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Tongcheng-Elong Holdings Limited

同程藝龍控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0780)

ANNOUNCEMENT OF THE RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the three and six months ended June 30, 2019, together with comparative figures for the same period of 2018.

Tongcheng-eLong Merger was completed on March 9, 2018. Accordingly, the consolidated financial information of our Group for the six months ended June 30, 2018 included the financial information of eLong from January 1, 2018 to March 9, 2018 and the consolidated financial information of eLong and Tongcheng Online Business from March 10, 2018 to June 30, 2018.

In order to facilitate readers of this announcement to assess our performance as a combined business, certain financial and operating data for the six months ended June 30, 2018 are presented on a “combined” basis, as indicated when used, by combining such data of each of eLong and Tongcheng Online Business. Such combined information may not have reflected the actual situation as of or for the relevant times as Tongcheng and eLong may not have been managed and operated under the same group as of or for such times.

KEY HIGHLIGHTS

FOR THREE MONTHS ENDED JUNE 30, 2019:

- Revenue increased by 21.0% year-to-year to RMB1,590.9 million from RMB1,314.5 million in the same period of 2018.
- Adjusted EBITDA increased by 40.9% year-to-year to RMB440.5 million from RMB312.7 million in the same period of 2018. Adjusted EBITDA margin increased from 23.8% in the same period of 2018 to 27.7%.
- Adjusted profit for the period increased by 60.0% year-to-year to RMB345.6 million from RMB216.0 million in the same period of 2018. Adjusted net margin increased from 16.4% in the same period of 2018 to 21.7%.
- Average MAUs increased by 15.4% year-to-year from 157.4 million in same period of 2018 to 181.6 million.
- Average MPUs increased by 53.9% year-to-year from 18.0 million in the same period of 2018 to 27.7 million.

FOR SIX MONTHS ENDED JUNE 30, 2019:

On a Group's standalone basis

- Revenue increased by 69.0% year-to-year to RMB3,374.3 million from RMB1,996.8 million in the same period of 2018.
- Adjusted EBITDA increased by 138.6% year-to-year to RMB1,056.1 million from RMB442.6 million in the same period of 2018. Adjusted EBITDA margin increased from 22.2% in the same period of 2018 to 31.3%.
- Adjusted profit for the period increased by 96.6% year-to-year to RMB794.0 million from RMB403.8 million in the same period of 2018. Adjusted net margin increased from 20.2% in the same period of 2018 to 23.5%.

On a combined basis

- Revenue increased by 19.1% year-to-year to RMB3,374.3 million from RMB2,832.0 million in the same period of 2018.
- Adjusted EBITDA increased by 36.8% year-to-year to RMB1,056.1 million from RMB772.2 million in the same period of 2018. Adjusted EBITDA margin increased from 27.3% in the same period of 2018 to 31.3%.

- Adjusted profit for the period increased by 26.3% year-to-year to RMB794.0 million from RMB628.5 million in the same period of 2018. Adjusted net margin increased from 22.2% in the same period of 2018 to 23.5%.
- Average MAUs increased by 18.8% year-to-year from 160.4 million in same period of 2018 to 190.5 million.
- Average MPUs increased by 45.1% year-to-year from 17.5 million in the same period of 2018 to 25.4 million.

1. Key financial summary for three months ended June 30, 2019

	Three months ended June 30,		Year-to-year change
	2019	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	1,590,898	1,314,480	21.0%
Profit before income tax	221,797	64,601	243.3%
Profit/(loss) for the period	198,161	(32,710)	N/A
Adjusted EBITDA	440,536	312,705	40.9%
Adjusted profit for the period	345,561	216,020	60.0%
Adjusted EBITDA margin	27.7%	23.8%	
Adjusted net margin	21.7%	16.4%	

Note:

- (i) Please refer to “Other Financial Information” below for the meaning of “adjusted EBITDA” and “adjusted profit for the period”.

2. Operating metrics for three months ended June 30, 2019

	Three months ended June 30,		Year-to-year change
	2019	2018	
GMV (in RMB billion)	41.3	28.9	42.9%
Number of average MAUs (in million)	181.6	157.4	15.4%
Number of average MPUs (in million)	27.7	18.0	53.9%

3. Key financial summary for six months ended June 30, 2019

	Six months ended		Year-to-year change	Period ended	Six months ended	Year-to-year change
	June 30, 2019	June 30, 2018		March 9, 2018	June 30, 2018	
	Group (in RMB'000)	Group	Group	Tongcheng Online Business (in RMB'000)	Combined	Combined
Revenue	3,374,309	1,996,844	69.0%	835,148	2,831,992	19.1%
Profit before income tax	417,275	661,895	(37.0)%	286,059	947,954	(56.0)%
Profit for the period	295,601	649,385	(54.5)%	224,744	874,129	(66.2)%
Adjusted EBITDA	1,056,106	442,639	138.6%	329,515	772,154	36.8%
Adjusted profit for the period	794,011	403,774	96.6%	224,744	628,518	26.3%
Adjusted EBITDA margin	31.3%	22.2%			27.3%	
Adjusted net margin	23.5%	20.2%			22.2%	

Note:

- (i) Please refer to “Other Financial Information” below for the meaning of “adjusted EBITDA” and “adjusted profit for the period”.

4. Operating metrics for six months ended June 30, 2019

	Combined basis		Year-to-year change
	Six months ended June 30, 2019	2018	
GMV (in RMB billion)	77.2	57.9	33.3%
Number of average MAUs (in million)	190.5	160.4	18.8%
Number of average MPUs (in million)	25.4	17.5	45.1%

Business Review and Outlook

Results Highlights

China's online travel market continued to grow and offered immense business opportunities in the first half of 2019. With rising consumption power, increasing urbanization ratio and improving transportation infrastructure, the demand for high quality travel products and services in China remained strong during the period under review.

We have achieved strong growth during the period under review. Our total revenue increased by 21.0% from RMB1,314.5 million in the second quarter of 2018 to RMB1,590.9 million in the second quarter of 2019. Our adjusted profit increased by 60.0% from RMB216.0 million in the second quarter of 2018 to RMB345.6 million in the second quarter of 2019.

On the Group's standalone basis, our total revenue increased by 69.0% from RMB1,996.8 million for the six months ended June 30, 2018 to RMB3,374.3 million for the six months ended June 30, 2019. Our adjusted profit for the six months ended June 30, 2019 increased by 96.6% from RMB403.8 million in the same period of 2018 to RMB794.0 million.

On a combined basis, our total revenue increased by 19.1% from RMB2,832.0 million for the six months ended June 30, 2018 to RMB3,374.3 million for the six months ended June 30, 2019. Our adjusted profit increased by 26.3% from RMB628.5 million for the six months ended June 30, 2018 to RMB794.0 million for the six months ended June 30, 2019. Our adjusted net margin increased from 22.2% for the six months ended June 30, 2018 to 23.5% for the six months ended June 30, 2019 on a combined basis. The effective tax rate for the six months ended June 30, 2019 increased compared with the same period of 2018, when we recognized a tax credit of approximately RMB117.8 million for the utilization of previously unrecognized tax losses based on our best estimate of the future utilization of the tax losses.

