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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, 2020

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, 2020, together with comparative figures for the same periods of 2019.

KEY HIGHLIGHTS

The Company's operation and performance were inevitably disrupted by the COVID-19 outbreak since January 2020. Compared with the same periods in 2019, some key metrics for the three and six months ended June 30, 2020 declined due to the decreased demands in our travel business, resulting from the reduction of travel willingness as well as implementation of travel restrictions and lockdown policies imposed by governments around the world to combat the spread of COVID-19.

However, compared with the remarkable decrease in the previous quarter, we are glad to see a recovery trend in the second quarter of 2020 for some key metrics, which was attributable to the restoration of economic activities and living orders in mainland China since the outbreak of COVID-19 being contained.

FOR THE THREE MONTHS ENDED JUNE 30, 2020:

- Revenue decreased by 24.6% year-to-year to RMB1,200.1 million from RMB1,590.9 million in the same period of 2019. Such decrease was narrowed down compared with 43.6% decline in the first quarter of 2020. Also, on a quarter-to-quarter basis, the revenue in the second quarter of 2020 increased by 19.4%.
- Adjusted EBITDA dropped from RMB440.5 million in the second quarter of 2019 to RMB267.3 million in the same period of 2020. The year-to-year decrease of adjusted EBITDA was narrowed down to 39.3% in the second quarter of 2020 from 74.2% in the first quarter of 2020. In the second quarter of 2020, adjusted EBITDA margin decreased from 27.7% in the second quarter of 2019, or increased from 15.8% in the previous quarter, to 22.3%.

- Adjusted net profit for the period dropped from RMB345.6 million in the second quarter of 2019 to RMB196.2 million in the same period of 2020. The year-to-year decrease of adjusted net profit was narrowed down to 43.2% in the second quarter of 2020 from 82.6% in the previous quarter. In the second quarter of 2020, adjusted net margin decreased from 21.7% in the second quarter of 2019, or increased from 7.8% in the previous quarter, to 16.3%.
- Average MAUs decreased by 3.3% year-to-year from 181.6 million in the same period of 2019 but increased by 18.3% quarter-to-quarter from 148.4 million in the first quarter of 2020 to 175.6 million.
- Average MPUs decreased by 32.9% year-to-year from 27.7 million in the same period of 2019 but increased by 25.7% quarter-to-quarter from 14.8 million in the first quarter of 2020 to 18.6 million.

FOR THE SIX MONTHS ENDED JUNE 30, 2020:

- Revenue decreased by 34.6% year-to-year to RMB2,205.2 million from RMB3,374.3 million in the same period of 2019.
- Adjusted EBITDA decreased by 59.6% year-to-year to RMB426.3 million from RMB1,056.1 million in the same period of 2019. Adjusted EBITDA margin decreased from 31.3% in the same period of 2019 to 19.3%.
- Adjusted net profit for the period decreased by 65.5% year-to-year to RMB274.2 million from RMB794.0 million in the same period of 2019. Adjusted net margin decreased from 23.5% in the same period of 2019 to 12.4%.
- Average MAUs decreased by 15.0% year-to-year from 190.5 million in the same period of 2019 to 162.0 million.
- Average MPUs decreased by 34.3% year-to-year from 25.4 million in the same period of 2019 to 16.7 million.

1. Key financial summary for the three months ended June 30, 2020

	Unaudited		Year-to-year change
	Three months ended		
	June 30,		
	2020	2019	
	RMB'000	RMB'000	
Revenue	1,200,106	1,590,898	(24.6)%
Adjusted EBITDA	267,349	440,536	(39.3)%
Adjusted net profit for the period	196,162	345,561	(43.2)%
Revenue(decrease)/growth (year-to-year)	(24.6)%	21.0%	
Adjusted EBITDA margin	22.3%	27.7%	
Adjusted net margin	16.3%	21.7%	

Note:

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

2. Operating metrics for the three months ended June 30, 2020

	Three months ended June 30,		Year-to-year change
	2020	2019	
GMV (in RMB billion)	22.4	41.3	(45.8)%
Number of average MAUs (in million)	175.6	181.6	(3.3)%
Number of average MPUs (in million)	18.6	27.7	(32.9)%

3. Key financial summary for the six months ended June 30, 2020

	Unaudited Six months ended June 30,		Year-to-year change
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	
Revenue	2,205,222	3,374,309	(34.6)%
Adjusted EBITDA	426,251	1,056,106	(59.6)%
Adjusted net profit for the period	274,237	794,011	(65.5)%
Revenue (decrease)/growth (year-to-year)	(34.6)%	19.1%	
Adjusted EBITDA margin	19.3%	31.3%	
Adjusted net margin	12.4%	23.5%	

Note:

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

4. Operating metrics for the six months ended June 30, 2020

	Six months ended June 30,		Year-to-year change
	2020	2019	
GMV (in RMB billion)	40.6	77.2	(47.4)%
Number of average MAUs (in million)	162.0	190.5	(15.0)%
Number of average MPUs (in million)	16.7	25.4	(34.3)%

Business Review and Outlook

Results Highlights

The Chinese economy, especially the travel industry, has suffered a major reduction due to the outbreak of COVID-19 since late January 2020, and the virus has spread across the world and became a pandemic since early March 2020. The global economy has been severely affected as cities were shut down and different kinds of restrictions were imposed to maintain social distance among people.

The Chinese government reacted to the pandemic promptly and implemented strict crowd control and public health measures so as to contain the spread of virus. The pandemic has been effectively controlled and restrictions on movement and travel in lower-tier cities in China were relaxed in April 2020. The overall situation has been further improved and travel industry has shown clear sign of recovery as people's life began to return to normal in China since the second quarter of 2020. Although the pandemic remained volatile in certain regions and market uncertainties persisted, we still endeavored to capture the recovery opportunities and streamline our operations, and achieved better financial results than the industry in the second quarter and the first half of 2020.

