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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 ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

RESIGNATION OF DEPUTY CHAIRMAN AND PRESIDENT, AND RE-DESIGNATION OF DIRECTOR

The Board of the Company is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2018, together with comparative figures for the year ended December 31, 2017.

Tongcheng-eLong Merger was completed on March 9, 2018. Accordingly, the consolidated financial information of the Group for the year ended December 31, 2017 included only those of eLong alone, whereas the consolidated financial information of the Group for the year ended December 31, 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 December 31, 2018.

In order to facilitate reader of this announcement to assess our performance as a combined business, certain financial and operating data for the years ended December 31, 2017 and 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 Online Business and eLong may not have been managed and operated under the same group as of or for such times.

KEY HIGHLIGHTS

For the year ended December 31, 2018, on a combined basis:

- Revenue increased by 16.5% year-to-year to RMB6,090.8 million from RMB5,226.1 million in 2017.
- Adjusted EBITDA increased by 55.6% year-to-year to RMB1,481.7 million from RMB952.1 million in 2017. Adjusted EBITDA margin increased from 18.2% in 2017 to 24.3% in 2018.
- Adjusted profit for the year increased by 66.8% year-to-year to RMB1,140.7 million from RMB684.0 million in 2017. Adjusted net margin increased from 13.1% in 2017 to 18.7% in 2018.
- Average MAUs increased by 44.6% year-to-year from 121.2 million in 2017 to 175.2 million in 2018.
- Average MPUs increased by 28.2% year-to-year from 15.6 million in 2017 to 20.0 million in 2018.

1. Key Financial Metrics on a Combined Basis

	Year ended December 31, 2018	Period ended March 9, 2018	Year ended December 31, 2018	Year ended December 31, 2017		
	Group	Tongcheng Online Business	Combined	Group	Business	Combined
	<i>(in RMB '000)</i>			<i>(in RMB '000)</i>		
Revenue	5,255,639	835,148	6,090,787	2,518,591	2,707,499	5,226,090
Adjusted EBITDA	1,152,134	329,515	1,481,649	169,647	782,407	952,054
Adjusted profit for the year	915,945	224,744	1,140,689	192,657	491,338	683,995
Revenue growth (year-to-year)			16.5%			N/A
Adjusted EBITDA margin			24.3%			18.2%
Adjusted net margin			18.7%			13.1%

Notes:

1. Please refer to “Other Financial Information” below for the meaning of “adjusted EBITDA” and “adjusted profit for the year”.
2. Please refer to the Prospectus for the financial information of each of Tongcheng Online Business and eLong for the year ended December 31, 2017.

2. Financial Summary on the Group's Standalone Basis

	<u>Year ended December 31,</u>		Year-to- year change
	2018 <i>RMB '000</i>	2017 <i>RMB '000</i>	
Revenue	5,255,639	2,518,591	108.7%
Gross profit	3,655,126	1,706,810	114.1%
Profit before income tax	601,526	134,021	348.8%
Profit for the year	534,539	194,377	175.0%
Adjusted profit for the year	915,945	192,657	375.4%

3. Operating Metrics on a Combined Basis

	<u>Year ended December 31,</u>		Year-to- year change
	2018	2017	
GMV (in RMB billion)	131.5	102.3	28.5%
Number of average MAUs (in million)	175.2	121.2	44.6%
Number of average MPUs (in million)	20.0	15.6	28.2%

BUSINESS REVIEW AND OUTLOOK

2018 was a remarkable year for the Company. We successfully completed the merger of Tongcheng and eLong and achieved solid growth and profitability as a combined business. We listed our Shares on the Main Board of the Hong Kong Stock Exchange on November 26, 2018. Through the public listing, we have built our name in the capital market as an industry innovator, a market leader as well as a pioneer in the OTA industry. As we continue to focus on user reach, product innovation and user experience, we have achieved strong business growth in 2018 and continued our momentum, which we believe makes us one of the fastest growing companies in China's online travel industry.

2018 Results Highlights on a Combined Basis

Our total revenues increased by 16.5% from RMB5,226.1 million in 2017 to RMB6,090.8 million in 2018. Our adjusted profit for the year increased by 66.8% from RMB684.0 million in 2017 to RMB1,140.7 million in 2018. Our adjusted net margin rose from 13.1% in 2017 to 18.7% in 2018.

Benefited from faster penetration in non-first-tier cities and continuous innovation on various ancillary value-added products and services, we have maintained high growth in our MAUs and MPUs. For the year ended December 31, 2018, our average MAUs increased by 44.6% year-to-year from 121.2 million to 175.2 million, of which 140.6 million were from Tencent-based platforms. Over the same period, our average MPUs increased by 28.2% year-to-year from 15.6 million to 20.0 million.

According to the Aladdin Index, we topped the list of “Monthly Ranking of Top 100 Weixin Mini Programs” (《月度微信小程序TOP100榜》) for four consecutive months since September 2018. We were awarded the “Best Mini Program of the Year” at the Aladdin Annual Conference on January 5, 2019, in recognition of our outstanding product and service quality, the superior customer experience we deliver and our industry influence.

Business Review

We are a market leader in China’s online travel industry. Benefiting from years of experience and technological development of Tongcheng and eLong and their complementary resources, we have achieved greater economies of scale, solidified our market leading position, and enhanced our ability to provide comprehensive travel products and services offerings following the Tongcheng-eLong Merger in March 2018. Our GMV achieved a year-to-year increase of 28.5% and reached RMB131.5 billion in 2018.

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, 2018, our online platforms offered over 6,400 domestic routes and over 1.1 million international routes operated by 438 domestic and international airlines, over 1.4 million hotels and alternative accommodation options, approximately 310,000 bus routes and over 417 ferry 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. With the successful implementation of the one-stop shop strategy, our retention rate achieved 67% in 2018.

Our large, fast-growing and engaged user base is a key factor for our business success and future growth. Leveraging on the mutually beneficial partnership between Tencent and us as well as our effective sales and marketing strategies, we are able to reach an extensive and diversified user base in a cost-effective manner, especially a vast pool of potential users in non-first-tier cities. As of December 31, 2018, approximately 85.4% of our registered users resided in non-first-tier cities in China with increased spending on, and demands, for quality travel products. The percentage of users from non-first-tier cities in China in our newly acquired paying users from Weixin increased from 54.9% in January 2018 to 64.3% in December 2018, with a full-year average of 61.1% in 2018. Benefiting from our dedication to the Weixin-based mini program strategy, our average MAUs and average MPUs have grown significantly in 2018. Currently, Weixin users can access our Weixin-based mini program within the Weixin ecosystem 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 74.2 million in 2018, accounting for 52.8% 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 49.1 million in 2018, accounting for 34.9% 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 17.3 million in 2018, accounting for 12.3% of the total average MAUs of our Tencent-based platforms.