We maintained our growth momentum and further solidified our market leading position in China's online travel market during the period under review. Our GMV for the three and six months ended June 30, 2019, on a combined basis, achieved a year-to-year growth of 42.9% and 33.3%, and reached RMB41.3 billion and RMB77.2 billion, respectively. For the three and six months ended 30 June 2019, our average MAUs increased by 15.4% and 18.8% to 181.6 million and 190.5 million, respectively. Our average MPUs experienced strong growth and increased by 53.9% and 45.1% to 27.7 million and 25.4 million, respectively for the three and six months ended June 30, 2019. Our Paying Ratio for the three months and six months ended June 30, 2019 substantially increased to 15.3% and 13.3%, respectively.

Business Review

During the period under review, we have further enlarged our user base by digging deeper into the demands for various travel scenarios, optimizing our products and services, and implementing effective sales and marketing strategies. For the six months ended June 30, 2019, our average MAUs reached 190.5 million. Underpinned by the mutually beneficial partnership with Tencent, we were able to rapidly expand our user base with low user acquisition cost. With our continuing efforts devoted to the Weixin-based mini program, we have established diversified traffic sources on Tencent-based platforms. Weixin users can access our Weixin-based mini program through: (1) Weixin Payment (Wallet) portal and a drop-down list of users' favorite or most frequently used mini programs, which generated an average MAUs of 97.2 million in the second quarter of 2019, accounting for 63.7% of the total average MAUs of our Tencent-based platforms; (2) interactive advertisements placed on the Tencent-based platforms, which generated an average MAUs of 34.8 million in the second quarter of 2019, accounting for 22.8% of the total average MAUs of our Tencent-based platforms; and (3) the sharing and search functions in Weixin, which generated an average MAUs of 20.6 million in the second quarter of 2019, accounting for 13.5% of the total average MAUs of our Tencent-based platforms. Besides, we have continued the cooperation with other companies to diversify our traffic sources.

Leveraging on the effective channels and wide user coverage through Tencent-based platforms, we extended our reach in lower-tier cities in China and captured the substantial growth opportunities in these cities. As of June 30, 2019, our registered users residing in non-first-tier cities in China accounted for approximately 85.5% of total registered users. For the second quarter of 2019, approximately 61.5% of new paying Weixin users were from tier-3 or below cities, which increased from 55.8% over the same period of 2018.

We are dedicated to our strategy to increase the average MPUs by enhancing user engagement and user stickiness. We optimized our advertising strategies and enhanced the effectiveness of advertisement by precise marketing. We enhanced our order process so as to improve user experience. We enriched our products and services offerings which meet users' ever-changing travel needs. We have also promoted and further invested in our loyalty program and generated customized recommendations and targeted promotions to increase users' purchase frequency and stickiness. With the above strategies, we have successfully achieved higher Paying Ratio of 15.3% with impressive growth of 53.9% in average MPUs for the three months ended June 30, 2019.

We have established long-term and close relationships with various TSPs to offer users with one-stop-shop products and services throughout the journey. As of June 30, 2019, our online platforms offered over 7,000 domestic routes and over 1.2 million international routes operated by 751 domestic and international airlines and agencies, over 1.5 million hotels and alternative accommodation options, approximately 324,000 bus routes and over 492 ferry routes. Besides, we acquired Suzhou Tongcheng Cultural Tourism Development Co., Ltd. with attraction ticketing as its main business on April 30, 2019, which offers ticketing services of approximately 9,000 domestic tourist attractions on our platform. The acquisition helped us to strengthen the quality control of related products and services, enhance our one-stop shop strategy and increase the cross-selling opportunities.

Through deepened cooperation with TSPs, we consolidated various resources through the industry chain, provided more innovative products and services to fulfil users' evolving travel needs and enhanced the value proposition to our TSPs. For instance, based on our strong product innovation and resource integration capabilities, we tapped into the market potential of the airport scene and cooperated with airlines to provide a variety of auxiliary products, such as dining vouchers in airports. Leveraging on our enormous traffic and extensive operating experience in mini program, we have also started to develop the advertising business in Weixin-based mini program to enhance our value proposition to our TSPs and expand our revenue stream. The advertising business has experienced rapid growth in the second quarter of 2019.

As a technology-driven company, we have on-going commitment to develop and apply advanced information technology to provide users with customized products and services and to enhance user experience. In June 2019, we have launched an online seat selection service for international flights together with China Southern Airlines with the implementation of NDC technology. We are the first OTA and the pioneer to launch an online seat selection service based on NDC technology. Moreover, we have cooperated with Air China that users could use their mileages of Air China membership program to redeem cash discount for hotel booking on our platform, bringing more benefits and convenience to our users. We are committed to investing in technology infrastructure and AI capabilities and striving to transform from an OTA to an ITA.

Business Outlook and Strategies

We are positive towards growth opportunities arising from the increasing demand of the China's online travel industry. The ongoing developments in China and further investment in infrastructure will continue to underpin industry growth.

Capitalizing on our market leading position in China's OTA industry, we will continue to capture the enormous business opportunities in China's travel market. We will continue to expand our user base with diversified traffic sources across different platforms. We will deepen our penetration and leverage on the growth potential in lower-tier cities. To further enhance user engagement and stickiness, we will promote our loyalty program and offer innovative products and services for user's travel needs throughout the journey. Furthermore, we will develop and apply new technologies and move forward to be the pioneer transforming from OTA to ITA.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2019 compared to Second Quarter of 2018

	Unaudited Three months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,590,898	1,314,480
Cost of revenue	(561,160)	(370,531)
Gross profit	1,029,738	943,949
Service development expenses	(352,154)	(317,500)
Selling and marketing expenses	(407,187)	(464,096)
Administrative expenses	(99,805)	(133,749)
Fair value changes on investments measured at fair value through profit or loss	26,104	18,855
Other income	13,667	7,409
Other gains, net	7,811	8,749
Operating profit	218,174	63,617
Finance income	10,455	2,813
Finance costs	(3,829)	740
Share of results of associates	(3,003)	(2,569)
Profit before income tax	221,797	64,601
Income tax expense	(23,636)	(97,311)
Profit/(loss) for the period	198,161	(32,710)
Attributable to:		
Equity holders of the Company	199,280	(32,684)
Non-controlling interests	(1,119)	(26)
Adjusted profit for the period ^(a)	345,561	216,020

Note:

- (a) Please see “Other Financial Information-Non-IFRS Financial Measures” below for more information about adjusted profit for the period.