With the significant improvement in market confidence and demand in the second quarter of 2020, search volume on our platforms improved quarter by quarter. For the three months ended June 30, 2020, our average MAUs slightly declined by 3.3% year-to-year, but largely improved by 18.3% quarter-to-quarter to 175.6 million. For the six months ended June 30, 2020, our average MAUs declined by 15.0% year-to-year to 162.0 million. However, the supply of different kinds of travel products remained limited because travel restrictions in high-tier cities were in place in the second quarter of 2020. The volatility of the pandemic circumstances also delayed users' decision making. As such, our average MPUs declined by 32.9% and 34.3% year-to-year to 18.6 million and 16.7 million, respectively, for the three and six months ended June 30, 2020. Total GMV decreased by 45.8% and 47.4% year-to-year to RMB22.4 billion and RMB40.6 billion, respectively, for the three and six months ended June 30, 2020. However, our average MPUs and GMV for the three months ended June 30, 2020 have been significantly increased by 25.7% and 22.8% quarter-to-quarter separately, when compared with the first quarter of 2020.

Riding on the recovery trend, we continued to optimize our brand, products and technology to capture the domestic demand. As a pioneer and veteran in the travel industry, we once again acutely captured the opportunities of industry change in traffic channel and accumulated extensive experience in mini-program operations. We did not only leverage on the stable traffic sources on Weixin, but also further promote other traffic channels such as our own APPs, quick APPs (輕應用), and live-streaming on different platforms. Moreover, our cooperation with handset vendors and offline channels have enabled us to acquire users in an effective way. Together with our advantages in lower-tier cities which recovered faster, low user acquisition cost and further enhancement in operating efficiency, we managed to outperform the industry average. Our total revenue declined by 24.6% year-to-year from RMB1,590.9 million in the second quarter of 2019, but increased by 19.4% quarter-to-quarter from RMB1,005.1 million in the first quarter of 2020 to RMB1,200.1 million in the second quarter of 2020. Thanks to our flexible operations strategy, stringent cost control and light operational model, we achieved an adjusted net profit for the period of RMB196.2 million and an adjusted net profit margin of 16.3% in the second quarter of 2020. Our total revenue and adjusted net profit for the six months ended June 30, 2020 were RMB2,205.2 million and RMB274.2 million, respectively.

Business Review

In the depths of the pandemic, we focused on protecting our users and supporting our suppliers by implementing various kinds of initiatives. We opened up a self-service online cancellation function on our platforms for users to fast-track refund and changes. We also launched a “Safe Room” initiative to ensure a safe environment for hotel guests. To help our suppliers, we established an Ark Alliance (方舟聯盟) to form allies and promote tourist spots via online marketing for free. To capture the revitalization of the travel industry, we also launched “Hit The Road” (啟程計劃) initiative to explore innovative marketing channels such as live streaming programs to enhance brand awareness and promote interactions with users. Our innovative live streaming programs with local governments, airports, airlines and travel destinations on Weixin mini program and other short video platforms have received positive feedback from our users and have successfully promoted tourist destinations and tourism for various cities and regions. In response to Chinese government’s initiative to stimulate domestic consumption, we leveraged on our huge traffic and advanced technology and worked with local governments and suppliers to distribute consumer coupons through our platforms. All our efforts made during the challenging period have been well recognized by our users and will continue to help enhancing our user retention and monetization in the coming future.

During the period under review, we continued to leverage on our diversified and effective traffic channels. Amid the pandemic period, our traffic on Tencent-based platforms continued to be the most cost-effective and stable. Based on our in-depth knowledge and substantial experience in operating Weixin mini program, we deepened cooperation with Weixin and joined hands to develop a “Search + Travel” ecosystem. In the second quarter of 2020, about 81.4% of our average MAUs was contributed from Tencent-based platforms with majority of the traffic came from Weixin Payment portal and the drop-down list of users’ favorite or most frequently used mini programs. Moreover, we diversified our traffic channels by fostering and further penetrating other online traffic sources such as quick APPs and live streaming activities on different platforms. We dedicated additional efforts in promoting and enhancing our operations in quick APPs. We launched a series of initiatives with China’s major handset vendors as additional user acquisition channels. To seize the opportunities brought by the upsurge of live streaming, we cooperated with local governments and tourist attractions to introduce a new format of “Travel + Live Streaming” promotion which covered various cities and travel scenarios. We also developed the content together with our live-streaming platform partners to attract traffic. In the second quarter of 2020, our MAUs from other non-Weixin channels has already achieved a positive growth. In addition to online traffic sources, we strived to broaden our traffic channels through offline user acquisition. We collaborated with hotels, bus operators and tourist attractions to gain offline users and have yielded initial positive results.

We further consolidated our leading position in China's OTA market, especially in lower-tier cities. We extended our reach in lower-tier cities in China and captured the recovery and growth opportunities in these cities. As of June 30, 2020, the percentage of our registered users resided in non-first-tier cities in China maintained at approximately 85.9%. For the three months ended June 30, 2020, approximately 63.1% of our new paying users on Weixin platform were from tier-3 or below cities in China, which increased from 61.5% in the same period of 2019. The Chinese government has successfully contained the spread of COVID-19 and relaxed the corresponding measures and restrictions in lower-tier cities in April, but the pandemic control in high-tier cities remained volatile and experienced some challenges in the second quarter of 2020. With our extensive reach and experience in lower-tier cities in China, we offered tailored recommendations and targeted promotions to lower-tier cities users to ride on the recovery opportunities. Our dedicated efforts in developing the market allowed us to achieve business growth in lower-tier cities and further enhance our market position. In the second quarter of 2020, the room nights sold in lower-tier cities achieved a year-to-year growth of about 15%.

We maintained long-term and close relationships with various TSPs to offer users with one-stop shop products and services throughout their journeys. As of June 30, 2020, our online platforms offered over 7,500 domestic routes operated by about 750 domestic airlines and agencies, over 2 million hotels and alternative accommodation options, nearly 370,000 bus routes, 590 ferry routes and approximately 8,000 domestic tourist attractions ticketing services. During the period under review, we further enhanced our products and services to meet users' evolving travel needs. Due to the limited supply of transportation tickets during the pandemic, our intelligent travel solutions system "Huixing (慧行)" has received overwhelming positive response from users. We also launched other value-added products and services according to the latest circumstances to cater for users' needs. For accommodation business, we tapped into the niche demand and offered innovative products and services to our users. All of these ancillary products and services will further enhance our user stickiness and monetization.

