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Tongcheng Travel Holdings Limited

同程旅行控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0780)

ANNOUNCEMENT OF THE RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

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, 2023, together with comparative figures for the same periods of 2022.

FOR THE THREE MONTHS ENDED JUNE 30, 2023

- Revenue increased by 117.4% year-to-year to RMB2,866.3 million from RMB1,318.7 million in the same period of 2022.
- Adjusted EBITDA increased by 175.8% from RMB292.2 million in the second quarter of 2022 to RMB805.8 million in the second quarter of 2023. Adjusted EBITDA margin increased to 28.1% in the second quarter of 2023 from 22.2% in the second quarter of 2022.
- Adjusted net profit increased by 428.9% from RMB112.0 million in the second quarter of 2022 to RMB592.4 million in the second quarter of 2023. Adjusted net margin increased from 8.5% in the second quarter of 2022 to 20.7% in the second quarter of 2023.
- Average MAUs increased by 41.1% year-to-year from 197.6 million in the second quarter of 2022 to 278.8 million in the second quarter of 2023.
- Average MPUs increased by 61.7% year-to-year from 26.1 million in the second quarter of 2022 to 42.2 million in the second quarter of 2023.

1. Key Financial Metrics for the three months ended June 30, 2023

	Unaudited		Year-to-year change
	Three months ended		
	June 30,		
	2023	2022	
	<i>(in RMB'000)</i>		
Revenue	2,866,269	1,318,650	117.4%
Profit/(loss) before income tax	426,553	(161,968)	NA
Profit/(loss) for the period	359,981	(135,204)	NA
Adjusted EBITDA	805,839	292,234	175.8%
Adjusted net profit for the period	592,395	112,003	428.9%
Revenue growth/(decrease) (year-to-year)	117.4%	(38.3)%	
Adjusted EBITDA margin	28.1%	22.2%	
Adjusted net margin	20.7%	8.5%	

Note:

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, 2023

	Three months ended		Year-to-year change
	June 30,		
	2023	2022	
GMV (in RMB billion)	59.7	24.3	145.7%
Number of average MAUs (in million)	278.8	197.6	41.1%
Number of average MPUs (in million)	42.2	26.1	61.7%
Paying ratio	15.1%	13.2%	1.9pp

FOR THE SIX MONTHS ENDED JUNE 30, 2023

- Revenue increased by 79.6% year-to-year to RMB5,452.4 million from RMB3,036.6 million in the same period of 2022.
- Adjusted EBITDA increased by 110.5% year-to-year from RMB730.7 million in the same period of 2022 to RMB1,538.0 million. Adjusted EBITDA margin increased from 24.1% in the same period of 2022 to 28.2%.
- Adjusted net profit increased by 207.0% from RMB357.0 million in the same period of 2022 to RMB1,096.0 million. Adjusted net margin increased from 11.8% in the same period of 2022 to 20.1%.
- Average MAUs increased by 27.7% year-to-year from 221.2 million in the same period of 2022 to 282.5 million.

- Average MPUs increased by 44.6% year-to-year from 28.9 million in the same period of 2022 to 41.8 million.
- Paying users for the twelve-month period ended June 30, 2023 increased by 10.9% year-to-year from 196.5 million in the same period of 2022 to 217.9 million.

3. Key Financial Metrics for the six months ended June 30, 2023

	Unaudited Six months ended June 30,		Year-to-year change
	2023	2022	
	(in RMB'000)		
Revenue	5,452,412	3,036,649	79.6%
Profit/(loss) before income tax	870,650	(19,792)	NA
Profit/(loss) for the period	738,949	(37,967)	NA
Adjusted EBITDA	1,538,044	730,671	110.5%
Adjusted net profit for the period	1,095,986	356,993	207.0%
Revenue growth/(decrease) (year-to-year)	79.6%	(19.1)%	
Adjusted EBITDA margin	28.2%	24.1%	
Adjusted net margin	20.1%	11.8%	

Note:

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

4. Operating Metrics for the six months ended June 30, 2023

	Six months ended June 30,		Year-to-year change
	2023	2022	
GMV (in RMB billion)	116.9	56.7	106.2%
Number of average MAUs (in million)	282.5	221.2	27.7%
Number of average MPUs (in million)	41.8	28.9	44.6%
APUs (in million)	217.9	196.5	10.9%

BUSINESS REVIEW AND OUTLOOK

Results Highlights

In the second quarter of 2023, the travel market in China demonstrated another remarkable surge in demand and exhibited accelerated growth quarter by quarter. The nationwide travel rush was further unlocked during holidays and thus brought additional vitalities to the travel industry.