Revenue

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:

	Unaudited			
	Three months ended June 30,			
	2019		2018	
	RMB'000		RMB'000	
Accommodation reservation services	553,360	34.8%	440,982	33.5%
Transportation ticketing services	937,092	58.9%	829,487	63.1%
Others	100,446	6.3%	44,011	3.4%
Total revenue	1,590,898	100%	1,314,480	100%

Revenue increased by 21.0% from RMB1,314.5 million for the three months ended June 30, 2018 to RMB1,590.9 million for the three months ended June 30, 2019.

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. For the three months ended June 30, 2019 and 2018, inventory-risk-taking room nights accounted for approximately 0.4% and 0.8%, respectively, of the total room nights booked through our online platforms, and its financial impact on accommodation reservation revenue was immaterial.

Revenue from accommodation reservation services increased by 25.5% from RMB441.0 million for the three months ended June 30, 2018 to RMB553.4 million for the three months ended June 30, 2019. The increase was mainly because of the increased room nights and revenue per room night.

Transportation ticketing services

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 primarily as an agent, assume no inventory risk and no obligations for cancelled ticket reservations, and therefore record the majority of our revenue on a net basis. In the year of 2019, in order to provide more secured quality products to end users with relatively higher gross margin, we put a few resources on inventory-risk-taking transportation products and accordingly recorded such revenue on a gross basis. For the three months ended June 30, 2019, inventory-risk-taking transportation tickets accounted for approximately 0.2% of the total volume of transportation tickets sold through our online platforms, and its financial impact on transportation ticketing revenue was immaterial.

Revenue from transportation ticketing services increased by 13.0% from RMB829.5 million for the three months ended June 30, 2018 to RMB937.1 million for three months ended June 30, 2019, primarily due to increase in the GMV, which was in turn driven by increase in the number of flight segments sold and train tickets sold.

Others

Other revenue mainly includes: (i) revenue from advertising services; (ii) revenue offered by Suzhou Tongcheng Cultural Tourism Development Co., Ltd (“TCCT”), a company we acquired in the second quarter of 2019, primarily providing attraction ticketing services, and (iii) revenues generated from ancillary value-added user services.

Other revenue increased by 128.2% from RMB44.0 million for the three months ended June 30, 2018 to RMB100.4 million for three months ended June 30, 2019, which was mainly due to (i) increase in revenue from advertising services, and (ii) revenue contributed by TCCT.

Cost of revenue

Our cost of revenue consists primarily of: (i) employee benefit expenses, representing the wages, salaries, and other benefits (including share-based compensation) paid to our user services and TSP services employees; (ii) order processing cost, representing the fees we pay to banks and payment channels for processing user payments; (iii) cost of pre-purchased inventory-risk-taking products, representing the prices we pay to TSPs to purchase travel products for which we take inventory risk; (iv) depreciation of property, plant and equipment, and right-of-use assets; (v) procurement costs, which represents the costs for sourcing ancillary value-added travel products and services from service providers, and (vi) 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 total cost of revenue for the three months ended June 30, 2019 and 2018:

	Unaudited			
	Three months ended June 30,			
	2019		2018	
	RMB' 000		RMB' 000	
Employee benefit expenses	61,647	11.0%	55,890	15.1%
Order processing cost	243,566	43.4%	195,027	52.6%
Cost of pre-purchased inventory-risk-taking products	101,801	18.1%	28,823	7.8%
Depreciation of property, plant and equipment, and right-of-use assets	31,165	5.6%	23,870	6.4%
Procurement costs	64,713	11.5%	35,639	9.6%
Others	58,268	10.4%	31,282	8.4%
Total cost of revenue	561,160	100.0%	370,531	100.0%

Cost of revenue increased by 51.4% from RMB370.5 million for the three months ended June 30, 2018 to RMB561.2 million for the three months ended June 30, 2019. The increase was mainly due to: (i) an increase in processing cost from RMB195.0 million for the three months ended June 30, 2018 to RMB243.6 million for the three months ended June 30, 2019, primarily because of the increased order processing cost of transportation ticketing services as a result of increased GMV for the three months ended June 30, 2019; (ii) an increase in cost of pre-purchased inventory-risk-taking products from RMB28.8 million for the three months ended June 30, 2018 to RMB101.8 million for the three months ended June 30, 2019, due to the increase of pre-purchased products, and (iii) an increase in procurement costs due to the increased sales of ancillary value-added travel products and services. Excluding share-based compensation charges, cost of revenue accounted for 35.0% of revenue for the three months ended June 30, 2019, which increased from 27.9% for the same period of 2018.

Service development expenses

Service development expenses increased 10.9% from RMB317.5 million for the three months ended June 30, 2018 to RMB352.2 million for the three months ended June 30, 2019. The increase was mainly due to (i) increased employee benefits expenses of IT employees; and (ii) an increase in depreciation and amortization expenses, which in turn was driven by our increased intangible assets in relation to the acquisition of TCCT in the second quarter of 2019. Excluding share-based compensation charges, service development expenses accounted for 20.5% of revenue for the three months ended June 30, 2019, which decreased from 22.1% for the same period of 2018.

Selling and marketing expenses

Selling and marketing expenses decreased by 12.3% from RMB464.1 million for the three months ended June 30, 2018 to RMB407.2 million for the three months ended June 30, 2019, which was mainly due to (i) the decrease in agency commission expenses and (ii) the decreased advertising and promotion spending on sales channels. Excluding share-based compensation charges, selling and marketing expenses accounted for 25.0% of revenue for the three months ended June 30, 2019 compared with 35.0% for the same period of 2018.

Administrative expenses

Administrative expenses decreased significantly from RMB133.7 million for the three months ended June 30, 2018 to RMB99.8 million for the three months ended June 30, 2019, which was mainly due to accrued professional fees in the second quarter of 2018 related to the public offering. Excluding share-based compensation charges, administrative expenses accounted for 4.0% of revenue for the three months ended June 30, 2019, which decreased from 7.0% for the same period of 2018.

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 RMB26.1 million for the three months ended June 30, 2019, compared with RMB18.9 million for the three months ended June 30, 2018. The increase was primarily driven by fair value increase on short-term wealth management products.

Other income

Other income increased by 84.5% from RMB7.4 million for the three months ended June 30, 2018 to RMB13.7 million for the three months ended June 30, 2019. The increase primarily reflected the increase in government subsidiaries received.

Other gains, net

Other gains decreased by 10.7% from RMB8.7 million for the three months ended June 30, 2018 to RMB7.8 million for the three months ended June 30, 2019. This decrease was mainly due to a decrease in foreign exchange gain and partially offset by an increase in interest income from short-term investments measured at amortized cost.

Income tax expense

We recorded an income tax expense of RMB23.6 million for the three months ended June 30, 2019 and an income tax expense of RMB97.3 million for the three months ended June 30, 2018, as we recognized income tax expense in relation to the Reorganization in the second quarter of 2018.

Profit/(loss) attributable to equity holders of the Company

As a result of the foregoing, profit attributable to equity holders of the Company increased from loss of RMB32.7 million for the three months ended June 30, 2018 to profit of RMB199.3 million for the three months ended June 30, 2019.