As a technology-driven company, we prioritize the development of our information technology. By leveraging on our big data and AI capabilities, we are not only able to better understand the preferences and behaviors of our users to provide them with customized products and services, but can also offer insights to our TSPs and enhance our value proposition to them. As we continue to invest in our technology infrastructure, the number of transactions executed automatically through direct connect accounted for approximately 95% of the combined air ticket orders and approximately 80% of the accommodation room nights in 2018 on a combined basis. Supported by our self-developed “Huixing” (慧行) system, we offer our users intelligent travel options with product combo of railway, flight, bus and ferry. Our “Buddha” system in air ticket booking is capable of serving various demands of different users. We have rolled out our “Intelligent Hotel” initiatives, which allow users to enjoy the benefits of advanced technologies throughout the process of reservation, check-in, accommodation and departure in our pilot hotels.

Business Outlook and Strategies

China's travel market is sizable and is expected to continue to grow rapidly, driven by the continuous increases in disposable income and consumption power as well as the increasing urbanization. Chinese consumers' demand for quality customer service and superior user experience, including online platforms offering basic transportation ticketing and accommodation reservation services and a range of ancillary value-added products and services, have been increasing. As a leading OTA in China, we are a one-stop shop for travelers' entire travel experience and is well positioned to capitalize on the enormous growth potential as China's travel market continues to evolve.

We strive to fulfil our mission and further solidify our market leadership through the following initiatives. We will continue to grow the size and engagement of our user base by expanding our product and service offerings. We intend to deepen cooperation with our TSPs by delivering more compelling value proposition to them. We also plan to pursue strategically selected acquisition, investment, joint venture and partnership opportunities that are complementary to our business and operations. Furthermore, we will leverage our strong data analytics and technology capabilities to strengthen big data and AI innovations. As technologies for human-machine interactions continue to advance, we will strive to adapt to new technologies and formats with a view to becoming an intelligent travel assistant for our users.

MANAGEMENT DISCUSSION AND ANALYSIS

Year ended December 31, 2018 compared to Year ended December 31, 2017

	<u>Year ended December 31,</u>	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5,255,639	2,518,591
Cost of revenue	(1,600,513)	(811,781)
Gross profit	3,655,126	1,706,810
Service development expenses	(1,349,935)	(522,018)
Selling and marketing expenses	(1,841,314)	(1,094,977)
Administrative expenses	(934,925)	(97,379)
Fair value changes on investments		
measured at fair value through profit or loss	78,572	863
Other income	33,396	12,805
Other gains, net	47,888	22,610
Operating (loss)/profit	(311,192)	28,714
Finance income	12,888	10,145
Finance costs	(3,336)	(163)
Fair value change on redeemable convertible preferred shares		
measured at fair value through profit or loss	907,734	97,576
Share of results of associates	(4,568)	(2,251)
Profit before income tax	601,526	134,021
Income tax (expense)/credit	(66,987)	60,356
Profit for the year	534,539	194,377
Attributable to:		
Equity holders of the Company	529,957	195,575
Non-controlling interests	4,582	(1,198)
Adjusted profit for the year ^(a)	915,945	192,657

Note:

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

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:

	Year ended December 31,			
	2018		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Accommodation reservation services	1,830,370	34.8	2,361,625	93.8
Transportation ticketing services	3,232,521	61.5	61,295	2.4
Others	192,748	3.7	95,671	3.8
Total revenue	<u>5,255,639</u>	<u>100.0</u>	<u>2,518,591</u>	<u>100.0</u>

Revenue increased by 108.7% from RMB2,518.6 million for the year ended December 31, 2017 to RMB5,255.6 million for the year ended December 31, 2018.

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. In 2018 and 2017, inventory-risk-taking room nights accounted for approximately 0.6% and 2.8%, respectively, of the total numbers of room nights booked through our online platforms.

In order to provide investors with additional information to evaluate the financial impact of inventory-risk-taking room nights and the overall performance of our accommodation reservation services, we set forth in the table below the net commissions earned from accommodation reservation for the years ended December 31, 2017 and 2018:

	<u>Year ended December 31,</u>	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Accommodation reservation services	1,830,370	2,361,625
The excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation	(188,070)	(532,870)
Net commissions earned from accommodation reservation	<u>1,642,300</u>	<u>1,828,755</u>

Net commissions earned from accommodation reservation represent the sum of (i) accommodation reservation revenue generated from non-inventory-risk-taking room night (which is recorded on a net basis), and (ii) accommodation reservation revenue generated from inventory-risk-taking room nights, should such revenue has been recorded on a net basis (the “**Adjusted Inventory-risk-taking Revenues**”). As disclosed above, as required under applicable accounting rules and standards, revenues from inventory-risk-taking room nights are recorded on a gross basis with the corresponding cost of prepurchased inventory-risk-taking room nights recorded as cost of revenues, and Adjusted Inventory-risk-taking Revenues are calculated by taking the difference between such gross revenues and the corresponding cost of revenues. We believe that by excluding cost of revenues, Adjusted Inventory-risk-taking Revenues reflect the actual earnings of the Group from sales of inventory-risk-taking room nights, and accordingly, the “net commissions earned from accommodation reservation” reflect the actual earnings of the Group from all of its accommodation reservation transactions and is a useful measure for investors in understanding and evaluating the performance of our accommodation reservation business in the same manner as our management.

Revenue from accommodation reservation services decreased by 22.5% from RMB2,361.6 million for the year ended December 31, 2017 to RMB1,830.4 million for the year ended December 31, 2018. The decrease was mainly because we strategically decreased sales of room nights through sales channels with relatively low margins. The excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation declined significantly by 64.7% from RMB532.9 million for the year ended December 31, 2017 to RMB188.1 million for the year ended December 31, 2018, as we continued to focus on sourcing select, high-quality accommodation options and strategically reduced the volume of inventory-risk-taking prepurchased room nights in light of our heightened bargaining power against accommodation suppliers.