We continued to develop and apply our advanced technology to transform from an OTA to ITA. We further upgraded Huixing by enhancing algorithm capability which helped to improve the cross-selling from train tickets to air tickets. We optimized our customer service procedures to enhance the efficiency of customer services and proactively provide information and reminders tailor-made for different kinds of users. To cater for the special needs of some users, we implemented a Real-Time Communication technology (RTC) and became the first OTA to adopt video customer services. As a leading OTA player, we always aim to contribute to the acceleration of online travel penetration in China. We worked with bus operators to promote the digitalization of bus ticketing industry by setting up vending machines at bus stations and transferred the transactions from offline to online. We also cooperated with tourist attractions and helped to enhance the digitalization and online penetration of the industry, especially when crowd control measures such as requirement for reservation and limitation for daily visitors were implemented during the pandemic. In addition, we enhanced the value proposition to our TSPs by developing mini programs for airports, developing revenue management systems for airlines and offering PMS systems for hotels. These will not only enhance the technology level of the whole travel industry, but also expand our revenue stream.

In the second quarter of 2020, we launched a new brand name "同程旅行" ("ly.com") and a new brand logo, as well as a new slogan "Together, let's go!". By upgrading our brand, we reinforced our young and modern brand image and further emphasized on our targeted customers. The new brand reflects our ambition to provide convenient, intelligent and reliable travel services with a younger mind, which has been well-recognized by our users.

Business Outlook and Strategies

With effective control measures implemented by the Chinese government and the dedication of medical staff, the pandemic has been effectively controlled in China. Recently, China shows strong signs of economic rebound after the outbreak of COVID-19. The Chinese government also introduced various policies to encourage domestic consumption. Although market uncertainties will remain in the rest of the year, we will continue to monitor market changes and adjust our strategies swiftly according to market dynamics. With our core competitive advantages including stable and cost-effective traffic channels, advanced technology innovations as well as flexible and efficient operating model, we are confident to capture the recovery opportunities and continue to outperform the industry. Having gone through the challenges in the first half of 2020, we believe that we will emerge as a better and stronger company in the future.

Based on the currently available information, for the third quarter of 2020, we expect revenue to decrease by approximately 5.0% to 10.0% year-to-year, and our adjusted net profit for the period to be in the range of RMB300.0 million to RMB400.0 million. The above are preliminary estimates which have not been reviewed by the Company's auditor and the Audit Committee, and remain subject to change.

In terms of long-term development, we believe the ongoing development and further investment in infrastructure in China will continue to provide immense growth potentials to the travel industry. The increasing online penetration rate of travel industry and expanding demand for high quality travel products and services will create enormous business opportunities for us. We will further penetrate into the travel market in China, especially in lower-tier cities, by leveraging on our diversified and cost-effective traffic sources. We will enhance our products and services with technology innovations and pursue our transformation from an OTA to ITA. We will continue to strengthen the long-term relationships with our suppliers to build a more efficient travel ecosystem. We will also look for merger and acquisition opportunities to boost future growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2020 compared to Second Quarter of 2019

	Unaudited Three months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,200,106	1,590,898
Cost of revenue	<u>(332,453)</u>	<u>(561,160)</u>
Gross profit	867,653	1,029,738
Service development expenses	(300,363)	(352,154)
Selling and marketing expenses	(369,489)	(407,187)
Administrative expenses	(106,328)	(99,495)
Net provision for impairment loss on financial assets	(98,245)	(310)
Fair value changes on investments measured at fair value through profit or loss	18,155	26,104
Other income	41,784	13,667
Other (losses)/gains, net	<u>(3,991)</u>	<u>7,811</u>
Operating profit	49,176	218,174
Finance income	10,445	10,455
Finance costs	(2,592)	(3,829)
Share of results of associates	<u>(36)</u>	<u>(3,003)</u>
Profit before income tax	56,993	221,797
Income tax expense	<u>(1,865)</u>	<u>(23,636)</u>
Profit for the period	<u>55,128</u>	<u>198,161</u>
Attributable to:		
Equity holders of the Company	54,730	199,280
Non-controlling interests	398	(1,119)
Adjusted net profit for the period ^(a)	196,162	345,561

Note:

- (a) Please see “Other Financial Information – Non-IFRS Financial Measures” below for more information about adjusted net 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	
	2020		2019	
	RMB'000		RMB'000	
Accommodation reservation services	384,298	32.0%	553,360	34.8%
Transportation ticketing services	725,822	60.5%	937,092	58.9%
Others	89,986	7.5%	100,446	6.3%
Total revenue	1,200,106	100.0%	1,590,898	100.0%

Revenue decreased by 24.6% from RMB1,590.9 million for the three months ended June 30, 2019 to RMB1,200.1 million for the three months ended June 30, 2020. The decrease was narrowed down compared with 43.6% in the first quarter of 2020.

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 pre-purchase 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 pre-purchase the room nights from the accommodation suppliers are recorded as cost of revenue. For the three months ended June 30, 2020 and 2019, inventory-risk-taking room nights accounted for approximately 0.7% and 0.4%, respectively, of the total of room nights booked through our online platforms, and its financial impact was immaterial.

Due to the continuous effect of COVID-19 with declined demand of accommodation, revenue from accommodation reservation services decreased by 30.6% from RMB553.4 million for the three months ended June 30, 2019 to RMB384.3 million for the three months ended June 30, 2020. However, such year-to-year decline was narrowed down compared with 53.2% decline in the first quarter of 2020, and there was a growth of 67.8% in the second quarter of 2020 compared with the previous quarter.

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 acted primarily as an agent, assumed no inventory risk and no obligations for cancelled ticket reservations, and therefore recorded the majority of our revenue on a net basis. Starting from fiscal year 2019, we put a few resources on inventory-risk-taking transportation products in order to provide more secured quality products to end users with relatively higher gross margin. For the three months ended June 30, 2020 and 2019, inventory-risk-taking transportation tickets accounted for approximately 0.1% and 0.2%, respectively, of the total of transportation tickets sold through our online platforms, and its financial impact on transportation ticketing revenue was immaterial.

Although facing continuous effect of COVID-19 with declined demand of transportation ticketing services, domestic travelling is returning to normal quickly, the year-to-year drop of revenue from transportation ticketing services in the second quarter of 2020 slowed to 22.5% compared with the year-to-year decline of 45.4% in the first quarter of 2020.

Others

Revenue from others mainly includes: (i) revenue from advertising services; (ii) attraction ticketing revenue; and (iii) revenues generated from ancillary value-added user services.

Revenue from others decreased by 10.4% from RMB100.4 million for the three months ended June 30, 2019 to RMB90.0 million for the three months ended June 30, 2020, which was mainly due to (i) the decrease in revenue from attraction ticketing services; and (ii) partially offset by the increase in revenue generated from membership services and advertising services.