OTHER FINANCIAL INFORMATION

Non-IFRS Financial Measures

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use certain non-IFRS measures, namely adjusted EBITDA and adjusted profit for the period, as additional financial metrics. These non-IFRS financial 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.

a. Reconciliation of adjusted EBITDA from operating profit/(loss)

The following table reconciles adjusted EBITDA to operating profit/(loss), its most directly comparable financial measure calculated and presented in accordance with IFRS for the periods presented:

	Three months ended, June 30,		Six months ended, June 30,	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Operating profit/(loss)	218,174	63,617	405,626	(248,411)
Add:				
Share-based compensation	76,106	77,152	361,856	124,857
Amortization of intangible assets	102,362	100,973	204,312	137,589
Depreciation of property, plant and equipment, and right-of-use assets	43,348	31,657	83,766	45,363
Reorganization cost	–	–	–	220,953
Issuance of ordinary shares at discount	–	–	–	113,099
Listing expense	–	39,306	–	39,306
Acquisition-related cost	546	–	546	9,883
Adjusted EBITDA	440,536	312,705	1,056,106	442,639

b. Reconciliation of adjusted profit for the period from profit/(loss) for the period

The following table reconciles our adjusted profit for the period to profit/(loss) for the period, its most directly comparable financial measure calculated and presented in accordance with IFRS, for the periods presented:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) for the period	198,161	(32,710)	295,601	649,385
Add:				
Share-based compensation	76,106	77,152	361,856	124,857
Amortization of intangible assets from acquisition	70,748	68,300	136,008	90,053
Fair value change on redeemable convertible preferred shares measured at fair value through profit and loss ^(a)	–	–	–	(907,734)
Reorganization cost	–	–	–	220,953
Issuance of ordinary shares at discount	–	–	–	113,099
Income tax expense related to Reorganization	–	63,972	–	63,972
Listing expense	–	39,306	–	39,306
Acquisition-related cost	546	–	546	9,883
Adjusted profit for the period	<u>345,561</u>	<u>216,020</u>	<u>794,011</u>	<u>403,774</u>

Note:

- (a) Represents the fair value gain on redeemable convertible preferred shares issued to eLong Cayman's shareholders measured at fair value through profit or loss. We designated redeemable convertible preferred shares as financial liabilities at fair value through profit or loss. Please refer to "History, Reorganization and Corporate Structure-Major Shareholding Changes of Our Company" in the Prospectus for more information about preferred shares.

Share-based compensation included in cost of revenue and expense items as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	4,366	3,392	20,089	5,623
Service development expenses	25,561	27,640	122,133	52,350
Selling and marketing expenses	9,218	4,125	34,059	6,775
Administrative expenses	36,961	41,995	185,575	60,109
Total share-based compensation	<u>76,106</u>	<u>77,152</u>	<u>361,856</u>	<u>124,857</u>

Liquidity and Financial Resources

We fund our liquidity needs mainly from (i) the net proceeds received from the Global Offering; and (ii) net cash generated from our business growth.

We had cash and cash equivalents of RMB2,376.8 million and RMB2,326.3 million as of June 30, 2019 and 2018, respectively.

The following table sets forth our cash flows for the periods indicated:

	Unaudited	Audited
	Six months ended June 30,	Six months ended June 30,
	2019	2018
	RMB'000	RMB'000
Net cash flows generated from operating activities	618,007	1,066,165
Net cash flows (used in)/generated from investing activities	(1,389,739)	374,445
Net cash flows generated from financing activities	8,070	174,639
Net (decrease)/increase in cash and cash equivalents	(763,662)	1,615,249
Cash and cash equivalents at beginning of the period	3,143,883	701,748
Effect of exchange rate changes on cash and cash equivalents	(3,432)	9,324
	2,376,789	2,326,321
Cash and cash equivalents at end of the period	2,376,789	2,326,321

Net cash generated from operating activities

For the six months ended June 30, 2019, net cash generated from operating activities was RMB618.0 million, which was primarily attributable to the profit before income tax of RMB417.3 million, as adjusted by (i) amortization of intangible assets of RMB204.3 million, depreciation of property, plant and equipment, and right-of-use assets of RMB83.8 million, and share-based compensation of RMB361.9 million and (ii) changes in working capital, which primarily consisted of an increase in trade receivable of RMB178.5 million, increase in trade payables of RMB561.4 million, increase in prepayment and other receivables of RMB101.3 million, and a decrease in accrued expenses and current liabilities of RMB484.1 million. We also paid income tax of RMB203.6 million.

Net cash (used in)/generated from investing activities

For the six months ended June 30, 2019, net cash used in investing activities was RMB1,389.7 million, which was primarily attributable to (i) payment for purchases of wealth management products of RMB7,781.3 million, (ii) payment for long-term investments measured at fair value through profit and loss of RMB158.5 million, and (iii) payment for business combination of RMB270.0 million. The aforesaid cash used was primarily offset by proceeds from maturity of wealth management products of RMB7,032.4 million and cash and cash equivalents of RMB27.6 million acquired through the acquisition of TCCT.

Net cash generated from financing activities

For the six months ended June 30, 2019, net cash generated from financing activities was RMB8.1 million, which was primarily attributable to proceeds from exercise of share option of RMB63.9 million, partially offset by payment of cost in relation to public offering of RMB39.7 million and repayment of bank borrowings of RMB14.2 million.

Gearing Ratio

As of June 30, 2019, our gearing ratio, calculated as total borrowings divided by total equity attributable to equity holders of the Company was approximately 1.3%.

As of June 30, 2019, our Group did not have any significant contingent liabilities and did not hold any financial instruments for hedging purposes.

Pledge of Assets

In October 2017, we entered into a loan agreement with the lending bank to borrow RMB196.9 million to finance our purchase of office premises. The loan was secured by our property and will expire on October 23, 2027. As of June 30, 2019, the carrying amount of such secured property was RMB384.5 million.

Capital Expenditure

	Unaudited Six months ended June 30, 2019 <i>RMB'000</i>	Audited June 30, 2018 <i>RMB'000</i>
Purchase of property, plant and equipment	137,550	93,022
Purchase of intangible assets	503	—
Total capital expenditure	138,053	93,022

Our capital expenditures primarily include purchases of property and equipment and intangible assets. We fund our capital expenditure requirements mainly from cash generated from our operations as well as bank borrowings.

Long-term Investment Activities

	Unaudited As of June 30, 2019 <i>RMB'000</i>	Audited As of December 31, 2018 <i>RMB'000</i>
Investments accounted for using the equity method	114,517	48,731
Investments measured at fair value through profit or loss	199,562	52,442
Total long-term investments	314,079	101,173

Our long-term investments as of June 30, 2019 were RMB314.1 million, as compared to RMB101.2 million as of December 31, 2018. The increase in our long-term investments measured at fair value through profit or loss was caused by our additional investments in certain companies that we hold less than 20% interests. We made long-term investments in accordance with our general strategy of investing or acquiring businesses that are supplement and benefit our business. As of June 30, 2019, none of these individual investments is regarded as material. We plan to fund our long-term investments using cash flows generated from our operations and the net proceeds received from the Global Offering.