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 revenue on a net basis.

Revenue from transportation ticketing services increased significantly from RMB61.3 million for the year ended December 31, 2017 to RMB3,232.5 million for year ended December 31, 2018, which was mainly due to our consolidation of the financial results of Tongcheng Online Business since March 2018.

Others

Other revenue mainly includes: (i) revenue from advertising services; and (ii) since the Group began to consolidate the results of operations of Tongcheng Online Business in March 2018, (a) fees collected from Tongcheng Holdings for selling its travel products and services through our online platforms; and (b) revenues generated from ancillary value-added user 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.

Revenue from others increased by 101.4% from RMB95.7 million for the year ended December 31, 2017 to RMB192.7 million for year ended December 31, 2018, which was mainly due to the consolidation of the financial results of Tongcheng Online Business since March 2018.

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 total cost of revenue for the years ended December 31, 2018 and 2017:

	Year ended December 31,			
	2018		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cost of prepurchased inventory-risk-taking room nights	188,070	11.8	532,870	65.6
Employee benefit expenses	296,339	18.5	89,004	11.0
Order processing cost	704,228	44.0	51,841	6.4
Depreciation of property, plant and equipment	101,442	6.3	39,961	4.9
Others	310,434	19.4	98,105	12.1
Total cost of revenue	<u>1,600,513</u>	<u>100.0</u>	<u>811,781</u>	<u>100.0</u>

Cost of revenue increased by 97.2% from RMB811.8 million for the year ended December 31, 2017 to RMB1,600.5 million for the year ended December 31, 2018. The increase was mainly due to: (i) our consolidation of the financial results of Tongcheng Online Business since March 2018; (ii) a significant increase in order processing cost from RMB51.8 million for the year ended December 31, 2017 to RMB704.2 million for the year ended December 31, 2018, primarily because of increased order processing cost of transportation ticketing services as a result of increased GMV in 2018; (iii) a significant increase in employee benefit expenses from RMB89.0 million in 2017 to RMB296.3 million in 2018, primarily due to the additional share options granted to our user services and TSP services employees. The increase was partially offset by a significant decrease in cost of prepurchased inventory-risk-taking room nights from RMB532.9 million for the year ended December 31, 2017 to RMB188.1 million for the year ended December 31, 2018, as we continued to focus on sourcing selected, high-quality accommodation options and strategically reduced volume of inventory-risk-taking prepurchased room nights in light of our heightened bargaining power against accommodation suppliers.

Gross profit

As a result of the foregoing, our gross profit increased by 114.1% from RMB1,706.8 million for the year ended December 31, 2017 to RMB3,655.1 million for the year ended December 31, 2018 on a year-to-year basis. Our gross margin increased from 67.8% in 2017 to 69.5% in 2018.

Service development expenses

Service development expenses increased by 158.6% from RMB522.0 million for the year ended December 31, 2017 to RMB1,349.9 million for the year ended December 31, 2018. The increase was mainly due to (i) an increase in employee benefits expenses which was attributable to our consolidation of the financial results of Tongcheng Online Business since March 2018, and the additional share options granted to our service development employees; and (ii) a significant increase in depreciation and amortization expenses, which in turn was driven by our increased intangible assets.

Selling and marketing expenses

Selling and marketing expenses increased by 68.2% from RMB1,095.0 million for the year ended December 31, 2017 to RMB 1,841.3 million for the year ended December 31, 2018, which was mainly due to (i) our consolidation of the financial results of Tongcheng Online Business since March 2018; (ii) the increased advertising and promotion spending on sales channels; and (iii) an increase in employee benefit expenses due to additional share options granted to our selling and marketing employees.

Administrative expenses

Administrative expenses increased significantly from RMB97.4 million for the year ended December 31, 2017 to RMB934.9 million for the year ended December 31, 2018, which was mainly driven by (i) our consolidation of the financial results of Tongcheng Online Business since March 2018; (ii) a significant one-off reorganization expense incurred by the shareholders of Tongcheng Network arising from the Reorganization in 2018 which shall be borne by us as agreed between us and the relevant shareholders; (iii) a significant one-off expense relating to the issuance of ordinary shares to Tencent at a discount in conjunction with the Tongcheng-eLong Merger in 2018; (iv) an increase in employee benefit expenses due to additional share options granted to our administrative employees; and (v) professional service fees incurred in relation to the Global Offering.

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 RMB78.6 million for the year ended December 31, 2018, compared with RMB0.9 million for the year ended December 31, 2017. Fair value changes on investments measured at fair value through profit or loss in 2018 mainly consists of (i) fair value gains in long term investments of RMB4.5 million, which reflected the fair value gains in certain private companies in which we invested; and (ii) fair value gains in short-term investments measured at fair value through profit and loss of RMB74.1 million, which consisted of short-term wealth management products.

Other income

Other income increased by 160.8% from RMB12.8 million for the year ended December 31, 2017 to RMB33.4 million for the year ended December 31, 2018. The increase was primarily due to the increased government subsidies received.

Other gains, net

Other gains increased by 111.8% from RMB22.6 million for the year ended December 31, 2017 to RMB47.9 million for the year ended December 31, 2018. This increase was mainly due to an increase in foreign exchange gain of RMB17.0 million.

Finance income

Finance income increased by 27.7% from RMB10.1 million for the year ended December 31, 2017 to RMB12.9 million for the year ended December 31, 2018. This increase was mainly due to higher interest income from bank deposits.

Finance costs

Finance costs increased from RMB0.2 million for the year ended December 31, 2017 to RMB3.3 million for the year ended December 31, 2018. This increase was mainly due to higher services fees paid to commercial banks.

Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss

We recorded fair value gain on redeemable convertible preferred shares measured at fair value through profit or loss of RMB907.7 million in 2018, primarily because we re-designated our preferred shares as ordinary shares on a one-to-one basis in connection with the Tongcheng-eLong Merger, which lowered the fair value of the preferred shares and the decrease in the fair value of such preferred shares was recognized as a fair value gain.

Share of results of associates

We recorded share losses of associates of RMB4.6 million for the year ended December 31, 2018, compared to RMB2.3 million for the year ended December 31, 2017, which was due to increased losses from our affiliate companies accounted for using equity method during 2018.