As a veteran in the China OTA industry, we reacted nimbly to the full manifestation of travel enthusiasm and implemented our strategy effectively to capture more opportunities amid the accelerated industry recovery. We harnessed our competitive edges, including our strengthened market position, diversified traffic sources, exceptional innovation capabilities and flexible operation strategies, and delivered outstanding results which surpassed the industry average once again.

During the period under review, we recorded excellent growth in our traffic with both MPUs and APUs reaching unprecedented heights, mainly attributable to our diversified online traffic channels and effective user engagement. For the three and six months ended June 30, 2023, our average MAUs increased by 41.1% and 27.7% year-to-year to 278.8 million and 282.5 million, respectively. For the three months and six months ended June 30, 2023, our average MPUs increased by 61.7% and 44.6% year-to-year to 42.2 million and 41.8 million, respectively. Compared with the same period last year, our paying ratio increased to a three-year high of 15.1% for the second quarter of 2023. Our APUs for the twelve-months ended June 30, 2023, increased by 8.6% quarter over quarter to 217.9 million, signifying our outstanding operation capability in the market.

For the second quarter of 2023, we executed our plans effectively to access the untapped market and seize opportunities in our advantageous markets in the midst of the industry revival. As a result, we registered a robust growth which once again surpassed the industry average. Our total GMV increased by 145.7% and 106.2% year-to-year to RMB59.7 billion and RMB116.9 billion for the three and six months ended June 30, 2023, mainly owing to the significant surge in our business volume. Our total revenue increased by 117.4% to RMB2,866.3 million and 79.6% to RMB5,452.4 million, for the three and six months ended June 30, 2023, respectively, driven by the tremendous market demand and our outstanding capabilities to capitalize on opportunities. Our adjusted net profit was RMB592.4 million and RMB1,096.0 million for the three and six months ended June 30, 2023, respectively, representing adjusted net margins of 20.7% and 20.1%, respectively.

Business Review

Amid the soaring travel enthusiasm, we seized on the sentiment and further increased engagement with users at multiple fronts to diversify our traffic sources and expand user base. We continuously deepened cooperation with Tencent and effectively explored various scenarios within its ecosystem. During the period under review, consistent efforts were made to optimize our operations in Weixin Search (搜一搜) so as to enhance user experience and user engagement. We also joined hands with WeChat Pay Hong Kong and co-launched a marketing campaign in Hong Kong to establish interactions with users in the region. For the second quarter of 2023, around 80% of our average MAUs were contributed by the Weixin mini program.

We continued to explore other online and offline traffic channels to diversify our traffic sources. We forged a strategic alliance with one of the leading handset vendors in China and integrated our products and services into its ecosystem, enabling its users to access our air and train ticketing services, as well as accommodation reservation services with greater ease. We also maintained our collaboration with location-based APPs to broaden our user reach. In addition, we further enhanced our APPs to attract users with higher value and user stickiness. We sustained our growth in our offline user acquisition channels by exploring various scenarios. We partnered with hotels and leveraged our QR code scanning function to acquire users. Given the huge traffic volume of metro and intra-city buses, we expanded our public transit initiatives to more cities. The aforementioned offline user acquisition initiatives continued to make meaningful contribution to our MPUs for the second quarter of 2023.

We endeavor to enhance user value and improve user retention on our platform through in-depth analysis and precise operations. Over the past quarter, we further advanced our Black Whale membership program by introducing more exclusive benefits and privileges to our members. We also unveiled new membership versions to accommodate diverse travel occasions. We collaborated with the Jiangsu Provincial Department of Culture and Tourism (江蘇省文化和旅遊廳) and co-launched a digital membership that grants free access to all tourist attractions and several entertainment facilities within Jiangsu Province. Over the past quarter, the accumulated number of Black Whale members continued to expand at a significant rate.