Material Acquisition and Disposals

Save for the TCCT acquisition, there were no other material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended June 30, 2019.

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 have not hedged against any fluctuation in foreign currency during the six months ended June 30, 2019.

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.

Employees

As of June 30, 2019, we had a total of 5,589 full-time employees. As of the same date, approximately 56.0% and 19.5% of our full-time employees were based in Suzhou and Beijing, respectively, while remaining 24.5% of them were based in the rest of PRC and overseas.

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 are regularly provided to our employees by in-house trainers or third-party consultants. We have also adopted 2016 Share Incentive Plan and 2018 Share Incentive Plan.

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.

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 for the six months ended June 30, 2019.

CONSOLIDATED INCOME STATEMENTS

For the three and six months ended June 30, 2019

	Note	Unaudited Three months ended June 30,		Unaudited	Audited
		2019 RMB'000	2018 RMB'000	Six months ended June 30, 2019 RMB'000	2018 RMB'000
Revenue	3	1,590,898	1,314,480	3,374,309	1,996,844
Cost of revenue	4	(561,160)	(370,531)	(1,059,430)	(564,616)
Gross profit		1,029,738	943,949	2,314,879	1,432,228
Service development expenses	4	(352,154)	(317,500)	(782,206)	(506,734)
Selling and marketing expenses	4	(407,187)	(464,096)	(876,910)	(706,087)
Administrative expenses	4	(99,805)	(133,749)	(328,127)	(515,878)
Fair value changes on investments measured at fair value through profit or loss		26,104	18,855	49,511	27,428
Other income		13,667	7,409	17,798	8,700
Other gains, net	5	7,811	8,749	10,681	11,932
Operating profit/(loss)		218,174	63,617	405,626	(248,411)
Finance income		10,455	2,813	24,442	4,514
Finance costs		(3,829)	740	(6,729)	(224)
Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss		–	–	–	907,734
Share of results of associates		(3,003)	(2,569)	(6,064)	(1,718)
Profit before income tax		221,797	64,601	417,275	661,895
Income tax expense	6	(23,636)	(97,311)	(121,674)	(12,510)
Profit/(loss) for the period		198,161	(32,710)	295,601	649,385
Profit/(loss) attributable to:					
– Equity holders of the Company		199,280	(32,684)	296,602	649,785
– Non-controlling interests		(1,119)	(26)	(1,001)	(400)
		198,161	(32,710)	295,601	649,385
Earnings/(loss) per share (expressed in RMB per share):	7				
– Basic		0.10	(0.02)	0.15	0.51
– Diluted		0.09	(0.02)	0.14	(0.17)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2019

	Unaudited		Unaudited	Audited
	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Note	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) for the period	198,161	(32,710)	295,601	649,385
Other comprehensive income				
<i>Items that may be subsequently reclassified to profit or loss:</i>				
– Currency translation differences	32,198	–	3,313	–
<i>Items that will not be reclassified to profit or loss:</i>				
– Fair value change relating to preferred shares due to own credit risk	–	–	–	932
Other comprehensive income for the period, net of tax	32,198	–	3,313	932
Total comprehensive income/(loss) for the period	230,359	(32,710)	298,914	650,317
Total comprehensive income/(loss) attributable to:				
– Equity holders of the Company	231,478	(32,684)	299,915	650,717
– Non-controlling interests	(1,119)	(26)	(1,001)	(400)
	230,359	(32,710)	298,914	650,317

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2019

		Unaudited As of June 30,	Audited As of December 31,
		2019	2018
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		991,079	934,361
Right-of-use assets, net		28,284	–
Investments accounted for using the equity method		114,517	48,731
Investments measured at fair value through profit or loss		199,562	52,442
Land use right		–	16,038
Intangible assets		8,066,212	7,961,640
Deferred income tax assets		247,220	249,781
Prepayment and other receivables	9	33,625	31,485
		<u>9,680,499</u>	<u>9,294,478</u>
Current assets			
Trade receivables	10	1,012,332	857,326
Prepayment and other receivables	9	696,960	523,470
Short-term investments measured at amortized cost		131,459	261,086
Short-term investments measured at fair value through profit or loss		3,510,794	2,570,170
Restricted cash		146,199	140,930
Cash and cash equivalents		2,376,789	3,143,883
		<u>7,874,533</u>	<u>7,496,865</u>
Total assets		<u>17,555,032</u>	<u>16,791,343</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		7,178	7,156
Share premium		17,437,578	17,311,220
Treasury stock		(9)	(15)
Other reserves		(2,420,679)	(2,722,834)
Accumulated losses		(2,763,472)	(3,060,074)
		<u>12,260,596</u>	<u>11,535,453</u>
Non-controlling interests		<u>(7,444)</u>	<u>(7,642)</u>
Total equity		<u>12,253,152</u>	<u>11,527,811</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2019

		Unaudited	Audited
		As of	As of
		June 30,	December 31,
		2019	2018
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	11	142,767	152,613
Deferred income tax liabilities		590,669	570,054
Long-term lease liabilities		7,551	–
Other payables and accruals	12	6,675	6,674
		747,662	729,341
Current liabilities			
Borrowings	11	19,692	19,692
Trade payables	13	3,142,896	2,569,092
Other payables and accruals	12	1,299,621	1,799,749
Short-term lease liabilities		9,404	–
Contract liabilities		19,576	15,084
Current income taxes liabilities		63,029	130,574
		4,554,218	4,534,191
Total liabilities		5,301,880	5,263,532
Total equity and liabilities		17,555,032	16,791,343

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2019

	Unaudited Attributable to equity holders of the Company					Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury stock RMB'000	Other reserves RMB'000	Accumulated losses RMB'000			
As of January 1, 2019	7,156	17,311,220	(15)	(2,722,834)	(3,060,074)	11,535,453	(7,642)	11,527,811
Comprehensive income								
Profit/(loss) for the period	—	—	—	—	296,602	296,602	(1,001)	295,601
Other comprehensive income								
Currency translation differences	—	—	—	3,313	—	3,313	—	3,313
Total comprehensive income/(loss)	—	—	—	3,313	296,602	299,915	(1,001)	298,914
Transactions with owners								
Exercise of share options-proceeds received	28	126,358	—	(62,030)	—	64,356	—	64,356
Exercise of RSUs	(6)	—	6	—	—	—	—	—
Purchase of non-controlling interests in connection with the business combination	—	—	—	—	—	—	1,199	1,199
Share-based compensations	—	—	—	360,872	—	360,872	—	360,872
Total transactions with owners recognized directly in equity	22	126,358	6	298,842	—	425,228	1,199	426,427
As of June 30, 2019	<u>7,178</u>	<u>17,437,578</u>	<u>(9)</u>	<u>(2,420,679)</u>	<u>(2,763,472)</u>	<u>12,260,596</u>	<u>(7,444)</u>	<u>12,253,152</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2019

