and expenses directly attributable to its specific business departments which were recorded in the specific departmental codes within the Old Tongcheng Network’s accounting records or the accounting records of the legal entities which operate Tongcheng Online Business. Assets and liabilities of the Old Tongcheng Network which were not separately distinguished between the two businesses in the past were allocated based on legal ownership or obligations, the splitting principles set out in the Spin-off Agreement or other reasonable methods. Costs and expenses of the Old Tongcheng Network which were not separately distinguished between the two businesses in the past, such as costs of other functional departments like marketing, research and development, finance, human resources, administration and other supporting departments, were allocated using the ratio of GMV, headcount or other reasonable methods.

The following balances of the Historical Financial Information contain material allocated balances:

Combined Statements of Financial Position

- Cash and cash equivalents

Cash and cash equivalents were allocated to Tongcheng Online Business according to the legal ownership by those entities comprising Tongcheng Online Business. Pursuant to the Spin-off Agreement, all cash and cash equivalents held by the Old Tongcheng Network were not allocated and were included in the Combined Statements of Financial Position.

- Trade receivables and other current assets

Trade receivables and other current assets which were directly attributable to the operations of Tongcheng Online Business were included in the Combined Statements of Financial Position. Pursuant to the Spin-off Agreement, trade receivables and other current assets held by the Old Tongcheng Network which cannot be allocated and were included in the Combined Statements of Financial Position.

- Intangibles and other non-current assets

All intangibles and other non-current assets directly used for Tongcheng Online Business were included in the Combined Statements of Financial Position. Office premises and other non-current assets owned by the Offline Business pursuant to the Spin-off Agreement were not included in the Combined Statements of Financial Position.

- Taxation

The tax charge attributable to the Old Tongcheng Network is based on the tax charge attributable to the individual entity in the relevant individual tax jurisdictions, on a separate return basis.

Pursuant to the Spin-off Agreement, tax losses of the Old Tongcheng Network were allocated between Tongcheng Network and Tongcheng Holdings after the Spin-Off according to the approval by the local tax bureau. Deferred tax assets recognized in the Combined Statements of Financial Position comprise allocated tax losses approved by the local tax bureau, together with tax losses and temporary differences identified at the level of the subsidiaries comprising Tongcheng Online Business.

Income tax liabilities are included in the Combined Statements of Financial Position according to legal obligations of those entities comprising Tongcheng Online Business.

- *Debts*

Payables which were directly attributable to the operations of Tongcheng Online Business were included in the Combined Statements of Financial Position. Pursuant to the Spin-off Agreement, other payables of the Old Tongcheng Network which cannot be allocated and were included in the Combined Statements of Financial Position.

- *Owners’ net investments*

Owners’ net investments in Tongcheng Online Business were presented for the purpose of this report instead of different categories of owners’ equity (capital, accumulated losses/retained profits, other reserves), due to the fact that Tongcheng Online Business was not operated under a separate group of legal entities throughout the periods presented, and that Guangzhou Firefly, which operated the Offline Business, is still a wholly owned subsidiary of Tongcheng Network up to December 31, 2017.

Combined Statements of Comprehensive Income

- *Revenue and cost of revenue*

Revenue and the corresponding cost of revenue attributable to Tongcheng Online Business were specifically identifiable and no allocation was required. They are all included in the Combined Statements of Comprehensive Income.

- *Expenses prior to Spin-Off*

All expenses directly attributable to Tongcheng Online Business were recorded in the specific departmental codes within the Old Tongcheng Network’s accounting records or the accounting records of the legal entities which operate Tongcheng Online Business. They are all included in the Combined Statements of Comprehensive Income.

Selling and marketing expenses were allocated based on the pre-agreed percentage of GMV sold by the respective business units. Research and development expenses, which mainly consist of employee benefits, usage fee of cloud resource and content delivery network fee, were allocated based on the actual usage by the respective business units.

The allocation of expenses of other supporting functions, including property costs and utilities, was determined based on headcounts of the respective business units. Details of these allocated expenses are disclosed in Note [32].

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period.

The combined financial statements present the combined assets, liabilities, revenue, expenses and cash flows attributable to Tongcheng Online Business for the years presented as described in Note [1.2] above.

The Historical Financial Information has been prepared in accordance with IFRSs and under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise its judgment in the process of applying Tongcheng Online Business’ accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5 of this Section.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2017, are consistently applied throughout the Track Record Period.

Changes in accounting policy and disclosures

(a) New and amended standards early adopted by Tongcheng Online Business

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. Tongcheng Online Business has reviewed its financial assets and liabilities and has elected to early apply IFRS 9 applied consistently throughout the Track Record Period.

IFRS 15, “Revenue from contracts with customers” replaces the previous revenue standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. Tongcheng Online Business has elected to early apply IFRS 15 which has been applied consistently throughout the Track Record Period.

(b) New standards and interpretations not yet adopted

The following new standards, amendments and interpretations to existing standards, have been issued and are effective for further reporting periods and have not been early adopted by Tongcheng Online Business.

		Effective for annual periods beginning on or after
IFRS 2 (Amendment) (Note (i))	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle (Note (i))	Retirement of short-term exemptions in IFRS 1 Clarifying measurements of investments under IAS 28	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IAS 40	Transfers of investment property	January 1, 2018
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRIC 23 (Note (i))	Uncertainty over income tax treatments	January 1, 2019
IFRS 16 (Note (ii))	Leases	January 1, 2019
Amendments to IAS 28	Long-term interest in associate or joint ventures	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
IFRS 10 and IAS 28 (Amendments) (Note (i))	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

- (i) Tongcheng Online Business has already commenced an assessment of the impact of these new or revised standards, and amendments, certain of which are relevant to Tongcheng Online Business. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and positions of Tongcheng Online Business is expected when they become effective.
- (ii) IFRS 16, “Leases”, address the definition of a lease, recognition and measurement of leased and established principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that almost all operating leases will be accounted for on the balance sheet for lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Tongcheng Online Business is a lessee of certain office spaces which are currently classified as operating leases. Tongcheng Online Business’ current accounting policy for such leases, as set out in Note 3.22, is to record the rental expenses in the profit or loss for the current year with the related operating lease commitments being separately disclosed. IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognize leases outside of the Combined Statement of Financial Position. Instead, all non-current leases must be recognized in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Combined Statement of Financial Position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the Combined Statement of Financial Position. In the Combined Statements of Comprehensive Income, as a result, the annual rental and amortization expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard will impact the Combined Statement of Financial Position in terms of total assets and liabilities.

Tongcheng Online Business has disclosed its non-cancellable operating lease commitments amounting to RMB10,493,000, RMB24,838,000 and RMB41,608,000 as of December 31, 2015, 2016 and 2017 in Note 30. The standard will affect primarily the accounting for its operating leases. However, Tongcheng Online Business has just commenced its assessment and had not yet determined to what extent its commitments will result in the recognition of an asset and a liability for future payments and how this will affect Tongcheng Online Business’ profit and classification of cash flow.

The application of IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. Tongcheng Online Business does not intend to early adopt the standard before its effective date. Tongcheng Online Business intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on Tongcheng Online Business’ financial performance and position.

3.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Tongcheng Online Business has control. Tongcheng Online Business controls an entity when Tongcheng Online Business is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to Tongcheng Online Business. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with Tongcheng Online Business’ accounting policies.

(b) Business combination

Tongcheng Online Business applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by Tongcheng Online Business. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Tongcheng Online Business recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation are measured at either fair value or the present ownership interests’ proportionate share in the recognized amounts of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by Tongcheng Online Business is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be a financial asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statements of comprehensive income.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions - that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) *Disposal of subsidiaries*

When Tongcheng Online Business ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if Tongcheng Online Business had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(e) *Separate financial statements*

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by Tongcheng Network on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, vice presidents and the Directors that makes strategic decisions.

3.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Historical Financial Information of each of the entities conducting Tongcheng Online Business through Track Record Period are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The Historical Financial Information are presented in Renminbi (‘RMB’), which is presentation currency of the Historical Financial Information.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive (loss)/income on a net basis within other gains/(losses), net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(c) *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Tongcheng Online Business and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Estimated useful life</u>
IT equipment	3 to 5 years
Motor vehicles	4 years
Furniture, fixtures and others	5 years
	Estimated useful lives or
	remaining lease terms,
Leasehold improvements	whichever is shorter

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in “other gains/(losses), net” in the combined statements of comprehensive (loss)/income.

3.6 Land use rights

Land use rights represent upfront payments made for the land use rights and are expensed in the statements of comprehensive income on a straight-line basis over the periods of the leases.

3.7 Intangible assets

(a) *Business cooperation arrangement and domain name*

Business cooperation arrangement and domain name which are capitalized on the basis of the costs incurred to acquire and bring to use the specific channel. These costs are amortized over their estimated useful lives.

(b) *Trademark right*

Trademark rights are initially recognized and measured at costs incurred to acquire and bring them to use. These costs are amortized on a straight-line basis over their estimated useful lives (generally 5 to 10 years), and recorded in amortization within operating expenses in the Historical Financial Information.

(c) *Software*

Software is initially recognized and measured at costs incurred to acquire and bring them to use. These costs are amortized on a straight-line basis over their estimated useful lives (generally 5 to 10 years), and recorded in amortization within operating expenses in the Historical Financial Information.

(d) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over Tongcheng Online Business’ interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(e) *Research and development expenditures*

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

All development costs incurred by Tongcheng Online Business do not meet the R&D capitalization criteria and hence are fully expensed off during the Track Record Period.

3.8 Impairment of non-financial assets other than goodwill

Intangible assets other than goodwill that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Financial assets

(a) Classification

Tongcheng Online Business classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether Tongcheng Online Business has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 17 for details about each type of financial asset.

Tongcheng Online Business reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Measurement

At initial recognition, Tongcheng Online Business measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurements of financial assets are as follows:

Debt instruments

Subsequent measurement of debt instruments depends on Tongcheng Online Business’ business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which Tongcheng Online Business classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost

and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (“OCI”), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented in other gains (losses), net.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in profit or loss within other gains/(losses), net in the period in which it arises.

Equity instruments

All equity investments for those Tongcheng Online Business has no significant influence are subsequently measured at fair value. Where Tongcheng Online Business has elected to present the fair value movement in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when Tongcheng Online Business’ right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/ (losses), net in profit or loss except for those equity instruments that are not reported separately from other changes in fair value.

(c) Impairment

Tongcheng Online Business has types of financial assets subject to IFRS 9’s new expected credit loss model:

- trade receivables for provision of services; and
- other receivables.

Expected credit losses associated with its debt instruments carried at amortized cost and FVOCI are assessed on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4.1(b) details how Tongcheng Online Business determines whether there has been a significant increase in credit risk.

For trade receivables, Tongcheng Online Business applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Tongcheng Online Business uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

3.10 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment (Note 3.9(c)).

3.11 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.12 Trade and other payables

These amounts represent liabilities for goods and services provided to Tongcheng Online Business prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

3.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Tongcheng Online Business has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.14 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.15 Current and deferred income tax

The income tax expense or credit for the period is the tax payable or recoverable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where Tongcheng Network’s subsidiaries operate and generate taxable income. The Directors periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by Tongcheng Online Business and it is probable that the temporary difference will not reverse in the foreseeable future. Generally Tongcheng Online Business is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives Tongcheng Online Business the ability to control the reversal of the temporary difference not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) *Offsetting*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.16 Employee benefits

(a) *Pension obligations*

Tongcheng Online Business contributes on a monthly basis to various defined contribution plan organized by the relevant governmental authorities. Tongcheng Online Business’ liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities.

(b) *Bonus plan*

The expected cost of bonuses is recognized as a liability when Tongcheng Online Business has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

3.17 Revenue recognition

Revenues are recognized when or as the control of the goods or services is transferred to the customer. Depending the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Tongcheng Online Business offers a variety of travel-related services, including accommodation reservation, transportation ticketing, as well as, to a much lesser extent, internet-related advertising and other related services. Tongcheng Online Business generates revenue as a result of the booking of travel products and services on its websites and mobile APPs and derives its revenue mainly from the commissions earned from transportation ticketing services and intermediating services for facilitating reservations of hotel accommodations. Transportation ticketing services primarily consist of the reservation of air tickets and train tickets, sale of travel insurance and other transportation-related services.

(a) *Principal agent consideration*

The principal is the entity that has promised to provide goods or services to its customers. An agent arranges for goods or services to be provided by the principal to an end customer. An entity is the principal in a transaction if it obtains control of the specified goods or services before they are transferred to the customer. An entity is an agent if it does not control the specified goods or services before they are transferred to the customer.

Travel-related services

For travel related service including accommodation reservation, transportation ticketing and insurance, etc., Tongcheng Online Business does not believe it controls the above underlying product/service such as the hotel, the ticket or the insurance or the right of control at any point in the transaction. Therefore, the Directors believe it acts in the capacity as a booking service, making the merchants and end users to connect on its platform and thus Tongcheng Online Business presents travel related service revenues on a net basis.

Other services

Tongcheng Online Business provides travel-related advertising and other technical support services. Under the related arrangements, Tongcheng Online Business takes primary responsibilities of development and operation, including designing, development and updating the content, as well as pricing the service items. Therefore, Tongcheng Online Business considers itself the principal in these arrangements. Accordingly, the related revenue is recognized on a gross basis.

(b) *Timing of revenue recognition*

Travel-related services

(i) Accommodation reservation services

Tongcheng Online Business generates revenue as a result of the booking of travel products and services on its websites and mobile apps and derives its revenue mainly from the commissions earned from intermediating services for facilitating reservations of hotel accommodations. Commissions from accommodation reservation services are recognized when the accommodation reservations placed by users through Tongcheng Online Business become non-cancellable.

(ii) Transportation ticketing services

Transportation ticketing services primarily consist of the reservation of air tickets and train tickets, sale of travel insurance and other transportation-related services. The commissions from such services are recognized upon the issuance of the tickets or the travel insurance, net of estimated cancellations.

(iii) Other services

Other revenues are primarily derived from travel-related advertising and other technical support services. The revenues are recognized over the service period.

(c) *Contract asset and contract liability*

When either party to a contract has performed, Tongcheng Online Business presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between Tongcheng Online Business’ performance and the customer’s payment. A contract asset is Tongcheng Online Business’ right to consideration in exchange for services that Tongcheng Online Business has transferred to its customer. A contract liability is Tongcheng Online Business’ obligation to transfer services to its customer for which Tongcheng Online Business has received consideration from the customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as contract assets and subsequently amortized when the related revenue is recognized.

Tongcheng Online Business applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(d) *User incentive programs*

Tongcheng Online Business provides various user incentive programs. Where participating users are awarded incentives on current transactions that can be redeemed for future reservations through Tongcheng Online Business’ platforms or redeemed for cash. The estimated fair value of the incentives that are expected to be redeemed is recognized as a reduction of revenues at the time the incentives are granted.

3.18 Service development expenses

Service development expenses represents the expenses incurred to develop and diversify the travel products and services Tongcheng Online Business’ sources from its travel service providers as well as the expenses in relation to the research and development of service providers assist system and Tongcheng Online Business’ online platforms.

3.19 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, Tongcheng Online Business reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

3.20 Dividend income

Dividend income is recognized when the right to receive payment is established.

3.21 Government grants/subsidies

Grants/subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants/subsidies will be received and Tongcheng Online Business will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognized as income or matched with the associated costs which the grants/subsidies are intended to compensate.

3.22 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statements of comprehensive (loss)/income on a straight-line basis over the period of the lease.