We strive to build a fun and entertaining brand identity among younger generations. In the past quarter, we launched several innovative marketing campaigns to promote our brand image. We sustained collaboration with Tencent Games and incorporated e-sports and games into our user engagement program by organizing several exciting and interactive events. We cooperated with Tencent Music and sponsored two grand music festivals in Macau to have our brand highly exposed among younger users. We also joined hands with a tourist destination in Jiangxi Province and co-hosted a music festival in the tourist destination. Through this novel interaction, we sought to further explore the ultimate boundary of travel experience with younger users.

With our strategic focus on lower-tier cities and our efforts in offline user acquisitions, we have successfully captured the opportunities in the lower-tier cities market and gained market share. During the quarter under review, we further penetrated lower-tier cities with lower online penetration rate which provided immense opportunities for the Company. As of June 30, 2023, our registered users residing in non-first-tier cities in China accounted for approximately 87% of the total registered users. For the three months ended June 30, 2023, around 70% of our new paying users on the Weixin platform were from non-first-tier cities in China.

We solidified long-term and sustainable relationships with various TSPs and persisted in delivering unparalleled one-stop-shop products and services to users. As of June 30, 2023, our online platforms offered over 400,000 routes operated by more than 750 airlines and agencies, over 2.5 million hotels selections and alternative accommodation options, approximately 430,000 bus routes, over 800 ferry routes and more than 10,000 domestic tourist attractions ticketing services.

During the period under review, we once again registered record highs in terms of revenue and volume for our transportation ticketing and accommodation reservation businesses. For the three months ended June 30, 2023, our revenue from transportation ticketing services increased by 141.2% year-to-year from RMB619.5 million to the record high of RMB1,494.6 million, mainly driven by the surge in our total ticketing volume. Furthermore, we continued to improve our value-added service and product offerings. With regard to the air ticketing business, we made consistent efforts to build more diversified user profiles and further penetrated the market. Our domestic air ticket volume increased by 40% compared with the same period in 2019. Our international business further improved in the past quarter, owing to our efforts in bringing in more supplies and user interactions. In terms of the train ticketing business, we remained focused on enhancing user value and users' travel experience. In addition, we made concrete progress in enhancing the monetization capability of our bus ticketing business, as well as improving the operational efficiency of the business. Our accommodation business also displayed greater prominence and continued to set new highs both in its revenue and volume. For the three months ended June 30, 2023, our revenue from the accommodation business increased by 94.2% year-to-year from RMB543.5 million to the record high of RMB1,055.4 million. Our domestic room nights sold also registered more than 130% growth compared with the same period in 2019. We explored various occasions for hotel stays, such as stays surrounding music festivals and concerts which are becoming increasingly popular in 2023. Besides, we continued to execute our cross-sale strategy and carried out more precise operation and marketing activities by diving deeper into users' underlying preferences and needs.

Furthermore, efforts were made to diversify our business so as to enhance our influence in the industry and bring additional growth drivers to the Company. We have further developed our hotel management business and diversified our hotel brand portfolio ranging from low-star to high-star hotels. We have also tapped into the packaged tour market through the acquisitions of travel agency companies, which we believe will broaden our boundary in the travel industry.

We aspire to transform from OTA to ITA and empower the travel industry with our profound internet expertise and advanced technology, aiming to build a highly efficient travel ecosystem. To provide users with more convenient and satisfying travel experience, we further optimized our Huixing system by visualizing its travel solutions with clearer product display. Meanwhile, we made more efforts to increase automation in our customer service by handing over standardized problems to AI-driven robots, which further enhanced the customer service efficiency. Besides, we worked closely with our business partners to proactively explore the application of Artificial Intelligence Generated Content (AIGC) in our business, which we believe will further increase our operational efficiency in the future. Moreover, we fortified our relationship with upstream suppliers and capitalized on our outstanding innovation capabilities to expedite the digitalization of the travel industry. Over the past quarter, we established cooperation with Chengdu Shuangliu International Airport, through which we will help the airport develop a transit system to attract transit passengers. We also established a strategic partnership with Henan Province Airport Group to help it develop combined transport solutions, integrated membership program, and digitalization platform. Furthermore, through our comprehensive hotel PMS brand matrix, we provided Software-as-a-Service (SaaS) solutions to more individual and chain hotels as well as alternative accommodation to optimize operational efficiencies.