Cost of revenue

Our cost of revenue consists primarily of: (i) order processing cost, representing the fees we pay to banks and payment channels for processing user payments; (ii) 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; (iii) employee benefit expenses, representing the wages, salaries, and other benefits (including share-based compensation) for our user services and TSP services employees; (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 represent compensation paid to users due to user and customers 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, 2020 and 2019:

	Unaudited			
	Three months ended June 30,			
	2020		2019	
	RMB'000		RMB'000	
Order processing cost	134,089	40.3%	243,566	43.4%
Cost of pre-purchased inventory-risk-taking products	49,731	15.0%	101,801	18.1%
Employee benefit expenses	37,879	11.4%	61,647	11.0%
Depreciation of property, plant and equipment, and right-of-use assets	30,233	9.1%	31,165	5.6%
Procurement costs	26,553	8.0%	64,713	11.5%
Others	53,968	16.2%	58,268	10.4%
Total cost of revenue	<u>332,453</u>	<u>100.0%</u>	<u>561,160</u>	<u>100.0%</u>

Cost of revenue decreased by 40.8% from RMB561.2 million for the three months ended June 30, 2019 to RMB332.5 million for the three months ended June 30, 2020. The decrease was mainly due to: (i) a decrease in order processing cost from RMB243.6 million for the three months ended June 30, 2019 to RMB134.1 million for the three months ended June 30, 2020, as a result of declined GMV; (ii) a decrease in cost of pre-purchased inventory-risk-taking products from RMB101.8 million for the three months ended June 30, 2019 to RMB49.7 million for the three months ended June 30, 2020; and (iii) a decrease in procurement costs due to the decreased sales of ancillary value-added travel products and services. Excluding share-based compensation charges, cost of revenue accounted for 27.4% of revenue for the three months ended June 30, 2020, which decreased from 35.0% for the same period of 2019.

Service development expenses

Service development expenses decreased by 14.7% from RMB352.2 million for the three months ended June 30, 2019 to RMB300.4 million for the three months ended June 30, 2020. The decrease was mainly due to the decreased number of IT employees and relevant decreased employee benefits. Excluding share-based compensation charges, service development expenses accounted for 22.8% of revenue for the three months ended June 30, 2020, which increased from 20.5% for the same period of 2019.

Selling and marketing expenses

Selling and marketing expenses decreased by 9.3% from RMB407.2 million for the three months ended June 30, 2019 to RMB369.5 million for the three months ended June 30, 2020, which was mainly due to: (i) the decreased headcount of sales employees with less benefit expenses; and (ii) the decrease in agency commission expenses. Excluding share-based compensation charges, selling and marketing expenses accounted for 30.1% of revenue for the three months ended June 30, 2020 compared with 25.0% for the same period of 2019.

Administrative expenses

Administrative expenses increased from RMB99.5 million for the three months ended June 30, 2019 to RMB106.3 million for the three months ended June 30, 2020, which was mainly due to increased employee severance and other one-time termination benefits in the second quarter of 2020. Excluding share-based compensation charges, administrative expenses accounted for 6.1% of revenue for the three months ended June 30, 2020, which increased from 3.9% for the same period of 2019.

Net Provision for Impairment Losses on Financial Assets

During the period under review, we separately presented “net provision for impairment loss on financial assets” in the condensed consolidated interim income statement, and the comparative figures were reclassified to conform to current period’s presentation. Net provision for impairment losses on financial assets increased to RMB98.2 million for the three months ended June 30, 2020 from RMB0.3 million for the same period of 2019, which was mainly due to the disrupted debtors’ repayment capability since COVID-19 outbreak.

Fair value changes on investments measured at fair value through profit or loss

Along with the market condition, we recorded fair value gains on investments measured at fair value through profit or loss of RMB18.2 million for the three months ended June 30, 2020, compared with RMB26.1 million for the three months ended June 30, 2019.

Other income

Other income increased by 205.7% from RMB13.7 million for the three months ended June 30, 2019 to RMB41.8 million for the three months ended June 30, 2020. The increase primarily reflected the increase in government subsidies received.

Income tax expense

We recorded an income tax expense of RMB1.9 million and RMB23.6 million for the three months ended June 30, 2020 and 2019, respectively. The decreased income tax expense was due to the decreased taxable income for the three months ended June 30, 2020.

Profit attributable to equity holders of the Company

As a result of the foregoing, profit attributable to equity holders of the Company decreased from profit of RMB199.3 million for the three months ended June 30, 2019 to RMB54.7 million for the three months ended June 30, 2020.

OTHER FINANCIAL INFORMATION

Non-IFRS Financial Measures

To supplement our consolidated results, which are presented in accordance with IFRS, we also use certain non-IFRS measures, namely adjusted EBITDA and adjusted net 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 does 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:

	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Operating profit/(loss)	49,176	218,174	(3,496)	405,626
Add:				
Share-based compensation	71,749	76,106	137,693	361,856
Amortization of intangible assets	103,496	102,362	207,023	204,312
Depreciation of property, plant and equipment, and right-of-use assets	42,928	43,348	85,031	83,766
Acquisition-related cost	–	546	–	546
Adjusted EBITDA	267,349	440,536	426,251	1,056,106

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

The following table reconciles our adjusted net 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:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) for the period	55,128	198,161	(2,061)	295,601
Add:				
Share-based compensation	71,749	76,106	137,693	361,856
Amortization of intangible assets from acquisition	69,285	70,748	138,605	136,008
Acquisition-related cost	–	546	–	546
Adjusted net profit for the period	<u>196,162</u>	<u>345,561</u>	<u>274,237</u>	<u>794,011</u>

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

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	3,749	4,366	6,925	20,089
Service development expenses	26,438	25,561	44,512	122,133
Selling and marketing expenses	8,386	9,218	16,439	34,059
Administrative expenses	33,176	36,961	69,817	185,575
Total share-based compensation	<u>71,749</u>	<u>76,106</u>	<u>137,693</u>	<u>361,856</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 RMB2,393.1 million and RMB2,376.8 million as of June 30, 2020 and 2019, respectively.