3.23 Provisions

Provisions are recognized when Tongcheng Online Business has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current and deferred Income taxes

Tongcheng Online Business is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Tongcheng Online Business recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, Tongcheng Online Business assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on Tongcheng Online Business’ estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

(b) Impairment of trade and other receivables

Tongcheng Online Business follows the guidance of IFRS 9 to determine when a receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, Tongcheng Online Business evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macro-economic indicators etc.

(c) Useful lives and residual values of property, plant and equipment and intangible assets

The Directors estimate residual value, useful lives and related depreciation or amortization expenses of property, plant and equipment and intangible assets according to the historical experiences of the actual residual value and useful lives of property, plant and equipment and intangible assets which have the same nature and function. The residual value and useful lives may have significant changes due to technical updates and other reasons. If net residual value or estimated useful lives are less than the previous estimates, the Directors will increase the depreciation or amortization expenses accordingly.

(d) Basis of allocation

The nature of carve out financial statements requires the Directors to make estimates of a reasonable allocation key for assets, liabilities and costs shared with the Offline Business within the Old Tongcheng Network. These allocations were performed on a manner deemed reasonable by the Directors and are explained in the Basis of Presentation in Note [2]. Different allocation keys could have resulted in different outcomes. The basis of allocation may not be representative of the actual financial position of Tongcheng Online Business in the future when it is operated on a legal entity basis.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

Tongcheng Online Business’ activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Tongcheng Online Business’ overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Tongcheng Online Business’ financial performance. Risk management is carried out by the management of Tongcheng Online Business.

(a) *Market risk*

(i) *Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not Tongcheng Online Business’ functional currency. Tongcheng Online Business manages its foreign exchange risk by performing regular reviews of Tongcheng Online Business’ net foreign exchange exposures. Tongcheng Online Business does not hedge against any fluctuation in foreign currency during the Track Record Period.

Tongcheng Online Business operates mainly in the PRC with most of the transactions settled in RMB, the Directors considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of Tongcheng Online Business are denominated in the currencies other than the respective functional currencies of Tongcheng Online Business’ entities.

(ii) *Interest rate risk*

Other than cash and cash equivalents and restricted cash, Tongcheng Online Business has no significant interest-bearing assets or liabilities, Tongcheng Online Business’ income and cash flows are substantially independent of changes in market interest rates.

(b) *Credit risk*

Tongcheng Online Business is exposed to credit risk in relation to its cash and bank deposits, trade and other receivables and short-term investments measured at fair value through profit or loss.

The carrying amounts of each class of the above financial assets represent Tongcheng Online Business’ maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and bank deposits and wealth management products issued by commercial banks, Tongcheng Online Business only transacts with reputable commercial banks which are all high-credit-quality financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions.

Trade receivables at each end of Track Record Period are mainly due from the third-party customers including airline companies, hotels, insurance companies or related agents, etc. in cooperation with Tongcheng Online Business and other receivables mainly include deposits and guarantees, amounts due from related parties and others (the “Receivables”). Tongcheng Online Business considers the probability of default upon initial recognition of the Receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting

period. To assess whether there is a significant increase in credit risk, Tongcheng Online Business compares the risk of a default occurring on the Receivables as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors’ ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors, etc.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on the Receivables when the counterparty fails to make contractual payments within 180 days of when they fall due.

Tongcheng Online Business makes periodic assessment on the credit risk of the Receivables based on the history of cooperation with customers, settlement records and past experience, the Directors believe that the credit risk inherent in the Receivables is not material.

(c) *Price risk*

Tongcheng Online Business’ price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), which mainly include short-term investments measured at fair value through profit or loss.

The above investments are exposed to price risk because of changes in market prices, where changes are caused by factors specific to the individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

(d) *Liquidity risk*

The treasury function of Tongcheng Online Business is managed by Tongcheng Network’s headquarter centrally.

As at December 31, 2015, 2016 and 2017, all of the financial liabilities of Tongcheng Online Business have contractual maturity date within one year.

5.2 Capital risk management

Tongcheng Online Business’ objectives when managing capital (including funding from shareholders of the Old Tongcheng Network and related parties) are to safeguard Tongcheng Online Business’ ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity value in the long-term.

5.3 Fair value estimation

The table below analyses Tongcheng Online Business’ financial instruments carried at fair value as of December 31, 2015, 2016 and 2017, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents Tongcheng Online Business’ assets that are measured at fair value as at December 31, 2015, 2016 and 2017:

As of December 31, 2015				
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
- Short-term investments measured at fair value through profit or loss (Note 21)	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
As of December 31, 2016				
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
- Short-term investments measured at fair value through profit or loss (Note 21)	—	—	35,000	35,000
	<u>—</u>	<u>—</u>	<u>35,000</u>	<u>35,000</u>
As of December 31, 2017				
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
- Short-term investments measured at fair value through profit or loss (Note 21)	—	—	204,650	204,650
	<u>—</u>	<u>—</u>	<u>204,650</u>	<u>204,650</u>

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The changes in level 3 financial instruments for the years ended December 31, 2016 and 2017 are presented in Note 21.

Tongcheng Online Business has a team that manages the valuation exercise of level 3 financial instruments for financial reporting purposes. The team manages the valuation exercise if the investments in a case-by-case basis. At least once a year, the team would use valuation techniques to determine the fair value of Tongcheng Online Business’ level 3 financial instruments. External valuation experts will be involved when necessary.

The level 3 financial instruments of Tongcheng Online Business as at December 31, 2016 and 2017 were short-term investments measured at fair value through profit or loss, which was an unlisted wealth management product issued by commercial banks.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values			Significant unobservable inputs	Range of inputs			Relationship of unobservable inputs to fair values
	Year ended December 31,				Year ended December 31,			
	2015	2016	2017		2015	2016	2017	
	RMB'000	RMB'000	RMB'000					
Short-term investments measured at fair value through profit or loss.....	—	35,000	204,650	Expected rate of return	—	2.59%	3.85%-4.95%	The higher the expected rate of return, the higher the fair value

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the Track Record Period.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of the year	—	—	35,000
Purchase.....	—	35,000	4,246,400
Changes in fair value	—	187	42,675
Redemption	—	(187)	(4,119,425)
At end of the year	—	35,000	204,650
Maximum exposure to credit risk	—	35,000	204,650

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The carrying amounts of Tongcheng Online Business’ financial assets including cash and cash equivalents, restricted cash, trade and other receivables, and the financial liabilities, including trade and other payables, approximate their fair values due to their short maturities.

6 REVENUE AND SEGMENT INFORMATION

The CODM assesses the performance of the operating segment mainly based on the measure of operating profit, excluding items which are not directly related to the segment performance (“combined results”). These include non-operating income/(expenses) such as government subsidies, fair value gains on short-term investments measured at fair value through profit or loss and other non-operating items. The CODM reviews the combined results when making decisions about allocating resources and assessing performance of Tongcheng Online Business as a whole. Therefore, Tongcheng Online Business has only one reportable segment which mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC. As at 31 December 2015, 2016 and 2017, substantially all of the non-current assets of Tongcheng Online Business were located in the PRC. Therefore, no geographical segments are presented. No analysis of segment assets or segment liabilities is presented as they are not used by the CODM when making decisions about allocating resources and assessing performance of Tongcheng Online Business.

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Operating (loss)/profit per Combined Statements of Comprehensive (Loss)/Income.....	(445,723)	(73,034)	569,517
Less: Other income.....	(3,574)	(2,097)	(7,583)
Other gains/(losses), net	(710)	975	(37,004)
Operating (loss)/profit presented to the CODM.....	<u>(450,007)</u>	<u>(74,156)</u>	<u>524,930</u>

Revenue by service type for the Track Record Period are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Transportation ticketing services	509,819	1,348,374	2,468,398
Accommodation reservation services	70,243	82,398	101,379
Others	461	4,185	137,722
Total revenue	<u>580,523</u>	<u>1,434,957</u>	<u>2,707,499</u>

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The major customers which contributed more than 10% of the total revenue of Tongcheng Online Business for the years ended December 31, 2015, 2016 and 2017 are listed as below:

	Year ended December 31,		
	2015	2016	2017
	%	%	%
Customer A	27.68	—	—
Customer B	19.37	—	—
Customer C	12.97	—	—
Customer D	—	47.08	22.05
Customer E	—	—	12.13

7 EXPENSES BY NATURE

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Employee benefit expenses (Note 8).....	230,232	528,179	767,738
Order processing costs.....	132,792	343,820	550,192
Advertising and promotion expenses.....	476,737	320,044	425,074
Depreciation and amortization expenses (Note 14&15&16)	104,964	205,052	212,890
Rental and utility fees	18,014	20,526	55,969
Procurement costs	13,172	16,181	48,911
Bandwidth and server fees.....	4,713	10,039	34,497
Audit fees	1,060	1,647	5,865
Others	48,652	62,736	75,974
	<u>1,030,336</u>	<u>1,508,224</u>	<u>2,177,110</u>

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS’ EMOLUMENTS)

	Year ended December 31,		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Wages, salaries and bonuses	185,404	424,708	612,968
Pension costs - defined contribution plan	15,101	40,018	61,651
Other social security costs, housing benefits and other employee benefits	<u>29,727</u>	<u>63,453</u>	<u>93,119</u>
	<u>230,232</u>	<u>528,179</u>	<u>767,738</u>

(a) Pension costs — defined contribution plan

Employees of Tongcheng Online Business in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. Tongcheng Online Business contributes funds which are calculated on a fixed percentage of the employees’ salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

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ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

(b) Directors’ emoluments

With the completion of the Acquisition, the emoluments of individual directors of Tongcheng Network are set out below which accounts for the Directors after the Acquisition:

Emoluments paid or receivable in respect of a person’s services as a Director, whether of Tongcheng Network or its subsidiaries undertaking									
	Fees	Salary	Discretionary Bonuses	Housing allowance	Estimated money value of other benefits	Employer’s contribution of a retirement benefit scheme	Other emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of Tongcheng Network or its subsidiaries undertaking	Total	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Year ended December 31, 2015									
Mr. Wu Zhixiang.....	—	1,748	500	17	10	32	—	2,307	
Mr. Ma Heping	—	1,739	500	17	10	32	—	2,298	
	—	3,487	1,000	34	20	64	—	4,605	
Year ended December 31, 2016									
Mr. Wu Zhixiang.....	—	1,952	420	17	10	33	—	2,432	
Mr. Ma Heping	—	1,951	570	17	10	33	—	2,581	
	—	3,903	990	34	20	66	—	5,013	
Year ended December 31, 2017									
Mr. Wu Zhixiang.....	—	1,809	520	18	10	33	—	2,390	
Mr. Ma Heping	—	1,950	653	18	10	33	—	2,664	
	—	3,759	1,173	36	20	66	—	5,054	

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in Tongcheng Online Business for the Track Record Period include 1, 2 and 2 directors whose emoluments are reflected in the analysis shown in “Directors’ emoluments”. The emoluments payable to the remaining 4, 3 and 3 individuals for the Track Record Period are as follows:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Wages, salaries and bonuses	9,360	7,289	7,462
Pension costs - defined contribution plan	125	96	99
Other social security costs, housing benefits and other employee benefits	108	83	85
	<u>9,593</u>	<u>7,468</u>	<u>7,646</u>

The emoluments fell within the following band:

	Number of individuals		
	2015	2016	2017
Emolument band			
RMB2 million — RMB3 million	<u>4</u>	<u>3</u>	<u>3</u>

(d) Benefits and interests of the Directors

No benefits and interests of the Directors subsisted at the end of the year or at any time during the Track Record Period.

(e) The Directors’ termination benefits

No Directors’ termination benefit subsisted at the end of the year or at any time during the Track Record Period.

(f) Consideration provided to third parties for making available Directors’ services

No consideration provided to third parties for making available Directors’ services subsisted at the end of the year or at any time during the Track Record Period.

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

(g) Information about loans, quasi-loans and other dealings in favor of the Directors, controlled bodies corporate by and connected entities with such Directors

No loans, quasi-loans and other dealings in favor of the Directors, controlled bodies corporate by and connected entities with such Directors subsisted at the end of the year or at any time during the Track Record Period.

(h) The Directors’ material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to Tongcheng Online Business to which Tongcheng Network was a party and in which a Director of Tongcheng Network had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Period.

9 OTHER INCOME

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Government subsidies (a)	<u>3,574</u>	<u>2,097</u>	<u>7,583</u>

(a) The government grants are mainly incentives provided by the Suzhou local government and the amount received each year is determined by the Suzhou local government. There were no unfulfilled conditions or other contingencies attached to these grants.

10 OTHER GAINS/(LOSSES), NET

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Fair value gains from short-term investments measured at fair value through profit or loss (Note 21)	—	187	42,675
Impairment provision for receivables	(305)	(362)	(1,957)
Net gains/(losses) on disposal of assets	111	(527)	(3,502)
Net foreign exchange (loss)/gain	—	(675)	385
Others	<u>710</u>	<u>(487)</u>	<u>(6,056)</u>
	<u>516</u>	<u>(1,864)</u>	<u>31,545</u>

11 FINANCE INCOME

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Finance income			
- Interest income (Note a)	<u>2,177</u>	<u>2,732</u>	<u>2,955</u>

(a) Interest income mainly represents interest income from bank deposits.

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12 INCOME TAX (CREDIT)/EXPENSE

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current income tax (a)	6	9,590	6,546
Deferred income tax (Note 18)	(108,443)	11,206	74,588
Income tax (credit)/expense	<u>(108,437)</u>	<u>20,796</u>	<u>81,134</u>

- (a) PRC corporate income tax (“CIT”) was made on the estimated assessable profits of entities within Tongcheng Online Business incorporated in the PRC for the years ended 31 December 2015, 2016 and 2017, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Except for Tongcheng Network which was approved as High and New Technology Enterprise and subject to a preferential CIT rate of 15% for the years ended 31 December 2015, 2016 and 2017 according to the applicable CIT law, all other entities incorporated in the PRC are subject to the general PRC CIT rate of 25% for the Track Record Period.

- (b) Tax charges in the Historical Financial Information have been determined based on the tax charges recorded by the subsidiaries comprising Tongcheng Online Business in their statutory accounts as well as certain tax losses attributable to Tongcheng Online Business agreed by local tax bureau upon the Spin-Off.

The income tax on Tongcheng Online Business’ (loss)/profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to (loss)/profit of Tongcheng Online Business as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(Loss)/profit before income tax	<u>(443,546)</u>	<u>(70,302)</u>	<u>572,472</u>
Tax calculated at PRC statutory tax rate of 25%	(110,887)	(17,576)	143,118
The impact of preferential tax rates	—	(7,109)	(57,803)
Income not subject to and expenses not deductible for taxation purposes	2,450	33,712	(20,700)
Tax losses and temporary differences for which no deferred tax assets was recognized	—	11,769	16,519
Income tax (credit)/expense	<u>(108,437)</u>	<u>20,796</u>	<u>81,134</u>

13 (LOSS)/EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to Tongcheng Online Business historically did not constitute a legal entity and the preparation of the results for each of the years ended 31 December 2015, 2016 and 2017 on a combined basis as disclosed in Note 2 above.