As a socially responsible enterprise, we are determined to contribute to the sustainable development of the travel industry as well as the society. In light of the full recovery of the travel industry, we initiated a training program on digital operation and marketing of rural tourism for tourism professionals from Sichuan Province, so as to help stimulate and accelerate the growth of the rural economy. Moreover, we collaborated with over 200 hotels across China to offer college entrance examinees and their parents free stationery, water, and comfortable rest areas. Given the excellence we have achieved in corporate sustainability, we were for the first time included in The Sustainability Yearbook (China) 2023 by S&P Global.

Business Outlook and Strategies

China's domestic travel market has been further recovering in recent months with travel demand unleashed in full swing. The demand has been robust during summer holidays, with various cohorts such as students, businesses, and families pursuing local and short-haul travel as well as long-haul tours, which has substantially benefited our businesses.

We uphold a high degree of optimism regarding the prospects of China's travel industry. The travel market will continue to experience immense growth as the tourism-related infrastructure still have ample room for advancement, particularly in lower-tier cities. Besides, the Chinese government launched various policies to advance the development of China's travel industry and encourage domestic tourism consumption. Moreover, fundamental changes in consumer behavior, such as the increasing popularity in short-haul travel and staycations, will also serve as additional drivers for the future development of the industry.

Looking ahead, we will continue to leverage on our competitive advantages in terms of diversified traffic sources, solid market position, flexible operation strategy, and advanced technological capabilities. We will strive to magnify users' value and stickiness while expanding user base. We will further enhance our products and services to provide more satisfying experience to our users. We will also seize market opportunities and look into international business potentials. Moreover, we will persist in advancing our technology to transform from an OTA to an ITA. On the other side, we will also explore investment opportunities that align with our strategies to support future business growth. Last but not least, we will uphold our focus on corporate governance, environmental protection, and social responsibility in our operations to generate long-term sustainable value for our stakeholders and communities.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2023 compared to Second Quarter of 2022

	Unaudited Three months ended June 30,	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue	2,866,269	1,318,650
Cost of revenue	(703,284)	(383,230)
Gross profit	2,162,985	935,420
Service development expenses	(427,826)	(324,879)
Selling and marketing expenses	(1,107,860)	(574,681)
Administrative expenses	(207,641)	(134,877)
Net reversal/(provision) for impairment loss on financial assets	4,290	(15,322)
Fair value changes on investments measured at fair value through profit or loss	32,932	28,759
Other income	40,408	44,782
Other losses – net	(80,147)	(87,654)
Operating profit/(loss)	417,141	(128,452)
Finance income	41,488	9,678
Finance costs	(43,215)	(23,283)
Share of results of associates	11,139	(19,911)
Profit/(loss) before income tax	426,553	(161,968)
Income tax (expense)/credit	(66,572)	26,764
Profit/(loss) for the period	359,981	(135,204)
Profit/(loss) attributable to:		
Equity holders of the Company	355,920	(132,138)
Non-controlling interests	4,061	(3,066)
	359,981	(135,204)
Adjusted net profit for the period ^(a)	592,395	112,003

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,			
	2023		2022	
	RMB'000		RMB'000	
Accommodation reservation services	1,055,396	36.8%	543,526	41.2%
Transportation ticketing services	1,494,582	52.1%	619,521	47.0%
Others	316,291	11.1%	155,603	11.8%
Total revenue	2,866,269	100.0%	1,318,650	100.0%

Revenue increased by 117.4% from RMB1,318.7 million for the three months ended June 30, 2022 to RMB2,866.3 million for the three months ended June 30, 2023.

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.

Revenue from accommodation reservation services increased by 94.2% from RMB543.5 million for the three months ended June 30, 2022 to RMB1,055.4 million in the same period of 2023. The increase was mainly due to the increased demand of accommodation reservation services and various occasions for hotel stays we explored.

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.

Revenue from transportation ticketing services increased by 141.2% from RMB619.5 million for the three months ended June 30, 2022 to RMB1,494.6 million for the three months ended June 30, 2023, which was mainly due to the strong rebound in demand in transportation ticketing services.

Others

Revenue from others mainly includes: (i) revenue from advertising services; (ii) revenue generated from hotel management services; (iii) revenue from corporate travel services; (iv) revenue from membership services; (v) revenue from attraction ticketing services.

Revenue from others increased by 103.3% to RMB316.3 million for the three months ended June 30, 2023 from RMB155.6 million for the three months ended June 30, 2022.