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

	Unaudited	
	Six months ended	
	June 30,	
	2020	2019
	RMB'000	RMB'000
Net cash flows (used in)/generated from operating activities	(1,113,610)	618,007
Net cash flows generated from/(used in) investing activities	1,216,483	(1,389,739)
Net cash flows generated from financing activities	9,895	8,070
Net increase/(decrease) in cash and cash equivalents	112,768	(763,662)
Cash and cash equivalents at beginning of the period	2,271,268	3,143,883
Effect of exchange rate changes on cash and cash equivalents	9,099	(3,432)
Cash and cash equivalents at end of the period	2,393,135	2,376,789

Net cash flows used in operating activities

For the six months ended June 30, 2020, net cash used in operating activities was RMB1,113.6 million, which was primarily attributable to the profit before income tax of RMB7.7 million, adjusted by (i) amortization of intangible assets of RMB207.0 million, depreciation of property, plant and equipment, and right-of-use assets of RMB85.0 million, and share-based compensation of RMB137.7 million and (ii) changes in working capital, which primarily consisted of a decrease in trade receivables of RMB162.3 million, a decrease in trade payables of RMB1,398.0 million, a decrease in prepayment and other receivables of RMB285.2 million, and a decrease in accrued expenses and current liabilities of RMB667.7 million. We also paid income tax of RMB47.2 million and received interest income of RMB15.2 million.

Net cash flows generated from investing activities

For the six months ended June 30, 2020, net cash generated from investing activities was RMB1,216.5 million, which was primarily attributable to (i) net cash received from wealth management products of RMB1,070.4 million; (ii) cash received for net repayments of loans to related parties of RMB139.8 million; and (iii) payment for purchases of property, plant and equipment of RMB62.8 million.

Net cash flows generated from financing activities

For the six months ended June 30, 2020, net cash generated from financing activities was RMB9.9 million, which was primarily due to (i) proceeds from exercise of stock option of RMB92.7 million; (ii) partially offset by repayment of long-term borrowings and short-term borrowings of RMB14.0 million and RMB60.1 million, respectively; and (iii) payment of long-term leases of RMB10.2 million.

Gearing Ratio

As of June 30, 2020, 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, 2020, 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, 2020, the carrying amount of such secured property was RMB370.2 million.

Capital Expenditure

	Unaudited	
	Six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment	62,837	137,550
Purchase of intangible assets	185	503
Placement of long-term investments ^(a)	1,500	230,328
Total capital expenditure	64,522	368,381

Note:

- (a) Placement of long-term investments represents investments accounted for using the equity method and investments measured at fair value through profit or loss.

Our capital expenditure primarily includes purchases of property, plant and equipment, intangible assets, investments accounted for using the equity method and investments measured at fair value through profit or loss. 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, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
Investments accounted for using the equity method	82,243	90,435
Investments measured at fair value through profit or loss	182,560	238,753
Investments measured at amortized cost	253,832	250,697
Total long-term investments	<u>518,635</u>	<u>579,885</u>

Our long-term investments as of June 30, 2020 were RMB518.6 million, as compared to RMB579.9 million as of December 31, 2019. The decrease in our long-term investments measured at fair value through profit or loss was mainly caused by our fair value loss in certain public and 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 are supplement and benefit our business. Long-term investments measured at amortized cost are term deposits over one year with fixed interest rates, denominated in RMB. As of June 30, 2020, none of these individual investments was 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

There was no material acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended June 30, 2020.

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 six months ended June 30, 2020.

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 currencies other than the respective functional currency of our Group's subsidiaries and Consolidated Affiliated Entities operating in the PRC.

Employee

As of June 30, 2020, we had a total of 4,545 full-time employees. As of the same date, approximately 54.9% and 19.2% of our full-time employees were based in Suzhou and Beijing, respectively, while the remaining 25.9% of them were based in the rest of the 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 adopted 2016 Share Incentive Plan, 2018 Share Incentive Plan, 2019 RSU Plan and 2019 Share Option Plan.

As required by the 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 difficulty in recruiting employees for our operations for the six months ended June 30, 2020.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the three and six months ended June 30, 2020

	Note	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
		2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	2	1,200,106	1,590,898	2,205,222	3,374,309
Cost of revenue	3	(332,453)	(561,160)	(683,720)	(1,059,430)
Gross profit		867,653	1,029,738	1,521,502	2,314,879
Service development expenses	3	(300,363)	(352,154)	(587,812)	(782,206)
Selling and marketing expenses	3	(369,489)	(407,187)	(660,683)	(876,910)
Administrative expenses	3	(106,328)	(99,495)	(208,584)	(323,666)
Net provision for impairment loss on financial assets		(98,245)	(310)	(116,023)	(4,461)
Fair value changes on investments measured at fair value through profit or loss	9	18,155	26,104	(10,710)	49,511
Other income		41,784	13,667	53,143	17,798
Other (losses)/gains, net	4	(3,991)	7,811	5,671	10,681
Operating profit/(loss)		49,176	218,174	(3,496)	405,626
Finance income		10,445	10,455	22,667	24,442
Finance costs		(2,592)	(3,829)	(5,578)	(6,729)
Share of results of associates		(36)	(3,003)	(5,890)	(6,064)
Profit before income tax		56,993	221,797	7,703	417,275
Income tax expense	5	(1,865)	(23,636)	(9,764)	(121,674)
Profit/(loss) for the period		55,128	198,161	(2,061)	295,601
Profit/(loss) attributable to:					
– Equity holders of the Company		54,730	199,280	(903)	296,602
– Non-controlling interests		398	(1,119)	(1,158)	(1,001)
		55,128	198,161	(2,061)	295,601
Earnings/(loss) per share (expressed in RMB per share):	6				
– Basic		0.03	0.10	(0.00)	0.15
– Diluted		0.03	0.09	(0.00)	0.14

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2020

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) for the period	55,128	198,161	(2,061)	295,601
Other comprehensive income				
<i>Items that may not be subsequently reclassified to profit or loss:</i>				
– Currency translation differences	8,589	32,198	34,023	3,313
Other comprehensive income for the period, net of tax	8,589	32,198	34,023	3,313
Total comprehensive income for the period	63,717	230,359	31,962	298,914
Total comprehensive income attributable to:				
– Equity holders of the Company	63,319	231,478	33,120	299,915
– Non-controlling interests	398	(1,119)	(1,158)	(1,001)
	63,717	230,359	31,962	298,914