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

14 PROPERTY, PLANT AND EQUIPMENT

	IT equipment	Motor vehicles	Furniture, fixtures and others	Construction in progress	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015						
Cost.....	73,613	3,020	3,596	—	5,382	85,611
Accumulated depreciation.....	(21,423)	(705)	(1,414)	—	(1,805)	(25,347)
Net book amount.....	52,190	2,315	2,182	—	3,577	60,264
Year ended December 31, 2015						
Opening net book amount.....	52,190	2,315	2,182	—	3,577	60,264
Additions.....	56,886	1,726	—	—	1,681	60,293
Depreciation charge	(23,631)	(974)	(594)	—	(1,184)	(26,383)
Disposal	(185)	—	—	—	—	(185)
Closing net book amount.....	85,260	3,067	1,588	—	4,074	93,989
At December 31, 2015						
Cost.....	129,138	4,746	3,596	—	7,063	144,543
Accumulated depreciation.....	(43,878)	(1,679)	(2,008)	—	(2,989)	(50,554)
Net book amount	85,260	3,067	1,588	—	4,074	93,989
Year ended December 31, 2016						
Opening net book amount.....	85,260	3,067	1,588	—	4,074	93,989
Additions.....	99,121	1,148	1,128	2,225	400	104,022
Depreciation charge	(48,779)	(1,322)	(677)	—	(1,110)	(51,888)
Disposal	(454)	(73)	—	—	—	(527)
Closing net book amount.....	135,148	2,820	2,039	2,225	3,364	145,596
At December 31, 2016						
Cost.....	224,890	5,690	4,724	2,225	7,463	244,992
Accumulated depreciation.....	(89,742)	(2,870)	(2,685)	—	(4,099)	(99,396)
Net book amount	135,148	2,820	2,039	2,225	3,364	145,596
Year ended December 31, 2017						
Opening net book amount.....	135,148	2,820	2,039	2,225	3,364	145,596
Additions.....	49,146	—	451	66,426	6,608	122,631
Depreciation charge.....	(55,933)	(1,100)	(604)	—	(1,382)	(59,019)
Disposal	(69)	(504)	(858)	—	—	(1,431)
Closing net book amount.....	128,292	1,216	1,028	68,651	8,590	207,777
At December 31, 2017						
Cost.....	259,626	4,962	4,276	68,651	14,071	351,586
Accumulated depreciation.....	(131,334)	(3,746)	(3,248)	—	(5,481)	(143,809)
Net book amount	128,292	1,216	1,028	68,651	8,590	207,777

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Depreciation expenses have been charged to the following categories for the Track Record Period:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cost of revenue	20,848	35,524	42,032
Service development expenses	3,040	9,721	10,027
Administrative expenses	1,344	3,226	3,435
Selling and marketing expenses	1,151	3,417	3,525
	<u>26,383</u>	<u>51,888</u>	<u>59,019</u>

15 LAND USE RIGHTS

	RMB’000
At January 1, 2016	
Cost	—
Accumulated amortisation	—
Net book value	<u>—</u>
Year ended December 31, 2016	
Opening net book value	—
Addition	16,315
Amortization charge	(79)
Closing net book value	<u>16,236</u>
At December 31, 2016	
Cost	16,315
Accumulated amortisation	(79)
Net book value	<u>16,236</u>
Year ended December 31, 2017	
Opening net book value	16,236
Addition	—
Amortization charge	(329)
Disposals	—
Closing net book value	<u>15,907</u>
At December 31, 2017	
Cost	16,315
Accumulated amortisation	(408)
Net book value	<u>15,907</u>

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In 2016, Tongcheng Online Business acquired land use rights for new office building at a total consideration of RMB16,315,200. The amortized period of the land use rights were 50 years. Amortization charges were charged in the administrative expenses for the Track Record Period (Note 7).

16 INTANGIBLE ASSETS

	Business cooperation arrangement and domain name (a)	Trademark right	Software	Goodwill (Note 31)	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2015						
Cost.....	7,658	19,679	13,390	—	7,045	47,772
Accumulated amortization.....	(510)	(1,312)	(2,120)	—	(1,750)	(5,692)
Net book value	<u>7,148</u>	<u>18,367</u>	<u>11,270</u>	<u>—</u>	<u>5,295</u>	<u>42,080</u>
Year ended December 31, 2015						
Opening net book value	7,148	18,367	11,270	—	5,295	42,080
Addition	736,294	—	3,893	9,200	—	749,387
Amortization charge.....	(74,395)	(1,968)	(1,470)	—	(748)	(78,581)
Closing net book value	<u>669,047</u>	<u>16,399</u>	<u>13,693</u>	<u>9,200</u>	<u>4,547</u>	<u>712,886</u>
At December 31, 2015						
Cost.....	743,952	19,679	17,283	9,200	7,045	797,159
Accumulated amortization.....	(74,905)	(3,280)	(3,590)	—	(2,498)	(84,273)
Net book value	<u>669,047</u>	<u>16,399</u>	<u>13,693</u>	<u>9,200</u>	<u>4,547</u>	<u>712,886</u>
Year ended December 31, 2016						
Opening net book value	669,047	16,399	13,693	9,200	4,547	712,886
Addition	—	—	10,023	209	—	10,232
Amortization charge.....	(148,025)	(1,968)	(2,388)	—	(704)	(153,085)
Closing net book value	<u>521,022</u>	<u>14,431</u>	<u>21,328</u>	<u>9,409</u>	<u>3,843</u>	<u>570,033</u>
At December 31, 2016						
Cost.....	743,952	19,679	27,306	9,409	7,045	807,391
Accumulated amortization.....	(222,930)	(5,248)	(5,978)	—	(3,202)	(237,358)
Net book value	<u>521,022</u>	<u>14,431</u>	<u>21,328</u>	<u>9,409</u>	<u>3,843</u>	<u>570,033</u>

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	Business cooperation arrangement and domain name (a)	Trademark right	Software	Goodwill (Note 31)	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2017						
Opening net book value	521,022	14,431	21,328	9,409	3,843	570,033
Addition	—	—	6,996	—	377	7,373
Amortization charge	(148,025)	(1,968)	(2,813)	—	(736)	(153,542)
Disposals	—	—	(2,071)	—	—	(2,071)
Closing net book value	<u>372,997</u>	<u>12,463</u>	<u>23,440</u>	<u>9,409</u>	<u>3,484</u>	<u>421,793</u>

At December 31, 2017

Cost	743,952	19,679	31,163	9,409	7,422	811,625
Accumulated amortization	<u>(370,955)</u>	<u>(7,216)</u>	<u>(7,723)</u>	<u>—</u>	<u>(3,938)</u>	<u>(389,832)</u>
Net book value	<u>372,997</u>	<u>12,463</u>	<u>23,440</u>	<u>9,409</u>	<u>3,484</u>	<u>421,793</u>

(a) In July 2015, Tongcheng Online Business entered into business cooperation arrangement with one of its shareholders (the “shareholder”), who would deploy certain agreed-upon business resources to Tongcheng Online Business. Tongcheng Online Business assessed and concluded that the business cooperation arrangement was qualified as an intangible asset, which is amortized over the contractual beneficial period under straight line method.

(b) Amortization charges were charged in the following categories for the Track Record Period:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Selling and marketing expenses	74,395	148,025	148,025
Administrative expenses	3,706	3,836	4,002
Service development expenses	<u>480</u>	<u>1,224</u>	<u>1,515</u>
	<u>78,581</u>	<u>153,085</u>	<u>153,542</u>

(c) Tongcheng Online Business tests annually whether goodwill have suffered any impairment. During the Track Record Period, no goodwill have been impaired.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Assets as per combined statement of financial position			
Financial assets at fair value through profit or loss:			
- Short-term investments measured at fair value through profit or loss (Note 21).....	—	35,000	204,650
Financial assets at amortized costs:			
- Trade receivables (Note 20).....	129,760	418,257	227,041
- Other receivables (Note 19).....	175,951	929,332	295,579
- Restricted cash (Note 22)	5,740	7,394	18,076
- Cash and cash equivalents (Note 22)	243,169	947,340	1,268,206
	<u>554,620</u>	<u>2,337,323</u>	<u>2,013,552</u>
Liabilities as per combined statement of financial position			
Financial liabilities at amortized cost:			
- Trade payables (Note 23).....	94,866	323,486	489,562
- Other payables and accruals (Note 24)	214,400	308,081	300,541
	<u>309,266</u>	<u>631,567</u>	<u>790,103</u>

18 DEFERRED INCOME TAX ASSETS

The analysis of deferred tax assets is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
- to be recovered after more than 12 months	136,469	137,718	54,248
- to be recovered within 12 months	15,217	2,762	11,644
	<u>151,686</u>	<u>140,480</u>	<u>65,892</u>

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The gross movement on the deferred income tax account is as follows:

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	43,243	151,686	140,480
Credited/(charged) to the profit or loss (Note 12)	<u>108,443</u>	<u>(11,206)</u>	<u>(74,588)</u>
At the end of the year	<u>151,686</u>	<u>140,480</u>	<u>65,892</u>

The movement in deferred income tax assets during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses	Impairment of assets	Future deductible expenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2015	16,880	158	26,205	43,243
Credited to the profit or loss	<u>56,291</u>	<u>46</u>	<u>52,106</u>	<u>108,443</u>
At December 31, 2015	<u>73,171</u>	<u>204</u>	<u>78,311</u>	<u>151,686</u>
At January 1, 2016	73,171	204	78,311	151,686
Credited/(charged) to the profit or loss	<u>1,795</u>	<u>54</u>	<u>(13,055)</u>	<u>(11,206)</u>
At December 31, 2016	<u>74,966</u>	<u>258</u>	<u>65,256</u>	<u>140,480</u>
At January 1, 2017	74,966	258	65,256	140,480
Credited/(charged) to the profit or loss	<u>(71,239)</u>	<u>333</u>	<u>(3,682)</u>	<u>(74,588)</u>
At December 31, 2017	<u>3,727</u>	<u>591</u>	<u>61,574</u>	<u>65,892</u>

Details of unrecognized deferred tax are as follows:

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. Tongcheng Online Business did not recognize deferred income tax assets of Nil and RMB11,769,000 and RMB28,288,000 as at 31 December 2015, 2016 and 2017, respectively, in respect of tax losses amounting to Nil and RMB47,076,000 and RMB113,152,000 of certain subsidiaries comprising Tongcheng Online Business as at those dates, respectively, that can be carried forward against future taxable income, and will expire between 2021 and 2022 under PRC tax regulations.

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19 PREPAYMENT AND OTHER RECEIVABLES

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Included in non-current assets			
Advances to suppliers (non-financial assets).....	<u>5,752</u>	<u>1,030</u>	<u>7,949</u>
Included in current assets			
Advances to related parties (Note 32).....	98	804	2,297
Advances to suppliers	42,632	82,095	81,299
VAT recoverable	<u>76,947</u>	<u>46,413</u>	<u>8,856</u>
Total non-financial assets	<u>119,677</u>	<u>129,312</u>	<u>92,452</u>
Amounts due from related parties (Note 32).....	78,578	785,676	100,900
Deposits and guarantee.....	56,448	107,068	133,672
Others	<u>40,925</u>	<u>36,588</u>	<u>61,007</u>
Total financial assets	<u>175,951</u>	<u>929,332</u>	<u>295,579</u>
Current, total	<u>295,628</u>	<u>1,058,644</u>	<u>388,031</u>

- (a) Tongcheng Online Business consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Other receivables that are measured at amortised costs mainly included deposits and guarantees, amounts due from related parties and others. Tongcheng Online Business considers the probability of default upon initial recognition of other receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Based on the assessment and analysis conducted by the Directors, no actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant increase of credit risk, and thus the impairment provisions recognised during the years ended December 31, 2015, 2016 and 2017 were limited to 12 months expected losses.
- (b) Movement in impairment of other receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year.....	1,042	920	877
Reverse for impairment	(122)	(43)	—
Provision for impairment.....	<u>—</u>	<u>—</u>	<u>653</u>
At the end of the year	<u>920</u>	<u>877</u>	<u>1,530</u>

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

- (c) In connection with Tongcheng Online Business’ air ticket business, Tongcheng Online Business was required by its business partners to pay deposits as guarantee in order for the issuance of air tickets and timely payment. As of December 31, 2015, 2016 and 2017, the amount of the deposit paid to the business partners under these guarantee arrangements was RMB27.3 million, RMB64.5 million and RMB107.0 million, respectively and recorded as prepayment and other receivables.

20 TRADE RECEIVABLES

	As of December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Receivables from third parties	100,153	267,824	165,551
Receivables from related parties (Note 32)	30,044	151,275	63,636
	130,197	419,099	229,187
Less: allowance for impairment of trade receivables....	(437)	(842)	(2,146)
	<u>129,760</u>	<u>418,257</u>	<u>227,041</u>

- (a) Movements on the Tongcheng Online Business’ allowance for impairment of trade receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
At the beginning of the year	10	437	842
Provision for doubtful receivables.....	427	405	1,304
At the end of the year.....	<u>437</u>	<u>842</u>	<u>2,146</u>

- (b) As at December 31, 2015, 2016 and 2017, trade receivables of RMB10,500, RMB23,628,000 and Nil, respectively, were past due but not impaired. These receivables due from the related parties for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As of December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Up to 6 months.....	—	23,628	—
Over 6 months	11	—	—
	<u>11</u>	<u>23,628</u>	<u>—</u>

- (c) Tongcheng Online Business normally allows a credit period within 30 days to its customers. Ageing analysis of gross trade receivables based on invoice date at the respective balance sheet dates is as follows:

	As of December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Up to 6 months.....	129,749	394,629	227,041
Over 6 months	448	24,470	2,146
Trade receivables, gross.....	130,197	419,099	229,187
Less: Impairment of trade receivables.....	(437)	(842)	(2,146)
Trade receivables, net	<u>129,760</u>	<u>418,257</u>	<u>227,041</u>

- (d) Tongcheng Online Business applies the simplified approach to estimate expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision is determined as follows:

	Current and up to 90 days past due	90 days to 180 days past due	Over 180 days past due	Total
31 December 2015:				
Expected loss rate	0.11%	2.20%	66.82%	
Gross carrying amount (RMB’000)	129,487	273	437	130,197
Loss allowance provision (RMB’000)	139	6	292	437
31 December 2016:				
Expected loss rate	0.05%	0.28%	64.61%	
Gross carrying amount (RMB’000)	378,881	39,376	842	419,099
Loss allowance provision (RMB’000)	186	112	544	842
31 December 2017:				
Expected loss rate	0.07%	4.30%	86.67%	
Gross carrying amount (RMB’000)	224,274	2,767	2,146	229,187
Loss allowance provision (RMB’000)	167	119	1,860	2,146

21 SHORT-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
At beginning of the year	—	—	35,000
Purchase	—	35,000	4,246,400
Changes in fair value	—	187	42,675
Redemption	—	(187)	(4,119,425)
At end of the year	—	35,000	204,650

Short-term investments measured at fair value through profit or loss represent the wealth management products issued by commercial banks with a variable interest rate ranging from 2.59%-4.95% per annum for the year ended December 31, 2016 and 2017, respectively. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss.

The fair values are based on cash flow discounted using the expected return based on the Directors’ judgment and are within level 3 of the fair value hierarchy.

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22 RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Restricted cash (a).....	5,740	7,394	18,076
Cash and cash equivalents			
- Cash on hand.....	52	15	—
- Deposits at bank	<u>243,117</u>	<u>947,325</u>	<u>1,268,206</u>
	<u>243,169</u>	<u>947,340</u>	<u>1,268,206</u>
	<u>248,909</u>	<u>954,734</u>	<u>1,286,282</u>

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	244,940	953,804	1,286,190
USD.....	<u>3,969</u>	<u>930</u>	<u>92</u>
	<u>248,909</u>	<u>954,734</u>	<u>1,286,282</u>

- (a) Restricted cash are mainly deposits held as securities for issuance of bank letter of guarantee to International Air Transport Association (“IATA”) and credit cards. These deposits are subject to bank restrictions and are therefore not available for general use by Tongcheng Online Business.