Cost of revenue

Our cost of revenue primarily consists of: (i) order processing cost, representing the fees we pay to banks and payment channels for processing user payments; (ii) employee benefit expenses, representing the wages, salaries, and other benefits (including share-based compensation) for our user services and TSP services employees; (iii) procurement costs, which represent the costs for sourcing ancillary value-added travel products and services from service providers; (iv) cost of pre-purchased travel related products, representing the prices we pay to TSPs to purchase travel products for which we take inventory risk; (v) bandwidth and servers custody fee; (vi) depreciation of property, plant and equipment and right-of-use assets; and (vii) others, which primarily include telephone and communication costs, tax and surcharges, travel and entertainment expenses, professional service fees and subcontractor charges, user fulfilment fees (which represent compensation paid to users due to user and customers complaints), and short-term 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, 2023 and 2022:

	Unaudited			
	Three months ended June 30,			
	2023		2022	
	RMB'000		RMB'000	
Order processing cost	325,788	46.3%	147,763	38.6%
Employee benefit expenses	120,396	17.1%	73,518	19.2%
Procurement costs	90,262	12.8%	32,496	8.5%
Cost of pre-purchased travel related products	58,484	8.3%	34,499	9.0%
Bandwidth and servers custody fee	36,347	5.2%	35,312	9.2%
Depreciation of property, plant and equipment and right-of-use assets	32,480	4.6%	31,061	8.1%
Others	39,527	5.7%	28,581	7.4%
Total cost of revenue	703,284	100.0%	383,230	100.0%

Cost of revenue increased by 83.5% from RMB383.2 million for the three months ended June 30, 2022 to RMB703.3 million for the three months ended June 30, 2023. The increase was mainly due to: (i) an increase in order processing cost as a result of the increased GMV; (ii) an increase in employee benefit expenses driven by the increased employee number of our hotel management services; (iii) an increase in procurement cost resulting from increased cost of ancillary value-added user services and cost of advertising services; (iv) an increase in cost of pre-purchased travel related products from RMB34.5 million for the three months ended June 30, 2022 to RMB58.5 million for the three months ended June 30, 2023. Excluding share-based compensation charges, cost of revenue accounted for 24.5% of revenue for the three months ended June 30, 2023, which decreased from 28.7% for the same period of 2022.

Service development expenses

Service development expenses increased 31.7% from RMB324.9 million for the three months ended June 30, 2022 to RMB427.8 million for the three months ended June 30, 2023. The increase was mainly due to the increased number of IT employees and relevant increased employee benefit expenses. Excluding share-based compensation charges, service development expenses accounted for 14.4% of revenue for the three months ended June 30, 2023, which decreased from 22.3% for the same period of 2022.

Selling and marketing expenses

Selling and marketing expenses increased by 92.8% from RMB574.7 million for the three months ended June 30, 2022 to RMB1,107.9 million for the three months ended June 30, 2023. The increase was mainly due to the increase in advertising and promotion expenses and commission expenses. Excluding share-based compensation charges, selling and marketing expenses accounted for 38.4% of revenue for the three months ended June 30, 2023, compared with 42.7% for the same period of 2022.

Administrative expenses

Administrative expenses increased from RMB134.9 million for the three months ended June 30, 2022 to RMB207.6 million for the three months ended June 30, 2023, which was mainly due to the increase in employee benefit expenses. Excluding share-based compensation charges, administrative expenses accounted for 5.4% of revenue for the three months ended June 30, 2023, which decreased from 6.0% for the same period of 2022.

Net reversal/(provision) for impairment loss on financial assets

We recorded net reversal for impairment loss on financial assets of RMB4.3 million for the three months ended June 30, 2023 and net provision for impairment loss on financial assets of RMB15.3 million for the same period of 2022, which was mainly due to the decrease in expected credit loss of trade and other receivables.

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

We recorded fair value gains of RMB32.9 million on investments measured at fair value through profit or loss for the three months ended June 30, 2023, compared with RMB28.8 million for the three months ended June 30, 2022, which was driven by the increase the net fair value gains on our investments in certain public and private companies and partially offset by the decrease in fair value gains in wealth management products.

Other income

We recorded other income of RMB40.4 million for the three months ended June 30, 2023, compared with RMB44.8 million for the three months ended June 30, 2022. The decrease was mainly due to less government subsidies received.