Income tax (expenses)/credit

We recorded an income tax expense of RMB67.0 million for the year ended December 31, 2018 and an income tax credit of RMB60.4 million for the year ended December 31, 2017, as a result of the increased profit in 2018.

Profit attributable to equity holders of the Company

As a result of the foregoing, profit attributable to equity holders of the Company increased by 171.0% from RMB195.6 million for the year ended December 31, 2017 to RMB530.0 million for the year ended December 31, 2018.

OTHER FINANCIAL INFORMATION

	Year ended December 31,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Adjusted EBITDA ^(a)	1,152,134	169,647
Adjusted profit for the year ^(b)	915,945	192,657
Interest expense	1,633	—
Capital expenditures ^(c)	337,531	392,134

Notes:

- (a) Adjusted EBITDA is calculated by operating profit for the year plus share based compensation, amortization of intangible assets, depreciation of property, plant and equipment, and certain one-off expenses, including Reorganization cost, issuance of ordinary shares at discount, listing expense and acquisition-related cost.
- (b) Adjusted profit for the year is defined as profit for the year adjusted by share-based compensation, amortization of intangible assets from acquisition, fair value change on redeemable convertible preferred shares measured at fair value through profit or loss, and certain one-off expenses, including Reorganization cost, issuance of ordinary shares at discount, income tax expense related to Reorganization, listing expense and acquisition-related cost.
- (c) Capital expenditure consists of purchases of property, plant and equipment and intangible assets.

The following table reconciles adjusted EBITDA to operating (loss)/profit, its most directly comparable financial measure calculated and presented in accordance with IFRS for the years ended December 31, 2018 and 2017:

	<u>Year ended December 31,</u>	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Operating (loss)/profit	(311,192)	28,714
Add:		
Share-based compensation	572,191	56,783
Amortization of intangible assets	339,037	39,073
Depreciation of property, plant and equipment	116,655	45,077
Reorganization cost	220,953	—
Issuance of ordinary shares at discount	113,099	—
Listing expense	91,508	—
Acquisition-related cost	9,883	—
Adjusted EBITDA	<u>1,152,134</u>	<u>169,647</u>

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 profit for the year, 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.

The following table reconciles our adjusted profit for the year to profit for the year, its most directly comparable financial measure calculated and presented in accordance with IFRS, for the years ended December 31, 2017 and 2018:

	<u>Year ended December 31,</u>	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Profit for the year</u>	534,539	194,377
Add:		
Share-based compensation	572,191	56,783
Amortization of intangible assets from acquisition	217,534	39,073
Fair value change on redeemable convertible preferred shares measured at fair value through profit and loss ^(a)	(907,734)	(97,576)
Reorganization cost	220,953	—
Issuance of ordinary shares at discount	113,099	—
Income tax expense related to Reorganization	63,972	—
Listing expense	91,508	—
Acquisition-related cost	9,883	—
Adjusted profit for the year	<u>915,945</u>	<u>192,657</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 designate 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.

Liquidity and Financial Resources

We fund our liquidity needs mainly from (i) cash acquired from business combination in relation with Tongcheng Online Business; (ii) the net proceeds received from the Global Offering; and (iii) net cash generated from our business growth.

We had cash and cash equivalents of RMB701.7 million and RMB3,143.9 million as of December 31, 2017 and 2018, respectively.

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

	Year ended December 31,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	2,360,953	719,894
Net cash flows used in investing activities	(1,400,497)	(541,955)
Net cash flows generated from financing activities	1,480,861	185,875
Net increase in cash and cash equivalents	2,441,317	363,814
Cash and cash equivalents at beginning of the year	701,748	339,299
Effect of exchange rate changes on cash and cash equivalents	818	(1,365)
Cash and cash equivalents at end of the year	<u>3,143,883</u>	<u>701,748</u>

Net Cash Generated from Operating Activities

In 2018, net cash generated from operating activities was RMB2,361.0 million, which was primarily attributable to the profit before income tax of RMB601.5 million, as adjusted by (i) fair value change on redeemable convertible preferred shares measured at fair value through profit or loss of RMB907.7 million, share-based compensation of RMB572.2 million, amortization of intangible assets of RMB339.0 million, depreciation of property, plant and equipment of RMB116.7 million, and issuance of ordinary shares at discount of RMB113.1 million; and (ii) changes in working capital, which primarily consisted of an increase in trade payables of RMB1,674.1 million, an increase in trade receivables of RMB846.4 million, an increase in accrued expenses and other current liabilities of RMB790.7 million, and a decrease in prepayment and other receivables of RMB61.6 million. We also paid income tax of RMB160.0 million.

Net Cash Used in Investing Activities

In 2018, net cash used in investing activities was RMB1,400.5 million, which was primarily attributable to (i) payments for purchases of wealth management products of RMB10,204.6 million; and (ii) purchases of property, plant, and equipment of RMB337.5 million. The aforesaid cash used was partially offset by proceeds from maturity of such wealth management products of RMB8,213.2 million and cash of RMB941.2 million obtained in relation to the acquisition of Tongcheng Online Business.

Net Cash Generated From Financing Activities

In 2018, net cash generated from financing activities was RMB1,480.9 million, which was primarily attributable to (i) proceeds from issuance of ordinary shares in connection with the Listing of RMB1,437.2 million; and (ii) proceeds from issuance of ordinary shares to Tencent of RMB190.1 million, partially offset by payment of shares issuance cost in connection with the Listing of RMB118.0 million.

Gearing Ratio

As of December 31, 2018, our gearing ratio, calculated as total borrowings divided by total equity attributable to equity holders of the Company, was approximately 1.5% (2017:-3.6%).

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 December 31, 2018, the carrying amount of such secured property was RMB391.8 million.

Capital Expenditure

	As of December 31,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment	337,491	392,134
Purchase of intangible assets	40	—
Total capital expenditure	337,531	392,134

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

Long-term Investment Activities

	As of December 31,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Investments accounted for using the equity method	48,731	37,618
Investments measured at fair value through profit or loss	52,442	25,239
Total long-term investments	101,173	62,857

Our long-term investments as of December 31, 2018 were RMB101.2 million, as compared to RMB62.9 million as of December 31, 2017. The increase in our long-term investments was caused by our additional investments in certain private 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 supplement and benefit our business. As of December 31, 2018, 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 Tongcheng-eLong Merger, there were no other material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended December 31, 2018. Please refer to the section headed “History, Reorganization and Corporate Structure – Major Shareholding Changes of Our Company – Tongcheng-eLong Merger” of the Prospectus for details of the Tongcheng-eLong Merger.