	Audited Attributable to equity holders of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury stock RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000		
As of January 1, 2018	99	1,514,310	(15)	(3,270,057)	(3,581,152)	(5,336,815)	4,881	(5,331,934)
Comprehensive income								
Profit/(loss) for the period	-	-	-	-	649,785	649,785	(400)	649,385
Other comprehensive income								
Credit risk for preferred shares	-	-	-	932	-	932	-	932
Reclassification of the accumulated fair value change of the preferred shares attributable to changes in credit risk to accumulated losses upon conversion	-	-	-	8,879	(8,879)	-	-	-
Total comprehensive income/(loss)	-	-	-	9,811	640,906	650,717	(400)	650,317
Transactions with owners								
Share-based compensations	-	-	-	124,857	-	124,857	-	124,857
Issuance of ordinary shares in connection with the Acquisition	307	8,689,960	-	-	-	8,690,267	-	8,690,267
Issuance of ordinary shares to Tencent	11	303,176	-	-	-	303,187	-	303,187
Purchase of non-controlling interest	-	-	-	-	-	-	1,300	1,300
Conversion of the preferred shares to ordinary shares	192	5,438,789	-	-	-	5,438,981	-	5,438,981
Purchase of vested equity awards	-	-	-	(739)	-	(739)	-	(739)
Total transactions with owners recognized directly in equity	510	14,431,925	-	124,118	-	14,556,553	1,300	14,557,853
As of June 30, 2018	609	15,946,235	(15)	(3,136,128)	(2,940,246)	9,870,455	5,781	9,876,236

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

	Unaudited	Audited
	For the Six months ended	
	June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	618,007	1,066,165
Net cash flows (used in)/generated from investing activities	(1,389,739)	374,445
Net cash flows generated from financing activities	8,070	174,639
Net (decrease)/increase in cash and cash equivalents	(763,662)	1,615,249
Cash and cash equivalents at beginning of the period	3,143,883	701,748
Effect of exchange rate changes on cash and cash equivalents	(3,432)	9,324
Cash and cash equivalents at end of the period	<u>2,376,789</u>	<u>2,326,321</u>

Notes

1. Basis of preparation

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’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since November 26, 2018 (the “Listing”).

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”).

The condensed consolidated Interim Financial Information comprises the condensed consolidated interim statements of financial position as of June 30, 2019, the condensed consolidated interim income statement and the condensed consolidated interim statement of comprehensive income for the three-month and six-month periods then ended, the condensed consolidated interim statements of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

The Interim Financial Information has been prepared in accordance with International Accounting Standard 34 (“IAS 34”), “Interim financial reporting” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2018 annual report of the Company dated March 19, 2019 (the “2018 Financial Statements”).

The accounting policies adopted are consistent with those of the previous financial year, except for the estimation of income tax and the adoption of new and amended standards as set out below.

Income tax expense is recognized based on management’s estimate of the average effective annual income tax rate expected for the full financial year.

A number of new or amended standards became applicable for the reporting period of three and six months ended June 30, 2019. Except for IFRS 16 Leases (“IFRS 16”), adoption impact of which are disclosed in Note 2 below, the other new or amended standards did not have any impact on the Group’s accounting policies and did not require retrospective adjustments.

2. Changes in accounting policy

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rates applied to the lease liabilities on January 1, 2019 were 4.3% to 5.39%.

(a) Adjustments recognized on adoption of IFRS 16 (Continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 as short-term leases
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As a lessee, the Group's leases are mainly rentals of land, offices and others. The right-of-use assets of offices and others were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Condensed consolidated interim statement of financial position (extract)	December 31, 2018 as originally presented	IFRS 16	January 1, 2019 as originally presented
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
– Right-of-use assets	–	33,320	33,320
– Land use right	16,038	(16,038)	–
Liabilities			
– Short term lease liabilities	–	9,844	9,844
– Long term lease liabilities	–	7,438	7,438
	<u>–</u>	<u>17,282</u>	<u>17,282</u>

Earnings per share decreased by RMB0.001 per share for the six months to June 30, 2019 as a result of the adoption of IFRS 16.

(b) The Group's leasing activities and how these are accounted for

The Group leases land, offices and others. Rental contracts are typically made for fixed periods of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the year ended December 31, 2018, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3. Revenue and segment information

The Chief Operating Decision-maker (“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 (the “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 June 30, 2019 and 2018, 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.

	Unaudited		Unaudited	Audited
	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit/(loss) per consolidated statements of comprehensive income	218,174	63,617	405,626	(248,411)
Less: Other income	(13,667)	(7,409)	(17,798)	(8,700)
Fair value changes on investments measured at fair value through profit or loss	(26,104)	(18,855)	(49,511)	(27,428)
Other gains, net	(7,811)	(8,749)	(10,681)	(11,932)
Operating profit/(loss) presented to the CODM	<u>170,592</u>	<u>28,604</u>	<u>327,636</u>	<u>(296,471)</u>

Revenue by service type for the three months and six months ended June 30, 2019 and 2018 are as follows:

	Unaudited		Unaudited	Audited
	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accommodation reservation services	553,360	440,982	1,042,524	890,568
Transportation ticketing services	937,092	829,487	2,196,040	1,037,656
Others	100,446	44,011	135,745	68,620
Total revenue	<u>1,590,898</u>	<u>1,314,480</u>	<u>3,374,309</u>	<u>1,996,844</u>

4. Expenses by nature

	Unaudited		Unaudited	Audited
	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commission expenses	46,614	73,100	78,996	188,035
Employee benefit expense	468,105	416,795	1,207,114	652,651
Cost of pre-purchased travel related products	101,801	28,823	154,845	66,000
Advertising and promotion expenses	240,423	291,959	547,364	385,778
Depreciation and amortization expense	145,709	132,730	288,078	183,053
Order processing cost	243,566	195,027	464,130	255,313
Rental and utility fees	15,043	17,910	29,330	28,641
Telephone and communication	8,001	4,484	15,361	9,171
Professional service fees	15,420	49,448	35,785	61,103
Audit fees	1,000	602	2,000	1,080
Travelling and entertainment expenses	16,725	13,236	30,079	19,222
Bandwidth and servers fee	32,088	13,372	82,980	27,584
Tax and surcharges	4,956	5,006	12,272	11,930
Reorganization cost	–	–	–	220,953
Acquisition-related cost	546	–	546	9,883
Issuance of ordinary shares at discount	–	–	–	113,099
Procurement costs	64,713	35,639	69,526	52,470
Others	15,596	7,745	28,267	7,349
	1,420,306	1,285,876	3,046,673	2,293,315

5. Other gains, net

	Unaudited		Unaudited	Audited
	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment income from short-term investments measured at amortized cost	3,560	98	4,948	98
Foreign exchange gain	517	9,492	1,872	11,657
Net gain on disposal of property, plant and equipment	319	344	336	496
Others	3,415	(1,185)	3,525	(319)
	7,811	8,749	10,681	11,932

6. Income tax expense

The income tax expense of the Group for three and six months ended June 30, 2019 and 2018 is analyzed as follows:

	Unaudited		Unaudited	Audited
	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	18,528	109,948	136,014	116,864
Deferred income tax	5,108	(12,637)	(14,340)	(104,354)
	23,636	97,311	121,674	12,510

(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 profit tax at a rate of 8.25% on assessable profits up to HKD2,000,000 and 16.5% on any part of assessable profits over HKD2,000,000 for the period.