Other losses – net

We recorded net other losses of RMB80.1 million for the three months ended June 30, 2023 and RMB87.7 million for the three months ended June 30, 2022, respectively. The slight decrease in other losses – net was mainly due to the increase in foreign exchange losses and partially offset by gains on foreign currency financial instruments.

Income tax (expense)/credit

We recorded an income tax expense of RMB66.6 million for the three months ended June 30, 2023 and income tax credit of RMB26.8 million for the three months ended June 30, 2022, respectively, as a result of the increase in current income tax charge and the recognition of deferred income tax credit for tax losses and other temporary differences for the three months ended June 30, 2023.

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

As a result of the foregoing, profit attributable to equity holders of the Company increased from a loss of RMB132.1 million for the three months ended June 30, 2022 to a profit of RMB355.9 million for the three months ended June 30, 2023.

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.

Adjusted EBITDA is defined as operating profit adjusted for (i) share-based compensation, gross; (ii) amortization of intangible assets; (iii) depreciation of property, plant and equipment, and right-of-use assets; (iv) foreign exchange loss, net; (v) net gains on investees; and (vi) others, including acquisition-related cost and net (gain)/losses on foreign currency financial instruments. Adjusted net profit for the period is defined as profit for the period adjusted for (i) share-based compensation, net; (ii) the amortization of intangible assets from acquisition; (iii) foreign exchange loss, net; (iv) net gains on investees; and (v) others, including acquisition-related cost, net (gain)/losses on foreign currency financial instruments and depreciation of property, plant and equipment and right-of-use assets from acquisition.

The above items are excluded from our adjusted EBITDA and adjusted net profit for the period measures because these items are either non-cash in nature, or are not driven by core operations which render comparisons with prior periods and competitors less meaningful. We believe the adjusted EBITDA and adjusted net profit for the period are useful measures for the analysts and investors as basis for evaluation of our future on-going operating performance as these measures allow more meaningful comparison of our performance and projected cash earnings with our historical results from prior periods and to the results of our competitors. Moreover, management uses these measures internally to evaluate the performance of our business as a whole. 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		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	RMB'000	<i>RMB'000</i>	RMB'000	<i>RMB'000</i>
Operating profit/(loss)	417,141	(128,452)	882,562	9,368
Add/(less):				
Share-based compensation, gross ^(a)	77,954	101,886	168,613	196,800
Amortization of intangible assets	168,771	157,155	336,747	313,927
Depreciation of property, plant and equipment and right-of-use assets	52,977	51,731	104,493	101,593
Foreign exchange loss, net ^(b)	131,023	106,715	98,914	100,058
Net gains on investees ^(c)	(13,517)	(13,064)	(19,096)	(7,393)
Others	(28,510)	16,263	(34,189)	16,318
Adjusted EBITDA	<u>805,839</u>	<u>292,234</u>	<u>1,538,044</u>	<u>730,671</u>

Notes:

- (a) Represents gross expense related to equity-settled share-based payment transactions. This is a non-cash item and the value is determined by valuation techniques involving a few parameters out of the management's control such as macro economy index and retention rate of grantees.
- (b) Represents foreign exchange loss which is the result of macro-economic factors and can vary significantly from one period to the next.
- (c) Includes dividend income, fair value changes on equity investments, and losses/(gains) on disposal of investees or subsidiaries.

b. Reconciliation of adjusted 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,	
	2023	2022	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) for the period	359,981	(135,204)	738,949	(37,967)
Add/(less):				
Share-based compensation, net ^(a)	79,400	84,772	184,467	181,073
Amortization of intangible assets from acquisition ^(b)	63,113	52,509	125,131	104,880
Foreign exchange loss, net ^(c)	131,023	106,715	98,914	100,058
Net gains on investees ^(d)	(13,517)	(13,064)	(19,096)	(7,393)
Others	(27,605)	16,275	(32,379)	16,342
Adjusted net profit for the period	<u>592,395</u>	<u>112,003</u>	<u>1,095,986</u>	<u>356,993</u>

Notes:

- (a) Represents expense related to equity-settled share-based payment transactions, net of the tax effect of temporary difference arises between the share-based compensation recognized in profit or loss and the tax deduction to be obtained in the future.
- (b) Represents amortization of intangible assets in relation to business combinations.
- (c) Represents foreign exchange loss which is the result of macro-economic factors and can vary significantly from one period to the next.
- (d) Includes dividend income, fair value changes on equity investments, and losses/(gains) on disposal of investees or subsidiaries.