23 TRADE PAYABLES

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to related parties (Note 32)	41,067	129,075	73,575
Payables due to third parties	<u>53,799</u>	<u>194,411</u>	<u>415,987</u>
	<u>94,866</u>	<u>323,486</u>	<u>489,562</u>

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

Ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 1 year.....	93,606	323,419	485,303
Over 1 year	1,260	67	4,259
	<u>94,866</u>	<u>323,486</u>	<u>489,562</u>

24 OTHER PAYABLES AND ACCRUALS

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Amounts prepaid by related parties for services (Note 32)	63	1,012	865
Advances from users	11,283	463,262	387,698
Accrued payroll and welfare.....	45,146	107,210	148,267
Taxes other than income taxes payable (Note (a)).....	1,915	8,232	13,841
Total non-financial liabilities.....	<u>58,407</u>	<u>579,716</u>	<u>550,671</u>
Amounts due to related parties (Note 32)	3,467	17,368	100,008
Amounts collected on behalf of third parties	95,048	202,923	83,029
Payable of advertising and promotion expenses	75,688	23,327	22,257
Accrued expense	11,364	12,073	23,356
Others	28,833	52,390	71,891
Total financial liabilities.....	<u>214,400</u>	<u>308,081</u>	<u>300,541</u>
Total	<u>272,807</u>	<u>887,797</u>	<u>851,212</u>

(a) Taxes other than income taxes payable mainly comprise unpaid value-added tax.

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APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

25 CONTRACT LIABILITIES

Tongcheng Online Business has recognized the following revenue-related contract liabilities:

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities:			
Deferred revenue for online reservation service.....	<u>5,036</u>	<u>5,697</u>	<u>37,217</u>

Contract liabilities primarily consists of the sales of various Coupon programs, for which an implied obligations are to be provided by Tongcheng Online Business over time. Such liabilities increased as a result of the growth of the business.

The following table shows the amount of revenue recognized in the Combined Statements of Comprehensive (Loss)/Income for the respective years relating to contract liabilities brought forward:

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognized that was included in the contract liability balance at the beginning of the period	<u>44</u>	<u>5,036</u>	<u>5,697</u>

26 DIVIDENDS

No dividend has been paid or declared by legal entities comprising Tongcheng Online Business during each of the years ended December 31, 2015, 2016 and 2017.

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

27 NOTE TO THE COMBINED STATEMENTS OF CASH FLOWS

(a) Cash flow from operations

Reconciliation of profit or loss for the Track Record Period to net cash generated from operations:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit before income tax	(443,546)	(70,302)	572,472
Adjustment for:			
Property, plant and equipment			
- Depreciation of property, plant and equipment (Note 14)	26,383	51,888	59,019
- net (gains)/losses on disposals of property, plant and equipment and intangible assets	(111)	527	3,502
- Amortization of land use rights (Note 15)	—	79	329
- Amortization of intangible assets (Note 16)	78,581	153,085	153,542
- Provision for impairment of assets	305	362	1,957
- Net foreign exchange loss/(gain) (Note 10)	—	675	(385)
- Fair value gains of short-term investments measured at fair value through profit or loss (Note 10)	—	(187)	(42,675)
- Interest income (Note 11)	(2,177)	(2,732)	(2,955)
Changes in working capital:			
- Trade receivables	(118,923)	(288,902)	189,912
- Prepayment and other receivables	1,032,212	(355,609)	213,214
- Trade payables	94,866	228,620	166,076
- Accrued expenses and other current liabilities	235,497	657,323	(4,697)
Cash generated from operations	903,087	374,827	1,309,311

(b) In the Combined Statement of Cash Flows, proceeds from sale of property, plant and equipment and intangible assets comprise:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net book value	185	527	3,502
Net gains/(losses) on disposal of property, plant and equipment and intangible assets	111	(527)	(3,502)
Proceeds from disposal of property, plant and equipment and intangible assets	296	—	—

28 BANKING FACILITIES

As at December 31, 2015, 2016 and 2017, Tongcheng Online Business has banking facilities available in the form of letters of guarantee of approximately RMB640.0 million, RMB633.3 million and RMB1.2 billion, in which Nil, approximately RMB183.4 million and RMB298.5 million are utilized and provided to business partners for financial security.

Tongcheng Online Business is in compliance with all banking covenants as at December 31, 2015, 2016 and 2017.

29 CONTINGENCIES

As at December 31, 2015, 2016 and 2017, Tongcheng Online Business did not have any significant contingent liabilities.

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of each years but not yet incurred is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Property and equipment.....	—	9,340	160,997

(b) Operating commitments

Tongcheng Online Business lease offices and VIP lounges under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
No later than 1 year	3,176	16,053	27,393
1~5 years	7,317	8,785	14,215
	<u>10,493</u>	<u>24,838</u>	<u>41,608</u>

31 BUSINESS COMBINATIONS

Tongcheng Online Business acquired 100% shares of Tianyuan Difang (Beijing) Insurance Agency Co., Ltd. (“Tianyuan Difang”) and Beijing Tongcheng Huading International Travel Agency Co., Ltd. (“Huading”), collectively (the “Acquirees”) with consideration of RMB48,845,000 and RMB410,000 in October 2015 and May 2016, respectively. RMB6,500,000 was paid in 2015 for the acquisition of Tianyuan Difang with the remaining consideration paid in 2016.

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As a result of the acquisitions, the combined operation of online business is expected to increase its presence in the markets. It also expects to reduce costs through economies of scale. The goodwill of RMB9,200,000 and RMB209,000 arising from the acquisitions were attributable to the acquired economies of scale expected from combining the operations of Tongcheng Online Business and the Acquirees.

The following table summarizes the considerations paid for the Acquirees and the fair value of net assets acquired at the acquisition date:

	2015	2016
	Tianyuan Difang	Huading
	<i>RMB'000</i>	<i>RMB'000</i>
Total consideration - Cash	48,845	410
Less: fair value of net assets acquired	<u>(39,645)</u>	<u>(201)</u>
Goodwill	<u>9,200</u>	<u>209</u>

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of Tongcheng Online Business are also considered as related parties.

The following significant transactions were carried out between Tongcheng Online Business and its related parties during the periods presented.

(a) Names and relationships with related parties

The following companies are related parties of Tongcheng Online Business and have transactions with Tongcheng Online Business during the Track Record Period:

Company name	Relationship with Tongcheng Online Business
Tongcheng Holdings and its subsidiaries (Also representing the business units and entities originally conducted the Offline Business before the Spin-Off)	Controlled by the same shareholders of Tongcheng Network
Ctrip.com International, Ltd. (“Ctrip”) and its affiliated companies.....	Shareholder (with significant influence over Tongcheng Network)
Tencent Holdings Limited (“Tencent”) and its affiliated companies.....	Shareholder (with significant influence over Tongcheng Network)

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

(b) Transactions with related parties

During the Track Record Period, the following transactions were carried out with related parties:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commission and other service income received from related parties:			
Ctrip and its affiliated companies	75,298	63,087	73,009
Tongcheng Holdings and its affiliated companies	—	1,337	19,868
	<u>75,298</u>	<u>64,424</u>	<u>92,877</u>
Commission, settlement and other service fees paid to related parties:			
Tencent and its affiliated companies	771,541	172,419	387,159
Ctrip and its affiliated companies	—	920	18,995
Tongcheng Holdings and its affiliated companies	—	16,719	50,530
	<u>771,541</u>	<u>190,058</u>	<u>456,684</u>

Except for the transactions disclosed above, as described in Note 2, prior to the completion of the Spin-Off, marketing expenses were allocated based on the pre-agreed percentage of GMV rendered to respective business units and R&D expenses are allocated based on the actual usage by the respective business units. The allocations of other group common expenses which cannot be directly traced to any business units of the Old Tongcheng Network have been made based on percentage of headcounts of employees. After the Spin-Off, Tongcheng Online Business and Offline Business enter into series of service agreements which clearly define the charge rate of marketing expenses and R&D expenses based on market price. The following shows these transactions between Online Business and Offline Business before and after the Spin-Off:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Allocation of expenses between Tongcheng Online Business and Offline Business (before the completion of the Spin-Off)			
- Market promotion expense	256,809	123,155	8,031
- R&D expense	6,413	12,529	5,384
- Other expenses	<u>10,978</u>	<u>20,157</u>	<u>8,990</u>
	274,200	155,841	22,405
Online platform usage fee, advertisement expense and other service fees charged by Online Business to Offline Business (after the Spin-Off)	—	—	36,930
	<u>274,200</u>	<u>155,841</u>	<u>59,335</u>

APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

(c) Key management personnel compensations

The compensations paid or payable to key management personnel (including Directors, members of the Executive Committee and other senior executives) for employee services are as below:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonuses	7,479	8,742	9,150
Pension costs - defined contribution plan	106	127	127
Other social security costs, housing benefits and other employee benefits	92	110	117
	<u>7,677</u>	<u>8,979</u>	<u>9,394</u>

(d) Balances with related parties

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, prepayments and other receivables from related parties (Note 19 & 20):			
Tongcheng Holdings and its affiliated companies.....	93,618	917,139	146,732
Ctrip and its affiliated companies	15,095	20,611	20,091
Tencent and its affiliated companies	7	5	10
	<u>108,720</u>	<u>937,755</u>	<u>166,833</u>

The receivables from related parties were arisen from ordinary course of business. The receivables were unsecured in nature, interest-free and with no fixed term. No provisions had been made against receivables from related parties.

	As of December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables, other payables and accruals due to related parties (Note 23 & 24):			
Tongcheng Holdings and its affiliated companies.....	9,878	52,775	115,807
Ctrip and its affiliated companies	34,719	94,680	58,641
	<u>44,597</u>	<u>147,455</u>	<u>174,448</u>

The payables due to related parties were all unsecured, non-interest bearing and had no fixed repayment terms.

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APPENDIX II ACCOUNTANT’S REPORT — TONGCHENG ONLINE BUSINESS

33 SUBSEQUENT EVENT

As disclosed in Note 1.1, on March 9, 2018, Tongcheng Network was acquired by the Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Tongcheng Online Business in respect of any period subsequent to December 31, 2017 and up to the date of this report. Save as disclosed in this report, no dividend or other distribution has been declared, made or paid by Tongcheng Online Business in respect of any period subsequent to December 31, 2017.

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

As set out in the section “History, reorganization and corporate structure” to the [REDACTED], on March 9, 2018, our Group acquired Tongcheng Online Business through contractual arrangements upon completion of the Acquisition Share Issuance.

Set out below is the unaudited pro forma consolidated statement of comprehensive income of our Group including Tongcheng Online Business (the “Enlarged Group”) for the year ended December 31, 2017 (the “Unaudited Pro Forma Consolidated Statement of Comprehensive Income”) as if the Acquisition Share Issuance had taken place on January 1, 2017.

The Unaudited Pro Forma Consolidated Statement of Comprehensive Income is prepared based on (i) the audited consolidated statements of comprehensive income of our Group for the year ended December 31, 2017 as set out in the accountant’s report of our Group included in Appendix I to this [REDACTED]; and (ii) the audited combined statements of comprehensive income of Tongcheng Online Business for the year ended December 31, 2017 as set out in the accountant’s report of Tongcheng Online Business included in Appendix II to this [REDACTED], after making pro forma adjustments as explained in the notes below.

The Unaudited Pro Forma Consolidated Statement of Comprehensive Income is in compliance with Rule 4.29 of the Listing Rules, except for Rule 4.29(6)(b). Accordingly, the Group have applied for, and the Stock Exchange has granted the Group, a waiver from strict compliance with Rule 4.29 of the Listing Rules.

The Unaudited Pro Forma Consolidated Statement of Comprehensive Income has been prepared by the Directors, based on their estimations and assumptions, in accordance with Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (the “AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial performance of the Enlarged Group for the year ended December 31, 2017 or for any future period.

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

Unaudited Pro Forma Consolidated Statement of Comprehensive Income

	The Group	Pro forma adjustments					Pro forma Combined Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>		
Revenue	2,518,591	2,707,499				5,226,090	
Cost of revenue.....	(811,781)	(858,806)				(1,670,587)	
Gross profit	1,706,810	1,848,693				3,555,503	
Service development expenses.....	(522,018)	(514,800)	(154,691)			(1,191,509)	
Selling and marketing expenses.....	(1,094,977)	(670,732)	(37,341)			(1,803,050)	
Administrative expenses.....	(97,379)	(132,772)		(10,556)	(56,974)	(297,681)	
Fair value change on investments measured at fair value through profit or loss	863					863	
Other income	12,805	7,583				20,388	
Other gains, net	22,610	31,545				54,155	
Operating profit	28,714	569,517				338,669	
Finance income	10,145	2,955				13,100	
Finance costs	(163)					(163)	
Fair value gain on redeemable convertible preferred shares measured at fair value through profit or loss	97,576	—				97,576	
Share of results of associates	(2,251)	—				(2,251)	
Profit before income tax	134,021	572,472				446,931	
Income tax credit/(expense).....	60,356	(81,134)	28,805			8,027	
Profit for the year	194,377	491,338				454,958	
Other comprehensive income: <i>Items that will not be reclassified to profit or loss</i> Fair value change relating to preferred shares due to own credit risk	(46,592)	—				(46,592)	
Total comprehensive income	147,785	491,338				408,366	

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

	The Group	Pro forma adjustments					Pro forma Combined Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>		
Total comprehensive income/(loss) attributable to:							
- Equity holders of the Company.	148,983	491,338	(163,227)	(10,556)	(56,974)	409,564	
- Non-controlling interests.....	(1,198)	—				(1,198)	
	<u>147,785</u>	<u>491,338</u>				<u>408,366</u>	

Notes:

- (1) The financial information of the Group is extracted from the audited consolidated statement of comprehensive income of the Group for the year ended December 31, 2017 as set out in the accountant's report of the Group included in Appendix I to this [REDACTED].
- (2) The financial information of Tongcheng Online Business is extracted from the audited combined statement of comprehensive income of Tongcheng Online Business for the year ended December 31, 2017 as set out in the accountant's report of Tongcheng Online Business included in Appendix II to this [REDACTED].
- (3) Upon completion of the Acquisition Share Issuance on March 9, 2018, Tongcheng Online Business is controlled by the Group and the identifiable assets and liabilities of the Tongcheng Online Business as at March 9, 2018 are accounted for at their fair values in accordance with International Financial Reporting Standard 3 “Business Combinations” (“IFRS 3”).

For the purpose of the Unaudited Pro Forma Consolidated Statement of Comprehensive Income, the Acquisition Share Issuance is assumed to have been completed on January 1, 2017, and the provisional purchase price allocation arising from the Acquisition Share Issuance is as follows:

	RMB'000
Consideration transferred:	
Consideration shares	<u>8,108,224</u>
Fair value of the consideration.....	8,108,224
Less: fair value of the identifiable net assets of Tongcheng Online Business	
Net assets as at January 1, 2017	2,118,885
Newly identified intangible assets of Tongcheng Online Business	
- Tradename.....	1,515,584
- Supplier relationship	1,457,602
- Information technology platform	199,346
Fair value adjustments on intangible assets (business cooperation agreement)	<u>171,768</u>
Fair value of the identifiable net assets as at January 1, 2017.....	5,463,185
Effect on deferred income tax liabilities arising from temporary differences of the identifiable net assets	<u>(501,645)</u>
	4,961,540
Goodwill arising from the Acquisition Share Issuance.....	3,146,684

For the purpose of the Unaudited Pro Forma Consolidated Statement of Comprehensive Income, the Directors have estimated the fair value of the identifiable net assets of Tongcheng Online Business as at January 1, 2017, based on a valuation report dated May 31, 2018 prepared by an independent valuer. The newly identified intangible assets, including tradename, supplier relationship and information technology platform with fair value of RMB1,516 million, RMB1,458 million and RMB199 million respectively. The fair value adjustment on the intangible assets of business cooperation agreement is RMB172 million. The Directors have determined that the fair value of the consideration shares is RMB8,108 million based on the valuation report dated May 31, 2018 prepared by an independent valuer.