(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 periods presented, 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% for the periods presented.

Two subsidiaries of the Group incorporated in the PRC are qualified as High and New Technology Enterprise, and accordingly, it is subject to a reduced preferential CIT rate of 15% for the periods presented 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 1 January 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%.

7. Earnings/(loss) per share

(a) Basic

Basic earnings or loss per share for the three and six months ended June 30, 2019 and 2018 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 period.

	Unaudited		Unaudited		Audited	
	Three months ended June 30,		Six months ended June 30,			
	2019	2018	2019	2018		
		<i>(restated)</i>		<i>(restated)</i>		
Net profit/(loss) attributable to the owners of the Company (RMB' 000)	199,280	(32,684)	296,602	649,785		
Weighted average numbers of ordinary shares in issue (' 000)	2,052,751	1,866,820	2,050,298	1,272,222		
Basic earnings/(loss) per share (RMB)	0.10	(0.02)	0.15	0.51		

(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 of June 30, 2019 and 2018, 28,473,790 and 44,056,950 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 per share for the six months ended June 30, 2019 and 2018 as these shares are not considered outstanding for earnings per share calculation purposes.

As of June 30, 2019, 153,924,170 share options were granted in total. For the three months and six months ended June 30, 2019, the share options and RSUs granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and RSUs granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

As of June 30, 2018, 102,060,060 share options were granted in total and were not included in the calculation of dilutive loss per share for the three and six months ended June 30, 2018, as their inclusion would be anti-dilutive.

As the Group incurred losses for the three months ended June 30, 2018, 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 three months ended June 30, 2018 is the same as basic loss per share of the same period.

	Unaudited		Unaudited	Audited
	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	RMB' 000	<i>RMB' 000</i>	RMB' 000	<i>RMB' 000</i>
		<i>(Restated)</i>		<i>(Restated)</i>
Net profit/(loss) attributable to the owners of the Company (RMB' 000)	199,280	(32,684)	296,602	649,785
Adjustment for redeemable convertible preferred shares (RMB' 000)	—	—	—	(907,734)
Net profit/(loss) for calculation of diluted earnings/(loss) per share (RMB' 000)	199,280	(32,684)	296,602	(257,949)
Weighted average number of ordinary shares in issue (' 000)	2,052,751	1,866,820	2,050,298	1,272,222
Adjustments for redeemable convertible preferred shares (' 000)	—	—	—	224,076
Adjustments for RSUs granted to employees (' 000)	7,319	—	7,870	—
Adjustments for Options granted to employees (' 000)	67,659	—	62,298	—
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share (' 000)	2,127,729	1,866,820	2,120,466	1,496,298
Diluted earnings/(loss) per share (RMB)	0.09	(0.02)	0.14	(0.17)

8. Dividend

No dividend has been paid or declared by the Company during each of the six months ended June 30, 2019 and 2018.

9. Prepayment and other receivables

	Unaudited As of June 30, 2019 <i>RMB'000</i>	Audited As of December 31, 2018 <i>RMB'000</i>
Included in non-current assets		
Advances to suppliers	7,115	1,841
Total non-financial assets	7,115	1,841
Deposits	26,510	23,308
Others	–	6,336
Total financial assets	26,510	29,644
Non-current, total	33,625	31,485
Included in current assets		
Advances to accommodation suppliers	61,726	46,393
Prepaid taxation	28,807	37,708
Advances to tickets suppliers	165,063	108,284
Prepayment for advertising	33,694	25,676
Prepayment for office rental	682	1,214
Prepayment to related parties	12,444	5,833
Others	60,058	29,887
Total non-financial assets	362,474	254,995
Deposits	177,537	171,464
Receivable from related parties	88,536	76,794
Others	68,413	20,217
Total financial assets	334,486	268,475
Current, total	696,960	523,470

10. Trade receivables

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:

	Unaudited As of June 30, 2019 <i>RMB'000</i>	Audited As of December 31, 2018 <i>RMB'000</i>
Up to 6 months	1,012,332	847,053
Over 6 months	1,252	14,235
	1,013,584	861,288
Less: allowance for impairment of trade receivables	(1,252)	(3,962)
	1,012,332	857,326

11. Borrowings

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Secured bank borrowings (Note a)	162,459	172,305
Less: current portion	(19,692)	(19,692)
Non-current portion	<u>142,767</u>	<u>152,613</u>

Note:

- (a) The borrowings were secured by property, plant and equipment of the Group and bear interest at CHIBOR floating rate with 10% per annum.

At June 30, 2019 and December 31, 2018, the Group's borrowings were repayable as follows:

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Within 1 year	19,692	19,692
1~2 years	19,692	19,692
2~5 years	59,076	59,076
Over 5 years	63,999	73,845
	<u>162,459</u>	<u>172,305</u>

12. Other payables and accruals

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Accrual for users incentive program	79,113	106,508
Payable to travel service suppliers	17,972	23,426
Deposits from sales channel	100,817	88,678
Payables to related parties	15,836	8,064
Payable of Reorganization cost	220,953	220,953
Payable to insurance companies	223,690	209,518
Others	93,980	49,451
Total financial liabilities	<u>752,361</u>	<u>706,598</u>
Advances from users	171,016	583,707
Accrued payroll and welfare	164,540	292,393
Accrued commissions	20,251	18,270
Business and other taxes	37,324	31,949
Accrued advertisement expenses	86,249	80,661
Accrued professional fees	11,863	51,042
Payables to related parties	1,103	356
Others	61,589	41,447
Total non-financial liabilities	<u>553,935</u>	<u>1,099,825</u>
Total	<u>1,306,296</u>	<u>1,806,423</u>

13. Trade payables

Trade payables and their aging analysis based on invoice date are as follows:

	Unaudited As of June 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Up to 6 months	3,121,383	2,545,696
Over 6 months	21,513	23,396
	3,142,896	2,569,092

14. Business combination

Acquisition of TCCT

On April 30, 2019, the Company acquired entire equity interests in TCCT, a company primarily providing attraction ticketing services, from a related party Tongcheng Holdings. The Company accounted for the Acquisition of TCCT as business combination and started to consolidate its financial statements from April 30, 2019.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	April 30, 2019 RMB'000
Cash consideration	270,000

The preliminary price purchase allocation (PPA) of the Acquisition is as follows:

Identifiable assets and liabilities at the acquisition date:

Cash and cash equivalents	27,569
Restricted cash	200
Trade receivables	12,508
Prepayment and other receivables	56,584
Inventory	104
Property, plant and equipment	723
Intangible assets	
– Supplier relationship (Note a)	154,300
– Other	5,248
Deferred income tax assets	2,371
Trade payables	(62,640)
Other payables and accruals	(34,301)
Contract liabilities	(413)
Deferred income tax liabilities	(39,887)
Total identifiable net assets	122,366
Non-controlling interests	(1,199)
Goodwill (Note b)	148,833
	270,000

Notes:

The identified intangible assets for the acquisition primarily consists of supplier relationship and database. They are initially recognized and measured at fair value if they are acquired in business combinations.