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 years ended December 31, 2017 and 2018.

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.

Employee

As of December 31, 2018, we had a total of 6,258 full-time employees. As of the same date, approximately 52.5% and 18.8% of our full-time employees were based in Suzhou and Beijing, respectively, while the remaining 28.7% 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 is regularly provided to our employees by in-house trainers or third-party consultants. We have also adopted the 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 a good working relationship with our employees and we did not experience any significant labor disputes or any material difficulties in recruiting employees for our operations in 2018.

CONSOLIDATED INCOME STATEMENTS

For the year ended December 31, 2018

	<i>Notes</i>	Year ended December 31,	
		2018	2017
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	5,255,639	2,518,591
Cost of revenue	3	(1,600,513)	(811,781)
Gross profit		3,655,126	1,706,810
Service development expenses	3	(1,349,935)	(522,018)
Selling and marketing expenses	3	(1,841,314)	(1,094,977)
Administrative expenses	3	(934,925)	(97,379)
Fair value changes on investments measured at fair value through profit or loss	4(d)	78,572	863
Other income		33,396	12,805
Other gains, net	5	47,888	22,610
Operating (loss)/profit		(311,192)	28,714
Finance income		12,888	10,145
Finance costs		(3,336)	(163)
Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss	6	907,734	97,576
Share of results of associates		(4,568)	(2,251)
Profit before income tax		601,526	134,021
Income tax (expense)/credit	7	(66,987)	60,356
Profit for the year		534,539	194,377
Profit attributable to:			
– Equity holders of the Company		529,957	195,575
– Non-controlling interests		4,582	(1,198)
		534,539	194,377
Earnings/(loss) per share (expressed in RMB per share):			
– Basic	8	0.33	0.75
– Diluted	8	(0.22)	0.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018

		<u>Year ended December 31,</u>	
		2018	2017
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year		534,539	194,377
Other comprehensive income/(loss)			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
– Currency translation differences		(15,917)	—
<i>Items that will not be reclassified to profit or loss:</i>			
– Fair value change relating to preferred shares due to own credit risk	6	<u>932</u>	<u>(46,592)</u>
Other comprehensive loss for the year, net of tax		<u>(14,985)</u>	<u>(46,592)</u>
Total comprehensive income for the year		<u>519,554</u>	<u>147,785</u>
Total comprehensive income attributable to:			
– Equity holders of the Company		514,972	148,983
– Non-controlling interests		4,582	(1,198)
		<u>519,554</u>	<u>147,785</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018

		<u>As of December 31,</u>	
		2018	2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		934,361	441,722
Investments accounted for using the equity method	10	48,731	37,618
Investments measured at fair value through profit or loss	4	52,442	25,239
Land use right		16,038	—
Intangible assets		7,961,640	308,831
Deferred income tax assets		249,781	61,877
Prepayment and other receivables		31,485	49,172
		<u>9,294,478</u>	<u>924,459</u>
Current assets			
Trade receivables	11	857,326	539,217
Prepayment and other receivables		523,470	195,938
Short-term investments measured at amortized cost	4	261,086	—
Short-term investments measured at fair value through profit or loss	4	2,570,170	236,107
Restricted cash		140,930	170,541
Cash and cash equivalents		3,143,883	701,748
		<u>7,496,865</u>	<u>1,843,551</u>
Total assets		<u><u>16,791,343</u></u>	<u><u>2,768,010</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		7,156	99
Share premium		17,311,220	1,514,310
Treasury stock		(15)	(15)
Other reserves		(2,722,834)	(3,270,057)
Accumulated losses		(3,060,074)	(3,581,152)
		<u>11,535,453</u>	<u>(5,336,815)</u>
Non-controlling interests		<u>(7,642)</u>	<u>4,881</u>
Total equity		<u><u>11,527,811</u></u>	<u><u>(5,331,934)</u></u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018

		<u>As of December 31,</u>	
		2018	2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		152,613	172,305
Deferred income tax liabilities		570,054	201
Redeemable convertible preferred shares	6	—	6,347,647
Other payables and accruals		6,674	1,839
		<u>729,341</u>	<u>6,521,992</u>
Current liabilities			
Borrowings		19,692	19,692
Trade payables	12	2,569,092	1,114,917
Other payables and accruals		1,799,749	437,358
Contract liabilities		15,084	—
Current income taxes liabilities		130,574	5,985
		<u>4,534,191</u>	<u>1,577,952</u>
Total liabilities		<u>5,263,532</u>	<u>8,099,944</u>
Total equity and liabilities		<u>16,791,343</u>	<u>2,768,010</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2018

	Attributable to equity holders of the Company					Sub-total RMB'000	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			
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 for the year	—	—	—	—	529,957	529,957	4,582	534,539
Other comprehensive income/(loss)								
Credit risk for preferred share	—	—	—	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)	—	—	—
Currency translation differences	—	—	—	(15,917)	—	(15,917)	—	(15,917)
Total comprehensive income	—	—	—	(6,106)	521,078	514,972	4,582	519,554
Transactions with owners								
Share-based compensations	—	—	—	572,191	—	572,191	—	572,191
Issuance of ordinary shares in connection with the Acquisition (Note 13)	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	—	—	—	(18,123)	—	(18,123)	(18,105)	(36,228)
Conversion of the preferred shares to ordinary shares (Note 6)	192	5,438,789	—	—	—	5,438,981	—	5,438,981
Capitalization issue	5,973	(5,973)	—	—	—	—	—	—
Issuance of ordinary shares in connection with the Listing	574	1,436,609	—	—	—	1,437,183	—	1,437,183
Share issuance costs	—	(65,651)	—	—	—	(65,651)	—	(65,651)
Contributions from minority shareholders	—	—	—	—	—	—	1,000	1,000
Purchase of vested equity awards	—	—	—	(739)	—	(739)	—	(739)
Total transactions with owners recognized directly in equity	7,057	15,796,910	—	553,329	—	16,357,296	(17,105)	16,340,191
As of December 31, 2018	7,156	17,311,220	(15)	(2,722,834)	(3,060,074)	11,535,453	(7,642)	11,527,811