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

The pro forma adjustment on service development expenses and selling and marketing expenses represents the amortization, on a straight-line basis, of the newly identified intangible assets of supplier relationship and information technology platform and the fair value adjustment on the intangible assets of business cooperation agreement, which have the estimated useful lives of 12 years, 6 years and 4.6 years, respectively. This pro forma adjustment is expected to have a continuing effect on the Enlarged Group’s consolidated statement of comprehensive income.

The pro forma adjustment on income tax represents the amortization of the deferred income tax liabilities arising from temporary difference on the identifiable net assets. This pro forma adjustment is expected to have a continuing effect on the Enlarged Group’s consolidated statement of comprehensive income.

- (4) The adjustment represents the expenses directly attributable to the Acquisition Share Issuance of approximately RMB[10,556,000] which are recognised in profit or loss. This adjustment is not expected to have a continuing effect on the Enlarged Group’s consolidated statement of comprehensive income.
- (5) The adjustment represents the difference between the fair value of the Shares issued to Image Frame determined by the Directors based on a valuation report dated May [31], 2018 prepared by an independent valuer and the cash consideration received from Image Frame, and the amount was recorded in administrative expenses in the consolidated statement of comprehensive income.
- (6) No adjustments have been made to the Unaudited Pro Forma Consolidated Statement of Comprehensive Income to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to December 31, 2017.

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 14, 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Memorandum of Association (the “Memorandum”) and its Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were [conditionally] adopted on [●] [with effect from the [REDACTED]]. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (aa) increase its share capital by the creation of new shares;
- (bb) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (cc) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (dd) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (ee) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) *Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

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APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) *Directors*

(i) *Appointment, retirement and removal*

At each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

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Subject to the terms of reference of the Nomination Committee (as defined in the Articles), the Directors have the power to appoint, from the candidate(s) nominated by the Nomination Committee any such person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Subject to the terms of reference of the Nomination Committee (as defined in the Articles), a Director may be removed, as proposed by the Nomination Committee by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors and the majority of the Board shall be PRC Person (as defined in the Articles).

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) *Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the dispatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

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An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) *Annual general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

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Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member’s registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) *Accounts and audit*

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company’s affairs and to explain its transactions.

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The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors’ report and a copy of the auditors’ report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company’s annual accounts and the directors’ report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company’s annual financial statement and the directors’ report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part

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thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

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(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall

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be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise

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of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company’s memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company’s memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company’s assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders’ suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company’s affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company’s capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

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(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from [●].

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company’s Articles.

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(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company’s principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company’s affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

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For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this [REDACTED]. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

[●], 2018

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on January 14, 2016. Our registered office is at Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Island. Accordingly, our Company’s corporate structure and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Articles of Association is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix IV to this [REDACTED].

Our principal place of business in Hong Kong is 31/F., Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on May 18, 2018 with the Registrar of Companies in Hong Kong. Ms. Leung Suet Wing and Mr. Ma Heping have been appointed as the authorized representatives of our Company for the acceptance of service of process in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong as set out above.

2. Changes in the Share Capital

As of the date of incorporation of our Company, our authorized share capital was US\$50,000, divided into 5,000,000 shares of a nominal or par value of US\$0.01 each.

By way of special resolution passed on May 31, 2016, our authorized share capital was changed to US\$50,000 divided into (i) 50,000,000 ordinary Shares with a nominal or par value of US\$0.005 each; and (ii) 50,000,000 preferred Shares with a nominal or par value of US\$0.0005 each.

By way of special resolution passed on July 21, 2016, our authorized share capital was increased to US\$80,000, divided into (i) 90,000,000 ordinary Shares with a nominal or par value of US\$0.0005 each; and (ii) 70,000,000 preferred Shares with a nominal or par value of US\$0.0005 each.

By way of special resolution passed on March 9, 2018, our authorized share capital was increased to US\$150,000, divided into 300,000,000 ordinary shares of a nominal or par value of US\$0.0005 each.

On March 9, 2018, all of our issued preferred shares were converted into ordinary shares on a 1:1 basis.

For subsequent changes in our Company’s share capital, see “— 3. Resolutions of our Shareholders” below.

Save as disclosed herein, there has been no alteration in our share capital and no redemption, repurchase or sale of any of our share capital since our incorporation.

3. Resolutions of our Shareholders

Pursuant to resolutions passed at a shareholder meeting of our Company dated [●].

- (a) the Memorandum of Association and the Articles of Association were approved and adopted conditional upon [REDACTED];
- (b) the increase of our Company’s authorized share capital from US\$150,000 divided into 300,000,000 ordinary shares with a par value of US\$0.0005 each to US\$1,500,000 divided into 3,000,000,000 ordinary shares with a par value of US\$0.0005 each was approved and confirmed;
- (c) conditional on the share premium account of our Company being credited as a result of the issue of the [REDACTED] pursuant to the [REDACTED], our Company will, on the [REDACTED] allot and issue a total of 1,719,906,084 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of our Company

on the day preceding the [REDACTED] in proportion to their then existing shareholdings in our Company by capitalizing the relevant sum from the share premium account of our Company. The Shares allotted and issued pursuant to the above capitalization issue will rank *pari passu* in all respects with the existing issued Shares.

- (d) conditional upon all the conditions set out in “Structure of the [REDACTED]—Conditions of the [REDACTED]” in this [REDACTED] being fulfilled:
 - (i) the [REDACTED] and the [REDACTED] were approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect such modifications as it thinks fit;
 - (ii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the [REDACTED]; and
 - (iii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to agree to the price per [REDACTED] with the [REDACTED].
- (e) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the [REDACTED] or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme or similar arrangement which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, Shares not exceed 20% of the number of the Shares in issue immediately following completion of the Capitalization Issue and the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;
- (f) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the number of the Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first;
- (g) the general mandate mentioned in paragraph (e) above be extended by the addition to the number of the Shares which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by our Company pursuant to the mandate to purchase shares referred to in paragraph (f) above; and

4. Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED] of our Shares on the Stock Exchange. See “History, Reorganization and Corporate Structure” in this [REDACTED] for information relating to the Reorganization.

5. Changes in the Capital of Our Principal Subsidiaries and Consolidated Affiliated Entities

Our principal subsidiaries and the Consolidated Affiliated Entities during the Track Record Period are referred to in the Accountant’s Report set out in Appendix I to this [REDACTED]. The following alterations in the share or registered capital of our principal subsidiaries and the Consolidated Affiliated Entities have taken place within two years immediately preceding the date of this [REDACTED]:

On June 30, 2016, the registered capital and paid up capital of E-dragon Beijing WFOE were increased from US\$91 million to US\$214 million, which had been fully paid up.

On July 27, 2016, the registered capital and paid up capital of Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司) were increased from RMB0.3 million to RMB5 million, which had been fully paid up.

On October 28, 2016, Nanjing Tongyou Tianxia Car Rental Co., Ltd. (南京同遊天下汽車租賃有限公司) was incorporated under the laws of PRC with a registered capital of RMB1 million.

On December 5, 2016, the registered capital and paid up capital of Tongcheng Network were increased from approximately RMB203 million to approximately RMB215 million, which had been fully paid up.

On March 7, 2017, Tongcheng Holdings was spun-off from Tongcheng Network, after which the registered capital and paid up capital of Tongcheng Network decreased from approximately RMB215 million to approximately RMB107 million.

On September 7, 2017, Longyue Tiancheng WFOE was incorporated under the laws of PRC with a registered capital of USD1 million.

On November 9, 2017, the registered capital and paid up capital of Tongcheng Network was increased from approximately RMB107 million to approximately RMB111 million, which had been fully paid up.

On December 7, 2017, the registered capital and paid up capital of Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司) were increased from RMB5 million to RMB50 million.

On March 21, 2018, Suzhou Chengyi was incorporated under the laws of PRC with a registered capital of RMB1 million.

Save as disclosed above, there have been no alterations in the capital of our principal subsidiaries within the two years immediately preceding the date of this [REDACTED].

6. Repurchases of Our Own Securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a [REDACTED] on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders’ approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a [REDACTED] on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed at a shareholder meeting of our Company dated [●], a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the number of Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] and the options granted under the Share Incentive Plans until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the applicable laws of Hong Kong. A [REDACTED] company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(iii) *Trading restrictions*

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Capitalization Issue and the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] and the option granted under the Share Incentive Plans). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of [REDACTED] Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) *Status of repurchased Shares*

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically [REDACTED] and the certificates for those Shares must be cancelled and destroyed.

(v) *Suspension of repurchase*

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company’s results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

(vi) *Procedural and reporting requirements*

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company’s annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) *Connected parties*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of Hong Kong.

On the basis of the current financial position as disclosed in this [REDACTED] and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this [REDACTED]. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the Capitalization Issue and the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] or the options granted under the Share Incentive Plans), could accordingly result in [REDACTED] Shares being repurchased by our Company during the period prior to the earliest occurrence of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of Hong Kong to be held; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting (the “**Relevant Period**”).

(d) *General*

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong. We have not repurchased any Shares since our incorporation.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this [REDACTED] that are or may be material:

- (a) a restructuring agreement dated December 28, 2017 entered into among our Company, Tongcheng Network, TCH Sapphire, C-Travel, Ocean Imagination L.P., Luxuriant Holdings Limited, Oasis Limited, Mr. Zhou Rong, EP II Investment Fund L.P., Ocean BT L.P., Seagull Limited, eLong Overseas Investment Co., Ltd. (together, the “**eLong Investors**”), Mr. Zhang Hailong, Mr. Ma Heping, Mr. Wu Jian, Mr. Wang Zhuan, Wanda, Ningbo Meishan FTZ Dongyi Jiacheng Investment Management L.P. (Limited Partnership) (寧波梅山保稅港區東義佳程投資管理合夥企業(有限合夥)), Guokai Boyu Phase I (Shanghai) Shareholding Investment L.P. (Limited Partnership) (國開博裕一期(上海)股權投資合夥企業(有限合夥)), Shenzhen Huasheng Ruijin Investment L.P. (Limited Partnership) (深圳華晟銳金投資合夥企業(有限合夥)), Shenzhen Lingfeng Cornerstone Chuangye Investment Management L.P. (Limited Partnership) (深圳領峰基石創業投資管理合夥企業(有限合夥)), Jining Pioneer Cornerstone Shareholding Investment L.P. (Limited Partnership) (濟寧先鋒基石股權投資合夥企業(有限合夥)), Hangzhou Pioneer Cornerstone Shareholding Investment L.P. (Limited Partnership) (杭州先鋒基石股權投資合夥企業(有限合夥)), Beijing Junlian Mingde Shareholding Investment L.P. (Limited Partnership) (北京君聯明德股權投資合夥企業(有限合夥)), Kaifeng Chuangye Investment Co., Ltd. (凱風創業投資有限公司), Ningbo FTZ Kaicheng Shareholding Investment L.P. (Limited Partnership) (寧波保稅區凱程股權投資合夥企業(有限合夥)), Suzhou Kaifeng Wansheng Chuangye Investment L.P. (Limited Partnership) (蘇州凱風萬盛創業投資合夥企業(有限合夥)), Chengdu Shengtang Yinke Chuangye Investment L.P. (Limited Partnership) (成都盛唐銀科創業投資合夥企業(有限合夥)), Khorgas Lecheng Tianxia Shareholding Investment Management L.P. (Limited Partnership) (霍爾果斯樂程天下股權投資管理合夥企業(有限合夥)), Khorgas Qingcheng Shareholding Investment Management L.P. (Limited Partnership) (霍爾果斯青程股權投資管理合夥企業(有限合夥)), Shanghai Ctrip International Travel Agency Co., Ltd. (上海攜程國際旅行社有限公司), Suzhou Rongpei Xinxing Shareholding Investment Management L.P. (Limited Partnership) (蘇州融沛新興股權投資管理合夥企業(有限合夥)), Suzhou Industrial Park Techeng Wanli Investment Management Co., Ltd. (蘇州工業園區特程萬里投資管理有限公司), Shenzhen Shiji Kaihua Investment Fund Co., Ltd. (深圳市世紀凱華投資基金有限公司), Shenzhen Tencent Industry Investment Fund Co., Ltd. (深圳市騰訊產業投資基金有限公司), Shenzhen Litong Industry Investment Fund Co., Ltd. (深圳市利通產業投資基金有限公司), Shenzhen Shiji Huixiang Technology Co., Ltd. (深圳市世紀匯祥科技有限公司), Tiancheng Jialv Chuangye Investment L.P. (Limited Partnership) (蘇州工業園

區天程嘉旅創業投資合夥企業(有限合夥)), Suzhou Industrial Park Tiancheng Zhiyuan Chuangye Investment L.P. (Limited Partnership) (蘇州工業園天程致遠創業投資合夥企業(有限合夥)), Khorgas Yecheng Shareholding Investment Management L.P. (Limited Partnership) (霍爾果斯業程股權投資管理合夥企業(有限合夥)), Suzhou Industrial Park Yuanhe Zhongyuan M&A Shareholding Investment Fund L.P. (Limited Partnership) (蘇州工業園區元禾重元併購股權投資基金合夥企業(有限合夥)), Shenzhen Zhaocai NEEQ Shareholding Investment L.P. (Limited Partnership) (深圳招財新三板股權投資合夥企業(有限合夥)), Suzhou Huafan Runhe Venture Capital Partnership (Limited Partnership) (蘇州華帆潤禾創業投資合夥企業(有限合夥)), Tianjin Youtou Jinding Intelligent Travel Asset Management Center (Limited Partnership) (天津優投金鼎智慧旅遊資產管理中心(有限合夥)), Tianjin Youtou Jinding Intelligent Travel Asset Management Center (Limited Partnership) (天津優投金鼎智慧旅遊資產管理中心(有限合夥)) (the “**Tongcheng Investors**”) and Image Frame, relating to the merger between Tongcheng and eLong;