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

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of revenue	2,248	4,720	4,832	9,055
Service development expenses	16,184	30,232	34,860	58,054
Selling and marketing expenses	7,348	11,519	15,825	22,212
Administrative expenses	52,174	55,415	113,096	107,479
Total share-based compensation, gross	77,954	101,886	168,613	196,800
Tax effect of temporary difference	1,446	(17,114)	15,854	(15,727)
Total share-based compensation, net	79,400	84,772	184,467	181,073

Liquidity and Financial Resources

We fund our liquidity needs mainly from (i) net cash generated from our business operations; and (ii) bank borrowings.

We had cash and cash equivalents of RMB5,404.7 million and RMB2,813.9 million as of June 30, 2023 and 2022, respectively.

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

	Unaudited	
	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
Net cash generated from operating activities	2,271,243	187,917
Net cash used in investing activities	(103,243)	(1,337,563)
Net cash used in financing activities	(317,825)	1,856,760
Net increase in cash and cash equivalents	1,850,175	707,114
Cash and cash equivalents at beginning of the period	3,546,988	2,045,604
Effect of exchange rate changes on cash and cash equivalents	7,563	61,196
Cash and cash equivalents at end of the period	5,404,726	2,813,914

Net cash generated from operating activities

For the six months ended June 30, 2023, net cash generated from operating activities was RMB2,271.2 million, which was primarily attributable to the profit before income tax of RMB870.7 million, as adjusted by (i) amortization of intangible assets of RMB336.7 million, depreciation of property, plant and equipment and right-of-use assets of RMB104.5 million, share-based compensation of RMB168.6 million, net provision for impairment loss on financial assets of RMB12.6 million, net foreign exchange loss of RMB98.9 million, fair value gain on investments measured at fair value through profit or loss of RMB58.7 million, net other gains of RMB82.2 million, finance income of RMB69.4 million, finance cost of RMB83.4 million; and (ii) changes in working capital, which primarily consisted of an increase in trade receivable of RMB190.0 million, an increase in trade payables of RMB1,497.1 million, an increase in prepayment and other receivables of RMB1,240.9 million, and an increase in other payables and accruals and contract liabilities of RMB730.7 million. We also paid income tax of RMB53.2 million and received interest income of RMB68.3 million.

Net cash used in investing activities

For the six months ended June 30, 2023, net cash used in investing activities was RMB103.2 million, which was primarily attributable to (i) net cash received for wealth management products and term deposits of RMB538.9 million; (ii) payment for long-term equity investments of RMB588.0 million; (iii) purchase of property, plant and equipment of RMB137.8 million; and (iv) payment of loans granted to related parties of RMB10.0 million.

Net cash used in financing activities

For the six months ended June 30, 2023, net cash used in financing activities was RMB317.8 million, which was primarily due to repayment of long-term borrowings of RMB289.0 million and payment of long-term lease of RMB32.2 million, respectively.

Gearing Ratio

As of June 30, 2023, our gearing ratio, calculated as total borrowings and lease liabilities divided by total equity attributable to equity holders of the Company, was approximately 13.7%.

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. The outstanding balance was repaid in February 2023 and the security of the property had been released.

Capital Expenditure

	Unaudited	
	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
Purchase of property, plant and equipment	137,765	100,731
Purchase of intangible assets	806	16,872
Placement of long-term investments ^(a)	588,022	574,089
Total capital expenditure	726,593	691,692

Note:

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

Our capital expenditures primarily include purchases of property and equipment, intangible assets, investments accounted for using the equity method and equity investments measured at fair value through profit or loss and business combination. We fund our capital expenditure requirements mainly from cash generated from our operations as well as bank borrowings.