- (a) The supplier relationship represents the contractual business relationship with the existing suppliers of the acquired entity, i.e. other travel service providers of TCCT, of which the Company assessed and estimated the useful life at 10 years based on the considerations of the long-term relationship built up with the suppliers, market practice in the other travel service industry as well as that the turnover and churn rate of suppliers in the past. The Company also benchmarked with the useful life of the similar intangible assets from the comparable deals in the market.
- (b) Goodwill is primarily attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose.

The acquired business contributed revenue of RMB29.6 million and net loss of RMB2.0 million to the Group for the period from April 30, 2019, the acquisition date, to June 30, 2019.

USE OF PROCEEDS

The Shares of the Company were listed on the Main Board of the Stock Exchange on November 26, 2018 by way of Global Offering, raising total net proceeds of approximately RMB1,319.3 million after deducting professional fees, underwriting commissions and other related listing expenses. For the six months ended June 30, 2019, the Group has used RMB158.5 million to fund investments in certain companies that we hold less than 20% interests. For details of the breakdown of the use of proceeds, please refer to the 2019 interim report to be published in due course.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Interim dividend

The Board does not recommend the payment of interim dividend for the six months ended June 30, 2019 to the Shareholders.

Event after the six months ended June 30, 2019

Save for the adoption of the 2019 Share Option Plan, there has been no material event after the end of the reporting period which requires disclosure in this announcement. Please refer to the circular of the Company dated July 16, 2019 for details of the 2019 Share Option Plan.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2019.

Model Code for Securities Transactions

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended June 30, 2019.

The Company's employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company during the six months ended June 30, 2019.

Compliance with the Corporate Governance Code

The Company has adopted and applied the principles and code provisions as set out in the Corporate Governance Code. During the six months ended June 30, 2019, the Company has complied with the code provisions in the Corporate Governance Code.

Audit Committee

The Audit Committee has three members comprising two independent non-executive Director, Mr. Wu Haibing (chairman of the Audit Committee) and Ms. Han Yuling and one non-executive Director, being Mr. Lin Haifeng, with terms of reference in compliance with the Listing Rules.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal controls and financial reporting with the management, including the review of the unaudited condensed consolidated interim financial results of the Group for the three and six months ended June 30, 2019. The Audit Committee considers that the interim financial results for the three and six months ended June 30, 2019 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Publication of Interim Results Announcement and Interim Report

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tcelir.com).

The interim report for the three and six months ended June 30, 2019 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DEFINITION

In this announcement, unless the context otherwise require, the following expressions shall have the following meaning:

"2019 Share Option Plan"	the share option plan adopted and approved by the Company on August 2, 2019
"AI"	artificial intelligence
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of the Company
"China" or "PRC"	People's Republic of China, except where the context requires otherwise and only for the purposes of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Company"	Tongcheng-Elong Holdings Limited (同程藝龍控股有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 14, 2016

“Consolidated Affiliated Entities”	the entities we control through certain contractual arrangements
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“eLong” or “eLong Cayman”	eLong Inc., a corporation incorporated under the laws of the Cayman Islands on May 19, 2004
“Global Offering”	the offering of the Company’s Shares as described in the Prospectus
“GMV”	gross merchandise volume, the total value of merchandise sold in the specified market or through a specified platform during a given period
“Group”, “we”, “us”, or “our”	the Company, its subsidiaries and Consolidated Affiliated Entities from time to time and, unless otherwise indicated, the historical results of operations for the six-month period ended June 30, 2018 and financial condition of the Group as of December 31, 2018 presented and discussed in this announcement do not reflect those of Tongcheng Online Business
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, amendments, and interpretations, as issued from time to time by the International Accounting Standards Board
“ITA”	intelligent travel assistant
“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
“MAUs”	monthly active users who access our platforms at least once during a calendar month
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“MPUs”	monthly paying users who make purchases on our platforms at least once during a calendar month
“NDC”	new distribution capability

“OTA”	online travel agency
“Paying Ratio”	the ratio calculated as average MPUs divided by average MAUs
“Prospectus”	the prospectus dated November 14, 2018 issued by the Company
“Reorganization”	the reorganization arrangements undertaken by the Group in preparation for the Listing
“RMB”	Renminbi, the lawful currency of China
“Share(s)”	ordinary share(s) in the share capital of the Company, currently of nominal value US\$0.0005 each
“Shareholder(s)”	holder(s) of the Share(s)
“TCCT”	Suzhou Tongcheng Cultural Tourism Development Co., Ltd (蘇州同程文化旅遊發展有限公司)
“Tencent”	Tencent Holdings Limited, a company incorporated in the British Virgin Islands on November 23, 1999 and subsequently redomiciled to the Cayman Islands on February 27, 2004 as an exempted company under the laws of the Cayman Islands, whose shares are listed on the Main Board of the Stock Exchange (stock code: 700)
“Tencent-based platforms”	(i) our proprietary Weixin-based mini programs, which can be accessible by Weixin users through the “Rail & Flight” and “Hotel” portals in Weixin Wallet, the mobile payment interface of Tencent’s Weixin or from the drop-down list of the favorite or most frequently used mini programs in Weixin; and (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
“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
“Tongcheng-eLong Merger”	the acquisition of Tongcheng Network by the Company
“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
“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
“TSP”	travel service providers
“USD” or “US\$”	United States dollars, the lawful currency of the United States of America

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Company for their support and contribution to the Group.

By Order of the Board
Tongcheng-Elong Holdings Limited
Ma Heping
*Executive Director and
Chief Executive Officer*

Hong Kong, August 19, 2019

As at the date of this announcement, the Board comprises the following:

Executive Directors

Wu Zhixiang (*Co-Chairman*)
Ma Heping (*Chief Executive Officer*)

Independent Non-executive Directors

Wu Haibing
Dai Xiaojing
Han Yuling

Non-executive Directors

Liang Jianzhang (*Co-Chairman*)
Jiang Hao
Lin Haifeng
Brent Richard Irvin