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As of June 30, 2020

		Unaudited As of June 30, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,089,094	1,102,031
Right-of-use assets		43,002	41,067
Investments accounted for using the equity method	8	82,243	90,435
Investments measured at fair value through profit or loss	9	182,560	238,753
Investments measured at amortized cost	9	253,832	250,697
Intangible assets		7,653,614	7,860,452
Deferred income tax assets		228,363	201,057
Prepayment and other receivables	11	8,149	7,425
		9,540,857	9,791,917
Current assets			
Trade receivables	10	870,087	1,096,313
Prepayment and other receivables	11	1,125,074	1,569,453
Short-term investments measured at amortized cost	9	157,561	156,760
Short-term investments measured at fair value through profit or loss	9	3,379,094	4,384,168
Restricted cash		151,613	213,381
Cash and cash equivalents		2,393,135	2,271,268
		8,076,564	9,691,343
Total assets		17,617,421	19,483,260
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		7,387	7,323
Share premium		18,544,957	18,189,973
Treasury stock		-	(7)
Other reserves		(2,760,550)	(2,668,946)
Accumulated losses		(2,372,880)	(2,371,977)
		13,418,914	13,156,366
Non-controlling interests		(4,350)	(4,692)
Total equity		13,414,564	13,151,674

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As of June 30, 2020

		Unaudited As of June 30, 2020 <i>RMB'000</i>	Audited As of December 31, 2019 <i>RMB'000</i>
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	12	123,075	132,921
Long-term lease liabilities		16,130	17,830
Other payables and accruals	14	6,702	6,702
Deferred income tax liabilities		546,789	568,376
		692,696	725,829
Current liabilities			
Borrowings	12	47,952	106,895
Trade payables	13	2,033,080	3,428,531
Other payables and accruals	14	1,164,425	1,946,769
Short-term lease liabilities		9,907	6,059
Contract liabilities		214,392	88,554
Current income tax liabilities		40,405	28,949
		3,510,161	5,605,757
Total liabilities		4,202,857	6,331,586
Total equity and liabilities		17,617,421	19,483,260

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	Unaudited							Non- controlling interests RMB'000	Total equity RMB'000
	Attributable to equity holders of the Company						Sub-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, 2020	7,323	18,189,973	(7)	(2,668,946)	(2,371,977)	13,156,366	(4,692)	13,151,674	
Comprehensive income									
Loss for the period	-	-	-	-	(903)	(903)	(1,158)	(2,061)	
Other comprehensive income									
Currency translation differences	-	-	-	34,023	-	34,023	-	34,023	
Total comprehensive income/(loss)	-	-	-	34,023	(903)	33,120	(1,158)	31,962	
Transactions with owners									
Exercise of share options-proceed received	56	219,816	-	(127,219)	-	92,653	-	92,653	
Vesting and settlement of RSUs	8	135,168	7	(135,183)	-	-	-	-	
Share-based compensations	-	-	-	136,872	-	136,872	-	136,872	
Others	-	-	-	(97)	-	(97)	1,500	1,403	
Total transactions with owners recognized directly in equity	64	354,984	7	(125,627)	-	229,428	1,500	230,928	
As of June 30, 2020	<u>7,387</u>	<u>18,544,957</u>	<u>-</u>	<u>(2,760,550)</u>	<u>(2,372,880)</u>	<u>13,418,914</u>	<u>(4,350)</u>	<u>13,414,564</u>	

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	Unaudited							
	Attributable to equity holders of the Company						Non- controlling interests	Total equity
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Treasury stock <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Sub-total <i>RMB'000</i>		
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-proceed 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>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

	Unaudited Six months ended June 30,	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net cash flows (used in)/generated from operating activities	(1,113,610)	618,007
Net cash flows generated from/(used in) investing activities	1,216,483	(1,389,739)
Net cash flows generated from financing activities	9,895	8,070
Net increase/(decrease) in cash and cash equivalents	112,768	(763,662)
Cash and cash equivalents at beginning of the period	2,271,268	3,143,883
Effect of exchange rate changes on cash and cash equivalents	9,099	(3,432)
Cash and cash equivalents at end of the period	2,393,135	2,376,789

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 other travel-related products and services.

The condensed consolidated interim financial information comprises the condensed consolidated interim statement of financial position as of June 30, 2020, 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 statement 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 Company for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2019 annual report of the Company dated March 25, 2020 (the “2019 Financial Statements”).

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

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

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2020:

Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 3	Definition of a Business
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The adoption of these new and amended standards does not have any significant financial impact on the interim financial information of the Group.

During the period, the Group separately presented the “net provision for impairment loss on financial assets” in the condensed consolidated interim income statement. The comparative figures have been reclassified to conform to current period’s presentation.

2. Revenue and segment information

The Chief Operating Decision-maker (the “CODM”) assesses the performance of the operating segment mainly based on the measure of operating profit, excluding items which are not directly related to the segment performance (the “combined results”). These include non-operating income/(expenses) such as government subsidies, fair value changes on 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, 2020 and 2019, 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 it is not used by the CODM when making decisions about allocating resources and assessing performance of the Group.

	Unaudited			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit/(loss) per condensed consolidated interim income statement	49,176	218,174	(3,496)	405,626
Less: Other income	(41,784)	(13,667)	(53,143)	(17,798)
Fair value changes on investments measured at fair value through profit or loss	(18,155)	(26,104)	10,710	(49,511)
Other losses/(gains), net	3,991	(7,811)	(5,671)	(10,681)
Operating (loss)/profit presented to the CODM	(6,772)	170,592	(51,600)	327,636

Revenue by service types for the three and six months ended June 30, 2020 and 2019 are as follows:

	Unaudited			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accommodation reservation services	384,298	553,360	613,312	1,042,524
Transportation ticketing services	725,822	937,092	1,412,590	2,196,040
Others	89,986	100,446	179,320	135,745
Total revenue	1,200,106	1,590,898	2,205,222	3,374,309

3. Expenses by nature

	Unaudited			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	399,600	468,105	790,607	1,207,114
Advertising and promotion expenses	238,797	240,423	421,458	547,364
Depreciation and amortization expense	146,424	145,709	292,054	288,078
Order processing cost	134,089	243,566	249,533	464,130
Cost of pre-purchased travel related products	49,731	101,801	90,358	154,845
Bandwidth and servers fee	34,034	32,088	63,263	82,980
Commission expenses	30,592	46,614	42,244	78,996
Procurement costs	26,553	64,713	63,345	69,526
Rental and utility fees	18,159	15,043	29,328	29,330
Telephone and communication	11,898	8,001	20,308	15,361
Professional service fees	668	15,420	19,442	35,785
Travelling and entertainment expenses	7,466	16,725	11,060	30,079
Audit fees	1,264	1,000	2,264	2,000
Tax and surcharges	4,433	4,956	7,388	12,272
Acquisition-related cost	–	546	–	546
Others	4,925	15,286	38,147	23,806
	1,108,633	1,419,996	2,140,799	3,042,212