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2018

	Attributable to equity holders of the Company					Sub-total RMB'000	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			
As of January 1, 2017	84	1,514,310	—	(3,275,866)	(3,776,727)	(5,538,199)	6,079	(5,532,120)
Comprehensive income								
Profit/(loss) for the year	—	—	—	—	195,575	195,575	(1,198)	194,377
Other comprehensive loss								
Changes in fair value of the preferred shares – attributable to its credit risk	—	—	—	(46,592)	—	(46,592)	—	(46,592)
Total comprehensive income	—	—	—	(46,592)	195,575	148,983	(1,198)	147,785
Transactions with owners								
Share-based compensations	—	—	—	56,783	—	56,783	—	56,783
Issuance of RSUs	15	—	(15)	—	—	—	—	—
Purchase of vested equity awards	—	—	—	(4,382)	—	(4,382)	—	(4,382)
Total transactions with owners recognized directly in equity	15	—	(15)	52,401	—	52,401	—	52,401
As of December 31, 2017	99	1,514,310	(15)	(3,270,057)	(3,581,152)	(5,336,815)	4,881	(5,331,934)

CONDENSED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

	<u>Year ended December 31,</u>	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	2,360,953	719,894
Net cash flows used in investing activities	(1,400,497)	(541,955)
Net cash flows generated from financing activities	1,480,861	185,875
Net increase in cash and cash equivalents	2,441,317	363,814
Cash and cash equivalents at beginning of the year	701,748	339,299
Effect of exchange rate changes on cash and cash equivalents	818	(1,365)
Cash and cash equivalents at end of the year	<u>3,143,883</u>	<u>701,748</u>

Notes

1 Basis of preparation

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 changed its name to Tongcheng-Elong Holdings Limited on March 27, 2018, following the completion of the Tongcheng-eLong Merger in March 2018.

The Company's shares have been listed on the Main Board of the Hong Kong Stock Exchange since November 26, 2018.

The Company is an investment holding company. The Group is principally engaged in the provision of travel related services, including accommodation reservation services, transportation ticketing services, and other travel-related products and services.

The consolidated financial statements of the Group has been prepared in accordance with IFRS. In preparing the consolidated financial statements, the Group has adopted IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15") consistently throughout the years presented.

A number of new standards and amendments to standards are not effective for the financial year beginning January 1, 2018, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for set out below.

The Company will apply IFRS 16 "Leases" prospectively since January 1, 2019. IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes 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 most operating leases will be accounted for on statement of financial position for lessees. The Company is a lessee of various properties which are currently classified as operating leases. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Company's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation.

We have set up a project team which has reviewed all of the Company's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Company's operating leases.

As at December 31, 2018, the Group had non-cancellable operating lease commitments of RMB45 million. Of these commitments, approximately RMB32 million relate to short-term leases which will be recognized on a straight-line basis as expense in profit or loss.

The Company anticipates that the application of IFRS 16 in 2019 will result in an increase in financial assets and financial liabilities, which is likely to have insignificant impact on the financial position and limited impact on the financial performance of the Group.

The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the financial statement. However, some additional disclosures will be required from next year.

2. 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 (“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, 2018 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,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Operating (loss)/profit per consolidated statements of comprehensive income	(311,192)	28,714
Less: Other income	(33,396)	(12,805)
Fair value changes on investments measured at fair value through profit or loss	(78,572)	(863)
Other gains, net	(47,888)	(22,610)
Operating loss presented to the CODM	<u>(471,048)</u>	<u>(7,564)</u>

Revenue by service type for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Accommodation reservation services	1,830,370	2,361,625
Transportation ticketing services	3,232,521	61,295
Others	192,748	95,671
Total revenue	<u>5,255,639</u>	<u>2,518,591</u>

3. Expenses by nature

	Year ended December 31,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Commission expenses	269,807	659,761
Employee benefit expense	1,969,721	635,186
Cost of pre-purchased travel related products	188,070	532,870
Advertising and promotion expenses	1,205,448	356,776
Depreciation and amortization expense	455,964	84,150
Order processing cost	704,228	51,841
Rental and utility fees	65,391	38,963
Telephone and communication	20,769	37,779
Professional service fees	159,974	35,032
Audit fees	15,828	1,491
Travelling and entertainment expenses	56,606	23,613
Bandwidth and servers fee	116,398	23,581
Tax and surcharges	25,214	7,815
Reorganization cost	220,953	—
Acquisition-related cost	9,883	—
Issuance of ordinary shares at discount	113,099	—
Procurement costs	92,160	—
Others	37,174	37,297
	<u>5,726,687</u>	<u>2,526,155</u>

4. Investments

	As of December 31,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Short-term investments measured at		
- Amortized cost (a)	261,086	—
- Fair value through profit or loss (b)	2,570,170	236,107
	<u>2,831,256</u>	<u>236,107</u>
Non-current assets		
Long-term investments measured at fair value through profit or loss (c)	52,442	25,239
	<u>52,442</u>	<u>25,239</u>

(a) *Short-term investments measured at amortized cost*

Short-term investments measured at amortized cost are time deposits within one year with fixed interest rates, 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, with expected rates of return ranging from 2.8% to 6.5% per annum for the year ended December 31, 2018 (2017: 1.5% to 6.0%). 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.

(c) *Long-term investments measured at fair value through profit or loss*

As of December 31, 2018 and 2017, long-term investments measured at fair value through profit or loss are equity interests and derivative 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 substantively the same as ordinary share 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.

As of December 31, 2018, the derivative held by the Group is the derivative call option with equity investee's shareholders of RMB2,969,000 (December 31, 2017: nil).

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.