- (b) the Shareholders’ Agreement;
- (c) an exclusive technology consulting and services agreement dated April 2, 2018, entered into between E-dragon Beijing WFOE and Beijing E-dragon, as further described in the section headed “Contractual Arrangements”;
- (d) an exclusive share purchase right agreement dated April 2, 2018, entered into among E-dragon Beijing WFOE, Mr. Jiang Hao and Beijing E-dragon, as further described in the section headed “Contractual Arrangements”;
- (e) a share pledge agreement dated April 2, 2018, entered into among E-dragon Beijing WFOE, Mr. Jiang Hao and Beijing E-dragon, as further described in the section headed “Contractual Arrangements”;
- (f) a power of attorney dated April 2, 2018, entered into between Mr. Jiang Hao and E-dragon Beijing WFOE, as further described in the section headed “Contractual Arrangements”;
- (g) a loan agreement dated April 2, 2018, entered into between Mr. Jiang Hao and E-dragon Beijing WFOE, as further described in the section headed “Contractual Arrangements”;
- (h) an exclusive technology consulting and services agreement dated April 2, 2018, entered into between Longyue Tiancheng WFOE and Tongcheng Network, as further described in the section headed “Contractual Arrangements”;
- (i) an exclusive share purchase right agreement dated April 2, 2018, entered into among Longyue Tiancheng WFOE, the Tongcheng Network Registered Shareholders and Tongcheng Network, as further described in the section headed “Contractual Arrangements”;
- (j) a share pledge agreement dated April 2, 2018, entered into among Longyue Tiancheng WFOE, the Tongcheng Network Registered Shareholders and Tongcheng Network, as further described in the section headed “Contractual Arrangements”;
- (k) a power of attorney dated April 2, 2018, entered into between Mr. Wu Zhixiang and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (l) a power of attorney dated April 2, 2018, entered into between Mr. Wang Zhuan and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (m) a power of attorney dated April 2, 2018, entered into between Ms. Wu Jian and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (n) a power of attorney dated April 2, 2018, entered into between Mr. Zhang Hailong and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (o) a power of attorney dated April 2, 2018, entered into between Mr. Ma Heping and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (p) a power of attorney dated April 2, 2018, entered into between Kaifeng Chuangye Investment Co., Ltd. (凱風創業投資有限公司) and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (q) a power of attorney dated April 2, 2018, entered into between Khorgas Lecheng Tianxia Shareholding Investment Management L.P. (霍爾果斯樂程天下股權投資管理合夥企業) and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (r) a power of attorney dated April 2, 2018, entered into between Suzhou Industrial Park Techeng Wanli Investment Management Co., Ltd. (蘇州工業園區特程萬里投資管理有限公司) and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (s) a power of attorney dated April 2, 2018, entered into between Khorgas Qingcheng Shareholding Investment Management L.P. (霍爾果斯青程股權投資管理合夥企業) and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (t) a power of attorney dated April 2, 2018, entered into between Khorgas Yecheng Shareholding Investment Management L.P. (霍爾果斯業程股權投資管理合夥企業) and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (u) a power of attorney dated April 2, 2018, entered into among Shenzhen Litong Industry Investment Fund Co., Ltd. (深圳市利通產業投資基金有限公司) (“**Litong**”), Shenzhen Tencent Industry Investment Fund Co., Ltd. (深圳市騰訊產業投資基金有限公司) (“**Shenzhen Tencent**”), Shenzhen Shiji Huixiang Technology Co., Ltd. (深圳市世紀匯祥科技有限公司) (“**Huixiang**”) and Shenzhen Shiji Kaihua Investment Fund Co., Ltd. (深圳市世紀凱華投資基金有限公司) (“**Kaihua**”) and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (v) an exclusive technology consulting and services agreement dated April 13, 2018, entered into between Longyue Tiancheng WFOE and Suzhou Chengyi, as further described in the section headed “Contractual Arrangements”;
- (w) an exclusive share purchase right agreement dated April 13, 2018, entered into among Longyue Tiancheng WFOE, Mr. Wu Zhixiang, Mr. Ma Heping and Suzhou Chengyi, as further described in the section headed “Contractual Arrangements”;
- (x) a share pledge agreement dated April 13, 2018, entered into among Longyue Tiancheng WFOE, Mr. Wu Zhixiang, Mr. Ma Heping and Suzhou Chengyi, as further described in the section headed “Contractual Arrangements”;
- (y) a power of attorney dated April 13, 2018, entered into between Mr. Wu Zhixiang and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (z) a power of attorney dated April 13, 2018, entered into between Mr. Ma Heping and Longyue Tiancheng WFOE, as further described in the section headed “Contractual Arrangements”;
- (aa) a termination agreement of the Shareholders’ Agreement dated June 13, 2018, entered into by the parties to the Shareholders’ Agreement, pursuant to which the Shareholders Agreement shall be terminated upon the [REDACTED];
- (bb) [REDACTED].

APPENDIX V

STATUTORY AND GENERAL INFORMATION

2. Intellectual Property Rights of our Group

(a) Trademarks




As of the Latest Practicable Date, our Group had registered the following trademarks which we consider to be material to our Group’s business:

Trademark	Place of registration	Registered owner
	Beijing, China	Beijing E-dragon
	Beijing, China	E-dragon Beijing WFOE
	Beijing, China	E-dragon Beijing WFOE
	New York, the United States	eLong Cayman
	Beijing, China	E-dragon Beijing WFOE
	New York, the United States	eLong Cayman
	New York, the United States	eLong Cayman
	Beijing, China	E-dragon Beijing WFOE
	New York, the United States	eLong Cayman
	Jiangsu, China	Tongcheng Network

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Trademark	Place of registration	Registered owner
	Jiangsu, China	Tongcheng Network
	Jiangsu, China	Tongcheng Network
	Jiangsu, China	Tongcheng Network
	Hong Kong	Tongcheng Network

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(b) *Domain Names*

As of the Latest Practicable Date, our Group had registered the following domain names which we consider to be material to our Group’s business:

Domain name	Registered owner	Expiry date
ly.com.....	Tongcheng Network	August 16, 2019
elong.com	Beijing E-dragon	April 26, 2020
elong.net.....	Beijing E-dragon	April 26, 2020
fortunetrip.com	eLong Cayman	August 10, 2018
fortunetrip.net	eLong Cayman	August 10, 2018
elong.holiday	E-dragon Beijing WFOE	April 23, 2020
elong.guru.....	E-dragon Beijing WFOE	April 23, 2020
elong.expert	E-dragon Beijing WFOE	May 14, 2020
elong.cruises	E-dragon Beijing WFOE	May 28, 2020
elong.villas	E-dragon Beijing WFOE	May 28, 2020
elong.vacations	E-dragon Beijing WFOE	May 28, 2020
elong.rentals	E-dragon Beijing WFOE	May 28, 2020
elong.flights.....	E-dragon Beijing WFOE	May 28, 2020
sinohotel.com.....	E-dragon Beijing WFOE	August 4, 2018
5cm.org.....	eLong Cayman	October 5, 2018
hotelvip.com.cn.....	E-dragon Beijing WFOE	May 6, 2019

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(c) Patents

As of the Latest Practicable Date, our Group had registered the following patents which we consider to be material to our Group’s business:

Title	Place of registration	Registered owner
Terminal with graphical user interface I.....	China	E-dragon Beijing WFOE
Terminal with graphical user interface II.....	China	E-dragon Beijing WFOE
Short message sending method and short message platform..	China	E-dragon Beijing WFOE
Integrated tourism information search server device.....	China	Tongcheng Network
Somatosensory tourism information interactive equipment ..	China	Tongcheng Network
Ticket information crawling equipment	China	Tongcheng Network
Air ticketing custom equipment.....	China	Tongcheng Network
New method for search engines to apply smart bids	China	Tongcheng Network

As of the Latest Practicable Date, our Group had made applications to register the following patents which we consider to be material to our Group’s business:

Title	Place of application	Applicant
Hotel order processing system and processing method	China	E-dragon Beijing WFOE
A hotel ranking method based on user behavior Cloud server and system	China	E-dragon Beijing WFOE
Interface automation test methods and systems	China	E-dragon Beijing WFOE
Dynamic build methods and systems for testing requests across language protocols	China	E-dragon Beijing WFOE
Device with a graphical user interface	China	E-dragon Beijing WFOE

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of the Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations*

(i) *Interest in the Shares*

Immediately following completion of the Capitalization Issue and the [REDACTED] (without taking into account the Shares to be allotted and issued upon the exercise of the [REDACTED] and options granted under the Share Incentive Plans), the interests or short positions of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required under Section 352 of the SFO to be entered in the

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register referred to in that section, or which will be required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (“**Model Code**”) once the Shares are [REDACTED], will be as follows:

Name of Director	Nature of Interest	Number of Shares upon [REDACTED]	Approximate percentage of shareholding interest upon [REDACTED]
Mr. Wu Zhixiang ⁽¹⁾	Interest in a controlled corporation	49,711,000	[REDACTED]
Mr. Ma Heping ⁽²⁾	Interest in a controlled corporation	9,499,140	[REDACTED]
Mr. Jiang Hao ⁽³⁾	Interest in a controlled corporation	5,555,560	[REDACTED]
Mr. Jiang Hao ⁽⁴⁾	Beneficial interest	8,300,000	[REDACTED]

Notes:

- (1) Immediately following completion of the Capitalization Issue and the [REDACTED] (without taking into account the Shares to be allotted and issued upon the exercise of the [REDACTED] and the options granted under the Share Incentive Plans), Travel Maps Limited will directly hold 49,711,000 Shares in our Company. As Travel Maps Limited is wholly-owned and controlled by Mr. Wu Zhixiang, he is deemed to be interested in the total number of Shares held by Travel Maps Limited.
 - (2) Immediately following completion of the Capitalization Issue and the [REDACTED] (without taking into account the Shares to be allotted and issued upon the exercise of the [REDACTED] and the options granted under the Share Incentive Plans), Adventure Together Limited will directly hold 9,499,140 Shares in our Company. As Adventure Together Limited is wholly-owned and controlled by Mr. Ma Heping, he is deemed to be interested in the total number of Shares held by Adventure Together Limited.
 - (3) Immediately following completion of the Capitalization Issue and the [REDACTED] (without taking into account the shares to be allotted and issued upon the exercise of the [REDACTED] and the options granted under the Share Incentive Plans), Oasis Limited will directly hold 5,555,560 Shares in our Company. As Oasis Limited is wholly-owned and controlled by Mr. Jiang Hao, he is deemed to be interested in the total number of Shares held by Oasis Limited.
 - (4) This represents the number of Shares underlying the RSUs granted to Mr. Jiang Hao under the 2016 Share Incentive Plan, following completion of the Capitalization Issue.
- (ii) *Interests in associated corporations immediately following completion of the Reorganization*

Name of Director	Name of associated corporation	Number of securities held	Approximate percentage of interests
Mr. Wu Zhixiang.....	Tongcheng Network	25,447,745	22.86%
	Suzhou Chengyi	N/A ⁽¹⁾	51.00%
Mr. Ma Heping	Tongcheng Network	1,093,162	0.98%
	Suzhou Chengyi	N/A ⁽¹⁾	49.00%
Mr. Jiang Hao	Beijing E-dragon	N/A ⁽¹⁾	50.00%

Notes:

- (1) As Suzhou Chengyi and Beijing E-dragon are limited liability companies established in the PRC, the percentage of shareholding is determined with reference to the percentage of subscribed registered capital of each shareholder.

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(b) *Interests and short positions of the Substantial Shareholders in the Shares and underlying shares of our Company*

Save as disclosed in the section headed “Substantial Shareholders” in this [REDACTED], our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has any an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are [REDACTED], would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly interested in 10% or more of the issued voting shares of our Company.

(c) *Interests of the substantial shareholder of any member of our Group (other than our Company)*

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the [REDACTED] (without taking into account the exercise of the [REDACTED]), the following persons (not being Directors or chief executive of our Company) will, directly or indirectly, be interested in 10% or more of the issued voting shares of the following member of our Group (other than our Company):

Name of Shareholder	Name of members of our Group	Nature of interests	Approximate percentage of shareholding interests
Shenzhen Xiaozhi Network Technology Co., Ltd. (深圳市曉峙網路科技有限責任公司).....	Shenzhen JL-Tour	Beneficial interests	29.67%
Shenzhen Litong Industry Investment Fund Co., Ltd. (深圳市利通產業投資基金有限公司).....	Tongcheng Network	Beneficial interests	11.69%
Yu Lai Wan.....	Hong Kong Jielv International Co., Limited	Beneficial interests	33.34%

2. Particulars of Service Contracts

(a) *Executive Directors*

[Each of the executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from the [REDACTED], which may be terminated by not less than three months’ notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.]

(b) *Non-executive Director and Independent Non-executive Directors*

[Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with our Company for a term of one year with effect from the [REDACTED]. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director’s fee while the non-executive directors are not entitled to any remuneration. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.]

(c) *Others*

- (i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (ii) During the year ended December 31, 2017, the aggregate of the remuneration and benefits in kind payable to the Directors was approximately RMB12,122,000. Details of the Directors’ remuneration are also set out in note 7 of the Accountant’s Report set out in Appendix I to this [REDACTED]. Save as disclosed in this [REDACTED], no other emoluments have been paid or are payable in respect of the year ended December 31, 2017 by our Company to the Directors.
- (iii) Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending December 31, 2018 is estimated to be approximately RMB13,000,000.
- (iv) None of the Directors or any past Directors of any members of our Group has been paid any sum of money for the three years ended December 31, 2017 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2017.
- (vi) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, our Company, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

3. Fees or commissions received

Save as disclosed in this [REDACTED], none of the Directors or any of the persons whose names are listed under the section headed “—E. Other Information—10. Consents of Experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this [REDACTED].

4. Miscellaneous

Save as disclosed in this [REDACTED]:

- (a) none of the Directors or chief executive of our Company has any interest or short positions in the Shares, underlying Shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are [REDACTED] on the Stock Exchange;

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- (b) none of our Directors nor any of the parties listed in the section headed “—E. Other Information—10. Consents of Experts” below has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this [REDACTED] been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors nor any of the parties listed in the section headed “—E. Other Information—10. Consents of Experts” below is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to the business of our Group taken as a whole;
- (e) other than pursuant to the [REDACTED], none of the parties listed in the section headed “—E. Other Information—10. Consents of Experts” below:
 - (i) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe securities in any member of our Group.
- (f) none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our number of issued shares) has any interest in our five largest suppliers or our five large customers.

D. SHARE INCENTIVE PLANS

As of the Latest Practicable Date and assuming the Capitalization Issue has been completed, our Directors and senior management have been granted the following restricted stock unit (“RSU”) pursuant to the 2016 Share Incentive Plan and share options pursuant to the 2018 Share Incentive Plan:

Name of Director/ Senior Management	Number of Shares underlying the RSUs granted pursuant to the 2016 Share Incentive Plan	Number of Shares represented by options granted pursuant to the 2018 Share Incentive Plan	Total
Wu Zhixiang	—	7,000,000	7,000,000
Jiang Hao	8,300,000	3,607,390	11,907,390
Ma Heping	—	13,828,310	13,828,310
Wu Jiazhu	—	3,607,390	3,607,390
Fan Lei	597,400	3,156,460	3,753,860
Wang Qiang	—	3,607,390	3,607,390
Yu Pei	1,585,560	1,533,140	3,118,700
Bai Zhiwei	1,852,780	1,082,220	2,935,000

1. 2016 Share Incentive Plan

Summary

The following is a summary of the principal terms of the 2016 Share Incentive Plan of our Company as approved and adopted by our the Board on August 26, 2016. The terms of the 2016 Share Incentive Plan are not subject to the provisions of Chapter 17 of the Listing Rules.

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(a) *Purpose*

The purpose of the 2016 Share Incentive Plan is to promote the success and enhance the value of our Company, by linking the personal interests of the directors, officers and employees of our Company and any present or future Subsidiaries or VIEs (as defined below) of our Company by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The 2016 Share Incentive Plan is further intended to provide flexibility to our Company in its ability to motivate, attract, and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of our Company’s operation is largely dependent.

(b) *Who may join*

Those eligible to participate in the 2016 Share Incentive Plan include: (1) the Directors of our Company; and (2) any person employed by (i) our Company, or (ii) any entity in which our Company holds directly or indirectly more than fifty percent (50%) of the voting equity (the “**Subsidiary**”); or (iii) any entity that is considered to be a variable interest entity consolidated with our Company for purpose of U.S. GAAP (the “**VIE**”) ((i), (ii) and (iii) collectively, the “**Employee**”, and further together with (a), the “**Participant**”). A person will not cease to be an Employee solely by virtue of also being a Director of our Company. A Participant will not cease to be an Employee in the case of (1) any leave of absence approved by our Company or (2) transfers between locations of our Company or between our Company, any Subsidiary, any VIE, or any successor to our Company or any Subsidiary or VIE.

Neither this Plan nor any Award will confer upon any recipient or other holder of an Award any right with respect to continuing such recipient’s or holder’s relationship as a Participant with our Company, nor will it interfere in any way with his or her right or our Company’s right to terminate such relationship at any time, with or without cause.

(c) *Maximum number of shares*

The overall limit on the number of underlying Shares that may be subject to any option, RSU, any Shares issued subject to forfeiture or repurchase by our Company until vested (the “**Restricted Shares**”) or other share-based award or right granted or sold pursuant to the 2016 Share Incentive Plan is 101,360,000 shares (upon completion of the Capitalization Issue).

(d) *Administration*

The 2016 Share Incentive Plan is administered by the full Board or a Compensation Committee appointed by the Board, constituted to comply with applicable law (the “**Compensation Committee**”).