4. Other (losses)/gains, net

	Unaudited			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment income from investments measured at amortized cost	3,984	3,560	8,422	4,948
Foreign exchange (loss)/gain	(2,224)	517	3,685	1,872
Net (loss)/gain on disposal of property, plant and equipment	(615)	319	(667)	336
Others	(5,136)	3,415	(5,769)	3,525
	(3,991)	7,811	5,671	10,681

5. Income tax expense

The income tax expense of the Group for the three and six months ended June 30, 2020 and 2019 is analyzed as follows:

	Unaudited			
	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	28,732	18,528	58,659	136,014
Deferred income tax	(26,867)	5,108	(48,895)	(14,340)
	1,865	23,636	9,764	121,674

(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 8.25% on assessable profits up to HKD2 million and 16.5% on any part of assessable profits over HKD2 million for the periods presented.

(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.

Three and two of the Company's subsidiaries incorporated in the PRC are qualified as High and New Technology Enterprise, and accordingly, they are subject to a reduced preferential CIT rate of 15% for the three and six months ended June 30, 2020 and 2019, respectively, according to the applicable CIT law.

(d) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

For the periods presented, 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 related to WHT on undistributed earnings was accrued as of the end of each reporting period.

6. Earnings/(loss) per share

(a) Basic

Basic earnings or loss per share for the three and six months ended June 30, 2020 and 2019 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			
	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net profit/(loss) attributable to the owners of the Company (RMB' 000)	54,730	199,280	(903)	296,602
Weighted average number of ordinary shares in issue (thousand shares)	2,115,962	2,052,751	2,112,939	2,050,298
Basic earnings/(loss) per share (expressed in RMB per share)	<u>0.03</u>	<u>0.10</u>	<u>(0.00)</u>	<u>0.15</u>

(b) Diluted

Diluted earnings/(losses) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares – share options and RSUs. As the Company incurred losses for the six months ended June 30, 2020, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution. Accordingly, diluted loss per share for the six months ended June 30, 2020 was the same as basic loss per share.

	Unaudited			
	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Net profit/(loss) attributable to the owners of the Company (RMB' 000)	54,730	199,280	(903)	296,602
Net profit/(loss) for calculation of diluted earnings/(loss) per share (RMB' 000)	54,730	199,280	(903)	296,602
Weighted average number of ordinary shares in issue (thousand shares)	2,115,962	2,052,751	2,112,939	2,050,298
Adjustments for Options granted to employees (thousand shares)	47,170	67,659	–	62,298
Adjustments for RSUs granted to employees (thousand shares)	2,128	7,319	–	7,870
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share (thousand shares)	2,165,260	2,127,729	2,112,939	2,120,466
Diluted earnings/(loss) per share (expressed in RMB per share)	<u>0.03</u>	<u>0.09</u>	<u>(0.00)</u>	<u>0.14</u>

7. Dividend

No dividend was paid or declared by the Company during each of the six months ended June 30, 2020 and 2019.

8. Investments accounted for using the equity method

	Unaudited Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the period	90,435	48,731
Additions	–	71,850
Transfers	(2,775)	–
Share-based compensation to employee of the Group's associates (a)	300	–
Share of losses	(5,890)	(6,064)
Currency translation differences	173	–
	82,243	114,517

- (a) On December 20, 2019, the Group granted 20,983,500 share options and 7,902,000 RSUs under the 2019 Share Incentive Plan to senior management, other employees, directors of the Group, including 459,000 share options and 25,000 RSUs to employees of the Group's associates.

9. Investments

	Unaudited As of June 30,	Audited As of December 31,
	2020	2019
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
– Amortized cost (a)	157,561	156,760
– Fair value through profit or loss (b)	3,379,094	4,384,168
	3,536,655	4,540,928
Non-current assets		
Long-term investments measured at		
– Amortized cost (c)	253,832	250,697
– Fair value through profit or loss (d)	182,560	238,753
	436,392	489,450

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

Short-term investments measured at amortized cost are term 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 cost. None of these investments was past due as of June 30, 2020 and December 31, 2019.

(b) Short-term investments measured at fair value through profit or loss

The Short-term investments measured at fair value through profit or loss include wealth management products, denominated in RMB or USD, with expected rates of return ranging from 2.4% to 5.0%, per annum for the period ended June 30, 2020 (for the same period of 2019: 2.8% to 7.2%). 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. As of June 30, 2020 and December 31, 2019, none of these investments was past due. The fair values are based on cash flow discounted using the expected rate of return based on management judgment and are within level 3 of the fair value hierarchy.

As of June 30, 2020 and December 31, 2019, the short-term investments measured at fair value through profit or loss also included a discretionary portfolio management agreement denominated in USD, which was entered by the Company in December 2019 with a commercial financial institution. This portfolio management agreement is made for the purpose of achieving investment yield and balancing the Company's liquidity level simultaneously. Pursuant to the agreement, the Company diversified its investment portfolio and authorized the commercial financial institution to act as the portfolio manager to manage its assets held or to be held in account on the Company's behalf. The investment portfolios were instructed to be deployed in highly liquid financial assets, for instance government bonds and corporate bonds, that are traded in active markets and quoted by market prices and therefore, being classified as level 2 within a fair value hierarchy. The initial cost of investments under this portfolio management agreement was USD25 million, out of which USD12.5 million was funded by the Company with remaining portion funded from the commercial financial institution. The Company recorded the total investment as short-term investment measured at fair value through profit or loss, and credited the fund from the commercial financial institution, bearing interest at LIBOR+90bp compound rate per week, as short-term borrowings. As of June 30, 2020, the Company has repaid USD8.5 million.

(c) Long-term investments measured at amortized cost

As of June 30, 2020 and December 31, 2019, long-term investments measured at amortized cost included term deposits over 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 cost. None of these investments was past due as of June 30, 2020 and December 31, 2019.