(d) *Amounts recognized in profit or loss*

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Fair value changes in long-term investments	4,495	(1,199)
Fair value changes in short-term investments measured at fair value through profit or loss	74,077	2,062
	78,572	863

5. Other gains, net

	Year ended December 31,	
	2018	2017
	RMB'000	<i>RMB'000</i>
Investment income from short-term investments measured at fair value through profit or loss	—	10,056
Foreign exchange gain	17,017	1,294
Gain on disposal of long-term investments	—	753
Gain on disposal of other assets	584	—
Others	30,287	10,507
	47,888	22,610

6. Redeemable convertible preferred shares

On March 9, 2018, the Group consummated the acquisition (the “Acquisition”) of Tongcheng Online Business by issuing 96,721,818 ordinary shares of the Company as the consideration. Upon the completion of the Acquisition, the Company re-designated each of the convertible and redeemable preferred shares (the “Preferred Shares”) with a par value of US\$0.0005 each into one ordinary share with a par value of US\$0.0005 and such re-designation is considered as the conversion of the Preferred Shares to ordinary shares by the revised conversion price. Immediately before the conversion, the Preferred Shares’ fair value was RMB5,439 million. The difference between the fair value of the Preferred Shares and the par value of ordinary shares was recorded as share premium of RMB5,439 million.

The Company designated the Preferred Shares as financial liabilities at fair value through profit or loss. The Preferred Shares were initially recognized at fair value.

The movement of the Preferred Shares during the years ended December 31, 2018 and 2017 is set out below:

	Number of Shares	Carrying amount RMB'000
At January 1, 2018	60,534,008	6,347,647
Changes in fair value-attribute to changes in the credit risk of the financial liability	—	(932)
Changes in fair value-others	—	(907,734)
Conversion to ordinary shares	(60,534,008)	(5,438,981)
At December 31, 2018	—	—
At January 1, 2017	60,534,008	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	60,534,008	6,347,647

7. Income tax expense/(credit)

(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, 2018 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% during the the year ended December 31, 2018 (2017: 25%).

One of the Company's subsidiaries incorporated in the PRC is qualified as High and New Technology Enterprise, and accordingly, it is subject to a reduced preferential CIT rate of 15% for the year ended December 31, 2018 according to the applicable CIT law.

Another subsidiary of the Company upon the Acquisition, is qualified as High and New Technology Enterprise, and accordingly, it is subject to a reduced preferential CIT rate of 15% during the year ended December 31, 2018 (2017: 15%).

Other subsidiaries of the Company incorporated in the PRC are subject to the general PRC CIT rate of 25% during the year ended December 31, 2018 (2017: 25%).

(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 years ended December 31, 2018 and 2017, 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, 2018 and 2017.

The income tax expense/(credit) of the Group for the years ended December 31, 2018 and 2017 is analyzed as follows:

	<u>Year ended December 31,</u>	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	215,596	5,603
Deferred income tax	(148,609)	(65,959)
	<u>66,987</u>	<u>(60,356)</u>

8. Earnings/(loss) per share

(a) Basic

Basic earnings or loss per share for the years ended December 31, 2018 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 year.

	<u>Year ended December 31,</u>	
	2018	2017
		<i>(restated)</i>
Net profit attributable to the owners of the Company (RMB'000)	529,957	195,575
Weighted average numbers of ordinary shares in issue ('000)	1,584,181	260,518
Basic earnings per share (RMB)	<u>0.33</u>	<u>0.75</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 of December 31, 2018, 4,405,695 (December 31, 2017: 4,418,671) ordinary shares were issued to certain employees. 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 restricted share units ("RSUs"). The Group did not include these ordinary shares in the calculation of basic earnings per share for the years ended December 31, 2018 and 2017 as these shares are not considered outstanding for earnings per share calculation purposes.

As of December 31, 2018, 163,240,270 share options were granted in total and were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive.

	Year ended December 31,	
	2018	2017 <i>(restated)</i>
Net profit attributable to the owners of the Company (RMB'000)	529,957	195,575
Adjustment for redeemable convertible preferred shares (RMB'000)	(907,734)	(97,576)
Net (loss)/profit for calculation of diluted earnings/(loss) per share (RMB'000)	(377,777)	97,999
Weighted average number of ordinary shares in issue ('000)	1,584,181	260,518
Adjustments for redeemable convertible preferred shares ('000)	111,117	605,340
Adjustments for RSUs granted to employees ('000)	—	11,666
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share ('000)	1,695,298	877,524
Diluted (loss)/earnings per share (RMB)	(0.22)	0.11

9. 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, 2018 and 2017.

10. Investments accounted for using the equity method

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	37,618	39,869
Addition (a)	15,681	—
Shares of results	(4,568)	(2,251)
At the end of the year	48,731	37,618

- (a) During the year ended December 31, 2018, the Group entered into a share purchase agreement with an affiliate which is engaged in hotel management and property services, to subscribe for 15% of its equity interests.

Besides, during the year ended December 31, 2018, the Group's shareholding percentage in two of the then subsidiaries was reduced to 40% due to either share transfer or share dilution caused by capital injection of other shareholders and thereafter the Group accounted for them as associates using equity method.

11. 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:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Up to 6 months	847,053	539,217
Over 6 months	14,235	4,097
	<u>861,288</u>	<u>543,314</u>
Less: allowance for impairment of trade receivables	(3,962)	(4,097)
	<u>857,326</u>	<u>539,217</u>

12. Trade payables

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

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Up to 6 months	2,545,696	1,114,917
Over 6 months	23,396	—
	<u>2,569,092</u>	<u>1,114,917</u>

13. Business combination

On March 9, 2018, the Company completed the Acquisition of Tongcheng Network. The Company accounted for the Acquisition of Tongcheng Network as business combination and started to consolidate the financial statements of Tongcheng Network from March 9, 2018.

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

	March 9, 2018
	RMB'000
Fair value of the Consideration	
Cash consideration	—
Fair value of ordinary shares issued	<u>8,690,267</u>
Total consideration paid by the Company	<u>8,690,267</u>

The fair value of the 96,721,818 ordinary shares issued as the consideration paid for the Acquisition of Tongcheng Network (RMB8,690.3 million) was based on the valuation of the Company's ordinary share price of RMB89.85 per share on March 9, 2018.