Subject to any specific designation in the 2016 Share Incentive Plan and, in the case of the Compensation Committee, subject to the specific duties delegated by the Board to the Compensation Committee, and subject to the approval of any relevant authorities, the Compensation Committee will have the authority in its discretion to:

- (i) determine Fair Market Value;
- (ii) determine the types of Awards to be granted;
- (iii) select the Participants to whom Awards may be made from time to time;
- (iv) determine the number of Shares or RSUs to be covered by each Award granted;
- (v) approve forms of Award Agreements;
- (vi) determine the terms and conditions of any Award. Such terms and conditions include, but are not limited to, the exercise price; the time or times when options may be exercised, RSUs may be vested or Restricted Shares may no longer be subject to the repurchase right of our Company, or options, RSUs or Restricted Shares may be forfeited (which in each case may be based on performance criteria); any vesting acceleration or waiver of restrictions; and any restriction or limitation regarding any Award or Shares relating

thereto, based in each case on such factors as the Compensation Committee may determine; provided, that no Award granted under the 2016 Share Incentive Plan be may be amended or otherwise be subject to any action that would be treated, for accounting purposes, as a “repricing” of such Award, unless such amendment or action is approved by the Board or our Company’s shareholders;

- (vii) determine whether and under what circumstances an RSU may be settled in cash instead of Shares;
- (viii) prescribe and amend provisions relating to this Plan, including provisions relating to subplans established for the purpose of qualifying for preferred tax treatment under applicable tax law;
- (ix) allow holders of options or other Awards to satisfy withholding tax obligations by electing to have our Company withhold from the Shares to be issued upon exercise of an option or other Award that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined. All elections by Holders to have Shares withheld for this purpose will be made in such form and under such conditions as the Compensation Committee may deem necessary or advisable; and
- (x) construe and interpret the terms of the 2016 Share Incentive Plan and Awards granted pursuant to the 2016 Share Incentive Plan;

For the purpose of the 2016 Share Incentive Plan, “Fair Market Value” as of any given date means, as of any given date means, unless otherwise defined in an Award Agreement, if the Shares are listed on an Exchange, the closing price for the Shares on such exchange, or if Shares were not traded on such exchange on such given date, then on the next preceding date on which Shares were traded, all as reported in The Wall Street Journal or such other resource as the Compensation Committee deems reliable. If the Shares are listed on an exchange, in the event that an Award is granted on any given date prior to the time that trading has ended on the applicable exchange on such date, Fair Market Value may be determined as of the date preceding such grant. If the Shares are not listed on an exchange, Fair Market Value will be determined by the Compensation Committee in its good faith discretion, using such methods of appraisal and valuation as it deems appropriate, including without limitation the Fair Market Value of any class of Shares of our Company, with economic rights comparable to those of the applicable class, that is listed on an exchange.

(e) *Grant of Awards*

The Management is authorized to grant options, RSUs or other Awards to purchase a specified number of Shares at a specified price during specified time periods. Awards granted will be evidenced by an agreement (“**Award Agreement**”) between the Management and the Participant. The Award Agreement includes additional provisions specified by the Management.

(f) *Term of the 2016 Share Incentive Plan*

The 2016 Share Incentive Plan commenced on August 26, 2016 (the “**Effective Date of 2016 Share Incentive Plan**”). Any Awards that are outstanding on the tenth anniversary of the Effective Date of 2016 Share Incentive Plan shall remain in force according to the terms of the 2016 Share Incentive Plan and the applicable Award Agreement.

(g) *Exercise of option*

The Management shall determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any option granted under the 2016 Share Incentive Plan shall not exceed ten years, subject to a shareholder approval of extension of the exercise period for an option beyond ten years from the date of the grant. The Management shall also determine any conditions, if any, that must be satisfied before all or part of an Award may be exercised.

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(h) *Option Exercise Price, Consideration for RSU Grants, Restricted Share Purchase Price, and Form of Consideration*

Subject to the relevant sections of the 2018 Share Incentive Plan, the exercise price for Shares to be issued upon exercise of an option, the price to be paid for the granting of RSUs, and the purchase price of Restricted Shares will be such amounts as are determined by the Compensation Committee.

The consideration to be paid for Shares to be issued upon exercise of an option, the granting of an RSU, or the purchase of Restricted Shares, including the method of payment, will be determined by the Compensation Committee. Such consideration may consist of (i) cash, (ii) check, (iii) such other method of payment as is approved by the Compensation Committee, or (iv) any combination of the foregoing that is approved by the Compensation Committee.

(i) *Vesting of awards*

Any options granted under the 2016 Share Incentive Plan will become vested and exercisable, any RSUs granted under the 2016 Share Incentive Plan will vest and be settled, and any Restricted Shares issued under the 2016 Share Incentive Plan will vest and no longer be subject to forfeiture at such times and under such conditions as determined by the Compensation Committee and set forth in an Award Agreement.

(j) *Rights on death or disability*

Unless otherwise provided in the Award Agreement, if a Participant’s employment or service terminates as a result of the Participant’s death or disability, (i) the Participant (or the legal representatives or beneficiary, in the case of disability or death, respectively), will be entitled to exercise the option in whole or in part within a period of 12 months following the date of the Participant’s termination of employment to the extent that such options were vested and exercisable on that date; (ii) options that are not vested and exercisable on that date shall terminate upon the Participant’s termination of employment or service on account of death or disability; and (iii) options that are exercisable for the 12-month period following the Participant’s termination of employment and not exercised shall terminate at the close of business on the last day of the 12-month period.

(k) *Adjustment*

In the event of any share dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares or the price of a share, the Management shall make such proportionate adjustments, if any, as the Management in its discretion may deem appropriate to reflect such change with respect to:

- (i) the aggregate number and type of shares that may be issued under the 2016 Share Incentive Plan;
- (ii) the terms and conditions of any outstanding options (including, without limitation, any applicable performance targets or criteria with respect thereto); and
- (iii) the grant or exercise price per share for any outstanding options under the 2016 Share Incentive Plan provided that such price per share of our Company is not less than the par value of such share.

(l) *Amendment, modification and termination*

Subject to shareholder approval, the Board may at any time amend, suspend or terminate the 2016 Share Incentive Plan in accordance with the Shareholders Agreement and the Memorandum and Articles of Association.

The Board will obtain shareholder approval of any amendment to the 2016 Share Incentive Plan to the extent necessary or desirable to comply with the Shareholders Agreement, the Memorandum and Articles of Association and applicable law.

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Except as may be required by Applicable Law, no amendment, suspension or termination of the 2016 Share Incentive Plan will materially and adversely impair the rights of any Holder, unless agreed otherwise in writing between the Holder and the Management. Termination of the 2016 Share Incentive Plan will not affect the management’s ability to exercise the powers granted to it hereunder with respect to Awards granted under the 2016 Share Incentive Plan prior to the date of such termination.

Details of the RSUs granted under the 2016 Share Incentive Plan

Details of the RSUs granted pursuant to the 2016 Share Incentive Plan to our Directors and senior management are set out below (assuming the Capitalization Issue had been completed):

Name of grantee	Number of Shares underlying the RSUs granted	Vesting Period (subject to other conditions in the 2016 Share Incentive Plan)
Directors and senior management of our Company		
Jiang Hao	4,500,000	66% of which have been vested
		34% of which will be vested in September 2018
	3,800,000	33% of which have been vested
		33% of which will be vested in September 2018
		34% of which will be vested in September 2019
Fan Lei	147,400	49.25% of which have been vested
		50.75% of which will be vested in September 2018
	450,000	33% of which have been vested
		33% of which will be vested in September 2018
		34% of which will be vested in September 2019
Yu Pei.....	600,000	66% of which have been vested
		34% of which will be vested in September 2018
	600,000	33% of which have been vested
		33% of which will be vested in September 2018
		34% of which will be vested in September 2019

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Name of grantee	Number of Shares underlying the RSUs granted	Vesting Period (subject to other conditions in the 2016 Share Incentive Plan)
	385,560	100% of which have been vested
Bai Zhiwei.....	430,000	66% of which have been vested 34% of which will be vested in September 2018
	600,000	33% of which have been vested 33% of which will be vested in September 2018 34% of which will be vested in September 2019
	822,780	100% of which have been vested
Subtotal:	12,335,740	54.55% of which have been vested 30.43% of which will be vested in September 2018 15.02% of which will be vested in September 2019
155 other employees of our Group	31,850,970	40.86% of which have been vested 32.20% of which will be vested in September 2018 3.79% of which will be vested in March 2019 4.38% of which will be vested in April 2019 14.99% of which will be vested in September 2019 3.79% of which will be vested in March 2020
Total	44,186,710	44.68% of which have been vested

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Name of grantee	Number of Shares underlying the RSUs granted	Vesting Period (subject to other conditions in the 2016 Share Incentive Plan)
		31.71% of which will be vested in September 2018
		2.73% of which will be vested in March 2019
		3.15% of which will be vested in April 2019
		15.00% of which will be vested in September 2019
		2.73% of which will be vested in March 2020

2. 2018 Share Incentive Plan

Summary

The following is a summary of the principal terms of the 2018 Share Incentive Plan of our Company as approved and adopted by our the Board on March 9, 2018. The terms of the 2018 Share Incentive Plan are not subject to the provisions of Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the 2018 Share Incentive Plan is to promote the success and enhance the value of our Company, by linking the personal interests of the directors, officers and employees of our Company and any present or future Subsidiaries or VIEs (as defined below) of our Company by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The 2018 Share Incentive Plan is further intended to provide flexibility to our Company in its ability to motivate, attract, and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of our Company’s operation is largely dependent.

(b) Who may join

Those eligible to participate in the 2018 Share Incentive Plan include: (1) the Directors of our Company; and (2) any person employed by (i) our Company, or (ii) any entity that is directly or indirectly Controlled (as defined below) by our Company or (iii) any entity that is considered to be a variable interest entity consolidated with our Company for purpose of U.S. GAAP. A person will not cease to be an Employee solely by virtue of also being a Director of our Company. A Participant will not cease to be an Employee in the case of (1) any leave of absence approved by our Company or (2) transfers between locations of our Company or between our Company, any Subsidiary, any VIE, or any successor to our Company or any Subsidiary or VIE.

Neither this Plan nor any Award will confer upon any recipient or other holder of an Award any right with respect to continuing such recipient’s or holder’s relationship as a Participant with our Company, nor will it interfere in any way with his or her right or our Company’s right to terminate such relationship at any time, with or without cause.

For the purpose of this paragraph, “**Control**” of a natural person, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or other entity or organization (a “**Person**”) means, directly or indirectly, (a) ownership of more than fifty percent (50%) of the shares in issue, registered capital or other equity interest of such Person or more than fifty percent (50%) of the voting power of such Person, whether through the ownership, voting proxy, trustee, representative, executor or other arrangements or (b) the power to

APPENDIX V

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direct the management or policies of such Person, whether through the ownership, voting proxy, trustee, representative, executor or other arrangements of the voting power of such Person, through the power to appoint a majority of the members of the board of directors, general partners, or similar governing body of such Person, through contractual arrangements or otherwise.

(c) *Maximum number of shares*

The overall limit on the number of underlying Shares that may be subject to any option, RSU, any Shares issued subject to forfeiture or repurchase by our Company until vested or other share-based award or right granted or sold pursuant to the 2018 Share Incentive Plan is 163,240,270 shares (upon completion of the Capitalization Issue).

(d) *Administration*

The 2018 Share Incentive Plan is administered by the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer, Chief Strategy Officer and Chief Marketing Officer of our Company appointed in accordance with the Shareholders Agreement and the Memorandum and Articles of Association (collectively, the “**Management**”).

Subject to any specific designation in the 2018 Share Incentive Plan, the Management has the exclusive power, authority and discretion to:

- (i) determine Fair Market Value;
- (ii) determine the types of Awards to be granted;
- (iii) select the Participants to whom Awards may be made from time to time;
- (iv) determine the number of Shares or RSUs to be covered by each Award granted;
- (v) approve forms of Award Agreements;
- (vi) determine the terms and conditions of any Award. Such terms and conditions include, but are not limited to, the exercise price; the time or times when options may be exercised, RSUs may be vested or Restricted Shares may no longer be subject to the repurchase right of our Company, or options, RSUs or Restricted Shares may be forfeited (which in each case may be based on performance criteria); any vesting acceleration or waiver of restrictions; and any restriction or limitation regarding any Award or Shares relating thereto, based in each case on such factors as the Management may determine; provided, that no Award granted under the 2018 Share Incentive Plan be may be amended or otherwise be subject to any action that would be treated, for accounting purposes, as a “repricing” of such Award, unless such amendment or action is approved by the Board or our Company’s shareholders;
- (vii) determine whether and under what circumstances an RSU may be settled in cash instead of Shares;
- (viii) allow holders of options or other Awards to satisfy withholding tax obligations by electing to have our Company withhold from the Shares to be issued upon exercise of an option or other Award that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined. All elections by holder of the options (the “**Holder**”) to have Shares withheld for this purpose will be made in such form and under such conditions as the Management may deem necessary or advisable;
- (ix) construe and interpret the terms of the 2018 Share Incentive Plan and Awards granted pursuant to the 2018 Share Incentive Plan; and
- (x) make any other determination and take any other action that the Management deems necessary or desirable for the administration of the 2018 Share Incentive Plan and Awards granted pursuant to the 2018 Share Incentive Plan.

For the purpose of the 2018 Share Incentive Plan, “Fair Market Value” as of any given date means, unless otherwise defined in an Award Agreement, if the Shares or other forms of equity securities of our Company (if applicable) are listed on an exchange, the closing price for the Shares or other forms of equity securities of our Company (if applicable) on such exchange, or if Shares were not traded on such exchange on such given date, then on the next preceding date on which Shares were traded, all as reported in The Wall Street Journal or such other resource as the Management deems reliable. If the Shares or other forms of equity securities of our Company (if applicable) are listed on an exchange, in the event that an Award is granted on any given date prior to the time that trading has ended on the applicable exchange on such date, Fair Market Value may be determined as of the date preceding such grant. If the Shares are not listed on an Exchange, Fair Market Value will be determined by the Management in its good faith discretion, using such methods of appraisal and valuation as it deems appropriate, including without limitation the Fair Market Value of any class of Shares of our Company, with economic rights comparable to those of the applicable class, that is listed on an exchange.

(e) *Grant of Awards*

The Management is authorized to grant options, RSUs or other Awards to purchase a specified number of Shares at a specified price during specified time periods. Awards granted will be evidenced by an agreement between the Management and the Participant. The Award Agreement includes additional provisions specified by the Management.

(f) *Term of the 2018 Share Incentive Plan*

The 2018 Share Incentive Plan commenced on March 9, 2018 (the “**Effective Date of 2018 Share Incentive Plan**”). Any Awards that are outstanding on the tenth anniversary of the Effective Date of 2018 Share Incentive Plan shall remain in force according to the terms of the 2018 Share Incentive Plan and the applicable Award Agreement.

(g) *Exercise of option*

The Management shall determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any option granted under the 2018 Share Incentive Plan shall not exceed ten years, subject to a shareholder approval of extension of the exercise period for an option beyond ten years from the date of the grant. The Management shall also determine any conditions, if any, that must be satisfied before all or part of an Award may be exercised.

(h) *Option Exercise Price, Consideration for RSU Grants, Restricted Share Purchase Price, and Form of Consideration*

Subject to the relevant sections of the 2018 Share Incentive Plan, the exercise price for Shares to be issued upon exercise of an option, the price to be paid for the granting of RSUs, and the purchase price of Restricted Shares will be such amounts as are determined by the Management.

The consideration to be paid for Shares to be issued upon exercise of an option, the granting of an RSU, or the purchase of Restricted Shares, including the method of payment, will be determined by the Management. Such consideration may consist of (i) cash, (ii) check, (iii) such other method of payment as is approved by the Management, or (iv) any combination of the foregoing that is approved by the Management.