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

As of June 30, 2020 and December 31, 2019, long-term investments measured at fair value through profit or loss represented equity interests held by the Group in several private and listed companies.

The equity interests held by the Group in the private and listed companies are (i) less than 20% of each entity and the Group does not have control or 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. 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 for equity interests in private companies, and are measured by quoted market prices in active markets and hence classified as level 1 of the fair value hierarchy for equity interests in listed companies.

(e) Amounts recognized in profit or loss

	Unaudited			
	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fair value changes on long-term investments measured at fair value through profit or loss	(15,089)	(2,672)	(59,714)	(2,672)
Fair value changes on short-term investments measured at fair value through profit or loss	33,244	28,776	49,004	52,183
	18,155	26,104	(10,710)	49,511

10. Trade receivables

The Group normally allows a credit period of 30 days to its customers. Ageing analysis of trade receivables based on invoice date is as follows:

	Unaudited As of June 30, 2020 <i>RMB'000</i>	Audited As of December 31, 2019 <i>RMB'000</i>
Up to 6 months	760,359	1,045,582
Over 6 months	208,073	85,183
	968,432	1,130,765
Less: allowance for impairment of trade receivables	(98,345)	(34,452)
	870,087	1,096,313

11. Prepayment and other receivables

	Unaudited As of June 30, 2020 <i>RMB'000</i>	Audited As of December 31, 2019 <i>RMB'000</i>
Included in non-current assets		
Advances to suppliers	3,656	3,809
Total non-financial assets	3,656	3,809
Deposits	4,493	3,616
Total financial assets	4,493	3,616
Non-current, total	8,149	7,425
Included in current assets		
Advances to accommodation suppliers	21,655	50,584
Prepaid taxation	34,609	30,784
Advances to tickets suppliers	301,391	462,301
Prepayment for advertising	29,401	25,964
Prepayment for office rental	1,228	449
Prepayment to related parties	29,282	24,706
Others	78,101	87,058
Total non-financial assets	495,667	681,846
Deposits	141,096	201,920
Receivable from related parties	426,436	626,800
Others	61,875	58,887
Total financial assets	629,407	887,607
Current, total	1,125,074	1,569,453

12. Borrowings

	Unaudited As of June 30, 2020 <i>RMB'000</i>	Audited As of December 31, 2019 <i>RMB'000</i>
Included in non-current liabilities:		
Secured bank borrowings (Note a)	<u>123,075</u>	<u>132,921</u>
Included in current liabilities:		
Unsecured loan from financial institution (Note (b))	28,260	87,203
Current portion of secured bank borrowings	<u>19,692</u>	<u>19,692</u>
	<u>47,952</u>	<u>106,895</u>
	<u>171,027</u>	<u>239,816</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.
- (b) The Company borrowed USD12.5 million in 2019 to leverage short term investment measured at fair value through profit or loss (Note 9(b)). The loan bears interest at LIBOR+90bp compound rate per week, as short-term borrowings. As of June 30, 2020, the Company has repaid USD8.5 million.

At June 30, 2020 and December 31, 2019, the Group's borrowings were repayable as follows:

	Unaudited As of June 30, 2020 <i>RMB'000</i>	Audited As of December 31, 2019 <i>RMB'000</i>
Within 1 year	47,952	106,895
1~2 years	19,692	19,692
2~5 years	59,076	59,076
Over 5 years	<u>44,307</u>	<u>54,153</u>
	<u>171,027</u>	<u>239,816</u>

13. Trade payables

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

	Unaudited As of June 30, 2020 <i>RMB'000</i>	Audited As of December 31, 2019 <i>RMB'000</i>
Up to 6 months	1,798,765	3,253,169
Over 6 months	<u>234,315</u>	<u>175,362</u>
	<u>2,033,080</u>	<u>3,428,531</u>

14. Other payables and accruals

	Unaudited As of June 30, 2020 <i>RMB'000</i>	Audited As of December 31, 2019 <i>RMB'000</i>
Accrual for users incentive program	30,188	78,195
Payable to travel service suppliers	29,346	14,041
Deposits from sales channel	76,717	104,647
Payables to related parties	9,624	16,055
Payable of reorganization cost	157,696	157,193
Payable to insurance companies	232,336	228,792
Payable of construction for property, plant and equipment	52,372	54,274
Payable of investment in associate	14,144	15,000
Others	43,735	77,649
	<hr/>	<hr/>
Total financial liabilities	646,158	745,846
	<hr/>	<hr/>
Advances from users	227,438	685,560
Accrued payroll and welfare	161,601	291,699
Accrued commissions	11,695	16,521
Business and other taxes	25,139	57,855
Accrued advertisement expenses	65,033	107,431
Accrued professional fees	12,541	27,379
Advances from related parties	4,909	312
Others	16,613	20,868
	<hr/>	<hr/>
Total non-financial liabilities	524,969	1,207,625
	<hr/>	<hr/>
Total	1,171,127	1,953,471
	<hr/> <hr/>	<hr/> <hr/>

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, 2020, the Group has used RMB5.6 million for working capital and general corporate purposes. For details of the breakdown of the use of proceeds, please refer to the 2020 interim report of 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, 2020 to the Shareholders.

Event after the six months ended June 30, 2020

There has been no material event after the end of the period for the six months ended June 30, 2020 which requires disclosure in this announcement.

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, 2020.

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, 2020.

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, 2020.

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, 2020, 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 Directors, Mr. Wu Haibing (chairman of the Audit Committee) and Ms. Han Yuling and one non-executive Director, being Mr. Cheng Yun Ming Matthew, 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, 2020. The Audit Committee considers that the interim financial results for the three and six months ended June 30, 2020 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, 2020 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:

“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
“2019 RSU Plan”	the 2019 restricted share unit plan adopted and approved by the Company on July 2, 2019
“2019 Share Option Plan”	the 2019 share option plan approved by an ordinary resolution passed by shareholders of the Company at the extraordinary general meeting of the Company on August 2, 2019
“Audit Committee”	the audit committee of the Board
“Board”	the board of directors of the Company
“China” or “PRC”	People’s Republic of China
“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
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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
“OTA”	online travel agency
“RMB”	Renminbi, the lawful currency of China
“RSUs”	restricted share unit(s)
“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)

“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
“TSP(s)”	travel service provider(s)
“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 28, 2020

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
Cheng Yun Ming Matthew
Brent Richard Irvin