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

Identifiable assets and liabilities at the acquisition date:

	Fair Value RMB'000
Cash and cash equivalents	941,181
Restricted cash	11,067
Trade receivables	289,489
Prepayment and other receivables	401,958
Short-term investments measured at fair value through profit or loss	537,000
Property, plant and equipment	258,800
Land use rights	16,310
Intangible assets	
– Trade name	1,762,340
– Supplier relationship	1,755,976
– IT platform	240,265
– Business cooperation arrangement	598,677
– Others	25,993
Deferred income tax assets	71,584
Trade payables	(627,924)
Other payables and accruals	(491,662)
Contract liabilities	(37,859)
Current income taxes liabilities	(69,365)
Deferred income tax liabilities	(602,118)
	<hr/>
Total identifiable net assets	5,081,712
Goodwill	3,608,555
	<hr/>
	8,690,267
	<hr/> <hr/>

The acquired business contributed revenue of RMB3,468.0 million and net loss of RMB52.0 million to the Group for the period from March 9, 2018, the acquisition date, to December 31, 2018. If the Acquisition had occurred on January 1, 2018, consolidated pro-forma revenue and profit for the year ended December 31, 2018 would have been RMB6,090.8 million and RMB732.9 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary, and
- the additional depreciation and amortization that would have been charged assuming the fair value adjustments to intangible assets and land use rights had applied from January 1, 2018, together with the consequential tax effects.

Acquisition-related costs of RMB9.9 million that were not directly attributable to the issuance of shares are included in administrative expenses in consolidated statements of comprehensive income and in operating cash flows in the statement of cash flows.

USE OF PROCEEDS

The Shares of the Company were listed on the Main Board of the Hong Kong 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.

Since the Listing Date and as of December 31, 2018, the Company had not utilized the net proceeds from the Global Offering of approximately RMB1,319.3 million. Regarding the net proceeds that had not been utilized as of December 31, 2018, the Company intends to use them in the same manner and proportions as stated in the Prospectus. The completion time of using the net proceeds will be determined based on the future business development of the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has applied the principles and code provisions as set out in the Corporate Governance Code and has complied with the code provisions in the Corporate Governance Code for the period from the Listing Date to December 31, 2018.

Compliance with the Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the Model Code for the period from the Listing Date to December 31, 2018.

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. No incident of non-compliance of the Model Code by the employees was noted by the Company for the period from the Listing Date to December 31, 2018.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the Listing Date to December 31, 2018.

Audit Committee

The Audit Committee has three members comprising two independent non-executive Directors, being Mr. Wu Haibing (chairman of the Audit Committee), 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, together with the Company's auditor, has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2018. The Audit Committee has also considered and reviewed the accounting principles and practices adopted by the Company and the Group and discussed matters in relation to risk management, internal control and financial reporting with the management. The Audit Committee considers that the annual financial results for the year ended December 31, 2018 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Auditor-Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended December 31, 2018 as set forth in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set forth in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standard on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

Events After December 31, 2018

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to December 31, 2018 and up to the date of this announcement.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2018.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The register of members of the Company will be closed from May 24, 2019 to May 29, 2019, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the AGM to be held on May 29, 2019. The Shareholders whose names appear on the register of members of the Company at the close of business on May 29, 2019 (the "**Record Date**") will be entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on May 23, 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The Company's annual report for the year ended December 31, 2018 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

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.

RESIGNATION OF DEPUTY CHAIRMAN AND PRESIDENT, AND RE-DESIGNATION OF DIRECTOR

Mr. Jiang Hao (“**Mr. Jiang**”) has resigned from his positions as the Deputy Chairman and President of the Company and been re-designated as a non-executive Director with effect from March 19, 2019 due to other work commitment. Mr Jiang will rejoin Ctrip, one of the Company's substantial shareholders.

Mr. Jiang has confirmed that he has no disagreement with the Board and save as disclosed above, there are no matters with respect to his resignation from the positions as the Deputy Chairman and President that need to be brought to the attention of the Shareholders.

Mr. Jiang, aged 46, served as the Company's Deputy Chairman of the Board from April 2018 to March 2019, the Company's President from April 2018 to March 2019, an executive Director from June 2018 to March 2019, and has been re-designated as a non-executive Director in March 2019. From March to April 2018, together with Mr. Ma Heping, Mr. Jiang served as the Company's Co-Chief Executive Officer. Mr. Jiang has over 15 years of experience in leading Internet companies. From 1999 to 2015, Mr. Jiang served as a senior vice president in Ctrip.

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 previously had a service contract with the Company as an executive Director for a term of three years, commencing from November 26, 2018, subject to the retirement and rotation provisions as set out in the articles of association of the Company. The previous service contract could be terminated by no less than three months' notice in writing served by either Mr. Jiang or the Company. The Company has terminated Mr. Jiang's previous service contract and entered into a new service contract with Mr. Jiang under the same terms and conditions as other non-executive Directors for a term of one year, commencing from March 19, 2019. Mr. Jiang is not entitled to receive any payment for acting as a non-executive Director pursuant to the terms of the service contract.

As at the date of this announcement, Mr. Jiang is deemed to be interested in 18,962,950 Shares, representing approximately 0.91% of the total issued share capital of the Company, within the meaning of Part XV of the SFO. Save as disclosed above and the holding of interests in Ctrip, to the best knowledge of the Company, Mr. Jiang does not have any other relationship with any other Director, senior management, or substantial shareholder of the Company, and he does not have any other interests in the Shares pursuant to Part XV of the SFO.

Save as disclosed in this announcement, Mr. Jiang does not hold any other position with the Company or its subsidiaries, has not held any directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years prior to the date of his re-designation and does not have other major appointments and professional qualifications.

Save as disclosed above, there is no other information required to be disclosed pursuant to the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, nor are there any other matters in relation to Mr. Jiang's re-designation that need to be brought to the attention of the Shareholders.

The Board would like to thank Mr. Jiang for his contribution to the Company during the time he served as the Deputy Chairman, the President and executive Director of the Company.

DEFINITION

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

- “2016 Share Incentive Plan” the share incentive plan adopted and approved by the Company on August 26, 2016
- “2018 Share Incentive Plan” the share incentive plan adopted and approved by the Company on March 9, 2018
- “AGM” the 2018 annual general meeting of the Company to be held on May 29, 2019 or any adjournment thereof

“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
“Ctrip”	Ctrip.com International, Ltd., 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)
“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 and financial condition of the Group for the years ended and as of December 31, 2017 and 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
“IASB”	the International Accounting Standards Board
“IFRS”	International Financial Reporting Standards, amendments, and interpretations, as issued from time to time by the IASB
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange, which occurred on the Listing Date
“Listing Date”	November 26, 2018, the date on which the Shares are listed on the Main Board of the Stock Exchange
“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
“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
“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
“OTA”	online travel agency
“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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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)
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“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

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

Hong Kong, March 20, 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