(i) *Vesting of awards*

Any options granted under the 2018 Share Incentive Plan will become vested and exercisable, any RSUs granted under the 2018 Share Incentive Plan will vest and be settled, and any Restricted Shares issued under the 2018 Share Incentive Plan will vest and no longer be subject to forfeiture at such times and under such conditions as determined by the Management and set forth in an Award Agreement.

(j) *Rights on death or disability*

Unless otherwise provided in the Award Agreement, if a Participant's employment or service terminates as a result of the Participant's death or disability, (i) the Participant (or the legal representatives or beneficiary, in the case of disability or death, respectively), will be entitled to exercise the option in whole or in part within such period following the date of the Participant's termination of employment as determined by the Management to the extent that such options were vested and exercisable on that date; (ii) options that are not vested and exercisable on that date shall terminate upon the Participant's termination of employment or service on account of death or disability; and (iii) options that are exercisable for such period following the Participant's termination of employment as determined by the Management and not exercised shall terminate at the close of business on the last day of the such period.

(k) *Adjustment*

In the event of any share dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares or the price of a share, the Management shall make such proportionate adjustments, if any, as the Management in its discretion may deem appropriate to reflect such change with respect to:

- (iv) the aggregate number and type of shares that may be issued under the 2018 Share Incentive Plan;
- (v) the terms and conditions of any outstanding options (including, without limitation, any applicable performance targets or criteria with respect thereto); and
- (vi) the grant or exercise price per share for any outstanding options under the 2018 Share Incentive Plan provided that such price per share of our Company is not less than the par value of such share.

(l) *Amendment, modification and termination*

Subject to shareholder approval, the Board may at any time amend, suspend or terminate this Plan in accordance with the Shareholders Agreement and the Memorandum and Articles of Association.

The Board will obtain shareholder approval of any Plan amendment to the extent necessary or desirable to comply with the Shareholders Agreement, the Memorandum and Articles of Association and Applicable Law.

Except as may be required by Applicable Law, no amendment, suspension or termination of the 2018 Share Incentive Plan will materially and adversely impair the rights of any Holder, unless agreed otherwise in writing between the Holder and the Management. Termination of the 2018 Share Incentive Plan will not affect the management's ability to exercise the powers granted to it hereunder with respect to Awards granted under the 2018 Share Incentive Plan prior to the date of such termination.

Outstanding options granted under the 2018 Share Incentive Plan

The number of outstanding Shares subject to the options granted under the 2018 Share Incentive Plan as at the Latest Practicable Date was [10,205,296] Shares, being held by [515] grantees. No additional options will be granted under the 2018 Share Incentive Plan after the Listing. Upon completion of the Capitalization Issue, the number of Outstanding Shares subject to the 2018 Share Incentive Plan will, pursuant to the 2018 Share Incentive Plan, be adjusted proportionally to [102,052,960] Shares, representing approximately [REDACTED]% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the [REDACTED] assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options granted under the 2018 Share Incentive Plan.

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As at the Latest Practicable Date, none of the options granted under the 2018 Share Incentive Plan has been exercised. No further options will be granted under the 2018 Share Incentive Plan subsequent to the [REDACTED].

We have applied for, and [have been granted] an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up And Miscellaneous Provisions) Ordinance, and a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules in connection with the information of the options granted under the 2018 Share Incentive Plan. For further details, please refer to the section headed “Waivers from Strict Compliance with the Listing Rules—Waiver and Exemption in Relation to Share Incentive Plans” in this [REDACTED].

The options have been granted based on the performance of the option holders who have made important contributions to and are important to the long term growth and profitability of our Group. As at the Latest Practicable Date, there are altogether [515] option holders including [3] executive Directors, [5] senior management of our Company and [507] other employees of our Group. Details of the options granted under the 2018 Share Incentive Plan and details of the vesting period and the exercise price as at the Latest Practicable Date are set out below:

Name of option holder	Position	Address	Exercise price (assuming that the Capitalization Issue has been completed)	Number of Shares represented by options immediately following the completion of the Capitalization Issue	Date of grant	Vesting period	Approximate percentage of shareholding immediately following the completion of the Capitalization Issue and the [REDACTED]
Directors of our Company							
Wu Zhixiang.	Co-Chairman of the Board; executive Director	Room 1702, Block 7, Golf Garden, Suzhou, Jiangsu Province, China	RMB2.60 per Share	3,500,000	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	3,500,000	May 18, 2018	4 years from the date of grant	[REDACTED]%
Jiang Hao..	Deputy Chairman of the Board; executive Director; President	17B, No. 6, Lane 123, Yanping Road, Jing'an District, Shanghai, China	RMB2.60 per Share	1,803,695	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	1,803,695	May 18, 2018	4 years from the date of grant	[REDACTED]%
Ma Heping..	Executive Director; Chief Executive Officer	Room 504, Building 3, Time Garden, Huqiu District, Suzhou, Jiangsu Province, China	RMB2.60 per Share	6,914,155	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	6,914,155	May 18, 2018	4 years from the date of grant	[REDACTED]%
Subtotal....				24,435,700			[REDACTED]%

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Name of option holder	Position	Address	Exercise price (assuming that the Capitalization Issue has been completed)	Number of Shares represented by options immediately following the completion of the Capitalization Issue	Date of grant	Vesting period	Approximate percentage of shareholding immediately following the completion of the Capitalization Issue and the [REDACTED]
Senior management of our Company							
Wu Jiazhu .	Chief Strategy Officer	No. 1 Fuxingmen Outer Street, Xicheng District, Beijing, China	RMB2.60 per Share	1,803,695	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	1,803,695	May 18, 2018	4 years from the date of grant	[REDACTED]%
Fan Lei	Chief Financial Officer	No. 7, Block 1, 7th Floor, Xingfu South Alley, Chongwen District, Beijing, China	RMB2.60 per Share	1,578,230	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	1,578,230	May 18, 2018	4 years from the date of grant	[REDACTED]%
Wang Qiang....	Chief Marketing Officer	Room 301, Block 215, Jiabao Garden, Wuzhong District, Suzhou, Jiangsu Province, China	RMB2.60 per Share	1,803,695	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	1,803,695	May18, 2018	4 years from the date of grant	[REDACTED]%
Yu Pei.....	Vice President	No. 14, Unit 1, Block 1 No. 198, Nanjun Street, Danjingshan Town, Pengzhou, Sichuan Province, China	RMB2.60 per Share	766,570	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	766,570	May 18, 2018	4 years from the date of grant	[REDACTED]%
Bai Zhiwei ..	Vice President	Room 1805, Block 1, Hongju Street, Xuanwu District, Beijing, China	RMB2.60 per Share	541,110	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	541,110	May 18, 2018	4 years from the date of grant	[REDACTED]%
Subtotal....				12,986,600			[REDACTED]%

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Name of option holder	Position	Address	Exercise price (assuming that the Capitalization Issue has been completed)	Number of Shares represented by options immediately following the completion of the Capitalization Issue	Date of grant	Vesting period	Approximate percentage of shareholding immediately following the completion of the Capitalization Issue and the [REDACTED]
Other option holders							
507 other employees of our Group ...			RMB2.60 per Share	32,315,330	March 9, 2018	4 years from the date of grant	[REDACTED]%
			RMB5.50 per Share	32,315,330	May 18, 2018	4 years from the date of grant	[REDACTED]%
Total				<u>102,052,960</u>			<u>[REDACTED]%</u>

Assuming that all the options granted under the 2018 Share Incentive Plan had been exercised in full during the year ended December 31, 2017 and that [REDACTED] Shares, comprising [REDACTED] Shares to be in issue immediately after completion of the Capitalization Issue and the [REDACTED] and [102,052,960] Shares to be issued upon the exercise of all the options granted under the 2018 Share Incentive Plan, were deemed to have been in issue throughout the year ended December 31, 2017, there will be a dilution effect of approximately [REDACTED]% on the audited earnings per Share for the year ended December 31, 2017.

The options granted under the 2018 Share Incentive Plan represent [REDACTED]% of the enlarged issued shares of our Company immediately after completion of the Capitalization Issue and the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the 2018 Share Incentive Plan). If all the options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately [REDACTED]%. However, as the options are exercisable over a ten-year period, any such dilutive effect on earnings per Share will be staggered over several years.

An application has been made to the Listing Committee for the [REDACTED] of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which were granted pursuant to the 2018 Share Incentive Plan.

E. OTHER INFORMATION

1. Litigation

On January 17, 2018, Guangzhou Wendi Digital Broadcasting Co., Limited (廣州溫迪數字傳播股份有限公司) (“Guangzhou Wendi”) brought a contractual claim against, among others, Wu Yingxin and Tongcheng Network for a total amount of RMB40,000,000. To our Company’s knowledge, Wu Yingxin is a former employee of a subsidiary of Guangzhou Wendi and had forged certain contracts with, among others, Tongcheng Network and this litigation arose out of such forged contracts. As neither Tongcheng Network nor any other subsidiary of our Company has entered into any contract or business dealing with Guangzhou Wendi, our Company is of the view that such claim is without merit. As at the Latest Practicable Date, no judgment has been given in relation to such litigation. Our Company is of the view that such litigation will not have a material impact on the operations and financial performance of Tongcheng Network.

On March 19, 2015, Tianjin Chengmei Technology Development Co., Ltd. (天津成美科技發展有限公司) (“**Tianjin Chengmei**”), a Consolidated Affiliated Entity, and E-dragon Beijing WFOE entered into a share transfer agreement with, among others, Jiangsu Zijin Huiwen Media Investment Co., Ltd. (江蘇紫金匯文傳媒投資有限公司) (“**Zijin Huiwen**”), pursuant to which Tianjin Chengmei agreed to transfer 90% of the equity interest of Nanjing Xici Information Technology Company Limited (南京西祠信息技術股份有限公司) (“**Nanjing Xici**”) to Zijin Huiwen. Tianjin Chengmei and Zijin Huiwen had completed the relevant registration procedures in relation to the equity interest transfer on March 27, 2015, but Zijin Huiwen has failed to pay the full consideration and Tianjin Chengmai brought a claim against Zijin Huiwen at the People’s Court of Jianye District, Nanjing, Jiangsu for the remaining consideration of RMB7,650,000 and related default interest and legal expenses. Zijin Huiwen brought a counter claim against Tianjin Chengmei and E-dragon Beijing WFOE for breach of warranties in the total amount of RMB33,823,800. According to the judgment of the People’s Court of Jianye District, Nanjing, Jiangsu, Tianjin Chengmei and E-dragon Beijing WFOE did not breach the relevant warranties and Zijin Huiwen was ordered to pay the remaining consideration and related interest and legal expenses to Tianjin Chengmei. On December 5, 2017, Zijin Huiwen appealed against the judgment to the Nanjing Intermediate People’s Court and no judgment has been given by the appellant court as at the Latest Practicable Date. Our Company is of the view that such litigation will not have a material impact on the operations and financial performance of Tianjin Chengmei or E-dragon Beijing WFOE.

As of the Latest Practicable Date, save as disclosed above we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

2. Application for [REDACTED]

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for the [REDACTED] of, and permission to deal in, the Shares in issue and to be issued or sold as mentioned in this [REDACTED]. All necessary arrangements have been made to enable such Shares into CCASS.

3. No Material Adverse Change

The Directors confirm that there has been no material change in the financial or trading position or prospects of our Group since December 31, 2017 (being the dated to which the latest audited consolidated financial statements of our Group were prepared).

4. Agency Fees and Commissions Received

The [REDACTED] will receive an [REDACTED] as referred to in the section headed “[REDACTED]”.

5. Independence of Joint Sponsors and Joint Sponsors’ fees

The Joint Sponsors are independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The fees payable by our Company to each of the Joint Sponsors to act as sponsor to our Company in connection with the [REDACTED] are US\$300,000 (HK\$2,353,680) or in aggregate US\$900,000 (HK\$7,061,040).

6. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately US\$3,000 and were paid by us.

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7. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of shares registered with our Hong Kong register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the value of the shares being sold or transferred. Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *Cayman Islands*

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of shares in our Company.

(c) *Consultation with professional advisors*

Potential investors in the [REDACTED] are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of our Company, our Directors or the other parties involved in the [REDACTED] accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our Shares.

8. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this [REDACTED], within the two years immediately preceding the date of this [REDACTED], no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this [REDACTED].

9. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this [REDACTED]:

Name	Qualification
Morgan Stanley Asia Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
J.P. Morgan Securities (Far East) Limited.....	Licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
CMB International Capital Limited.....	Licensed corporation under the SFO for type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified public accountants
Zhong Lun Law Firm.....	Company’s PRC legal adviser
Conyers Dill & Pearman	Company’s Cayman Islands legal adviser
Shanghai iResearch Co., Ltd.	Independent industry consultants

10. Consent of Experts

Each of Morgan Stanley Asia Limited, J.P. Morgan Securities (Far East) Limited, CMB International Capital Limited, PricewaterhouseCoopers, Zhong Lun law firm, Conyers Dill & Pearman and Shanghai iResearch Co., Ltd. has given and has not withdrawn its respective written consent to the issue of this [REDACTED] with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included in this [REDACTED] in the form and context in which it is respectively included.

11. Binding Effect

This [REDACTED] shall have the effect, if an application is made in pursuance of this [REDACTED], of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

12. Reserves available for distribution

As of December 31, 2017, we did not have any distributable reserves.

13. Bilingual [REDACTED]

The English and Chinese language versions of this [REDACTED] are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

F. MISCELLANEOUS

- (a) Save as disclosed in this [REDACTED], within the two years immediately preceding the date of this [REDACTED]:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.
- (b) Save as disclosed in this [REDACTED], our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (c) Our Directors confirm that:
 - (i) there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared);
 - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
 - (iii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this [REDACTED].

- (d) The principal register of members of our Company will be maintained in the Cayman Islands by our Principal Share Registrar. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently [REDACTED] on any stock exchange or traded on any trading system.
- (g) The English and Chinese language versions of this [REDACTED] are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption from Companies and prospectuses from Compliance Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this [REDACTED] delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of [REDACTED];
- (b) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 10. Consents of experts” in Appendix V to this [REDACTED]; and
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about our Business — 1. Summary of material contracts” in Appendix V to this [REDACTED].

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this [REDACTED]:

- (a) the Memorandum and the Articles of Association;
- (b) the Accountants’ Report of our Group received from PricewaterhouseCoopers, the texts of which are set forth in Appendices I to this [REDACTED];
- (c) the Accountants’ Report of Tongcheng Network received from PricewaterhouseCoopers, the text of which is set forth in Appendix II to this [REDACTED];
- (d) the report received from PricewaterhouseCoopers in relation to the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix III to this [REDACTED];
- (e) the PRC legal opinions issued by our PRC Legal Adviser on PRC law in respect of certain general corporate matters of our Group and the property interests of our Group and in respect of certain aspects of PRC law referred to in the section headed “Contractual Arrangements”;
- (f) the letter of advice prepared by Conyers Dill & Pearman, our legal adviser in Cayman Islands Law, summarizing certain aspects of the Cayman Companies Law;
- (g) the report issued by iResearch, an independent market research and consulting company, from which information in the section headed “Industry Overview” of the [REDACTED] is extracted;
- (h) the Cayman Companies Law;
- (j) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 10. Consents of experts” in Appendix V to this [REDACTED];
- (k) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about our Business — 1. Summary of Material Contracts” in Appendix V to this [REDACTED];
- (l) the service contracts and the letters of appointment with our Directors referred to in the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 2. Particulars of Service Contracts” in Appendix V to this [REDACTED]; and
- (m) the terms of the Share Incentive Plans and a list of grantees under the Share Incentive Plans.