Long-term Investments

	Unaudited	Audited
	As at	As at
	June 30,	December 31,
	2023	2022
	RMB'000	RMB'000
Investments accounted for using the equity method	1,413,719	1,379,267
Investments measured at fair value through profit or loss	794,316	758,307
Investments measured at amortized cost	1,973,510	1,843,160
Total long-term investments	4,181,545	3,980,734

Our long-term investments as at June 30, 2023 were RMB4,181.5 million, as compared to RMB3,980.7 million as at December 31, 2022. The increase in our investments accounted for using the equity method was caused by more investments in certain private companies that we have significant influences. These companies are principally engaged in development and application of robot autonomous localization and navigation solution and capital funds targeting at travel industry investments. The increase in our long-term investments measured at fair value was caused by (i) increase in investment in certain capital funds that we have no control or significant influence, which are principally engaged in investments in listed companies. As at June 30, 2023 and December 31, 2022, total long-term investments as a percentage to the Group's total assets was 14.7% and 15.9%, respectively. We made long-term investments in accordance with our general strategy of investing or acquiring businesses that are supplement and benefit our business. Investments measured at amortized cost represents investments in wealth management products over one year, with returns calculated based on fixed interest rate and denominated in RMB. As of June 30, 2023, none of these individual investments was regarded as material. We plan to fund our long-term investments using cash flows generated from our operations.

Short-term Investments

	Unaudited As at June 30, 2023 RMB'000	Audited As at December 31, 2022 RMB'000
Short-term investments measured at amortized cost	429,282	493,951
Short-term investments measured at fair value through profit or loss	2,345,803	2,669,201
Total short-term investments	2,775,085	3,163,152

Short-term investments measured at amortized cost as at June 30, 2023 were term deposits within one year, with returns calculated based on fixed interest rate and denominated in USD or HKD. The investments were held for collection of contractual cash flows and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they were measured at amortized cost. 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 -1.06% to 5.20% per annum for the six months ended June 30, 2023. 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 at June 30, 2023 and December 31, 2022, total short-term investments as a percentage to the Group's total assets was 9.7% and 12.6%, respectively. There is no individual investment having a percentage of over 5% to the Group's total assets. In view of an upside of earning with a more attractive return than current saving or fixed deposit are under the low interest rate trend, as well as the risk nature and the relatively short-term of maturity or flexible redemption terms of those financial products, the Group selected products with strong liquidity, safety feature and reasonable returns issued by reputable licensed banks and financial institutions.

Material Acquisition and Disposal

Reference is made to the announcements of the Company dated December 29, 2022 and March 9, 2023. The completion of the acquisition of the entire equity interest in Tongcheng International Travel Service Co., Ltd.* (同程國際旅行社有限公司, being Target Company E referred to in the aforementioned announcements) has taken place, after which, the financial statements of such company has been consolidated into that of the Group.

Save as aforesaid, there were no other material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended June 30, 2023.

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.

Our subsidiaries and Consolidated Affiliated Entities in the PRC operate mainly in the PRC with most of the transactions settled in RMB. There are certain financial assets or liabilities of our Group are denominated in the currencies other than the respective functional currencies of our Group's subsidiaries and Consolidated Affiliated Entities operating in the PRC, and as of June 30, 2023, the Group entered into certain derivative contracts with financial institutions which are used for economic hedging purposes. These derivative contracts are accounted for as derivative financial instruments and measured at fair value.

Employee

As of June 30, 2023, we had a total of 6,634 full-time employees. As of the same date, approximately 44.8% and 9.7% of our full-time employees were based in Suzhou and Beijing, respectively, while remaining 45.5% 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 is regularly provided to our employees by in-house trainers or third-party consultants. We have also adopted 2016 Share Incentive Plan, 2018 Share Incentive Plan, 2019 RSU Plan, 2019 Share Option Plan, 2022 RSU Plan and 2022 Share Option 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.

We believe that we maintain good working relationship with our employees and we did not experience any significant labor disputes or any material difficulty in recruiting employees for our operations for the six months ended June 30, 2023.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2023

	Notes	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
		2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Revenue	2	2,866,269	1,318,650	5,452,412	3,036,649
Cost of revenue	3	(703,284)	(383,230)	(1,348,566)	(854,840)
Gross profit		2,162,985	935,420	4,103,846	2,181,809
Service development expenses	3	(427,826)	(324,879)	(838,966)	(676,700)
Selling and marketing expenses	3	(1,107,860)	(574,681)	(2,074,096)	(1,211,642)
Administrative expenses	3	(207,641)	(134,877)	(399,907)	(323,122)
Net reversal/(provision) for impairment loss on financial assets		4,290	(15,322)	(12,601)	(13,044)
Fair value changes on investments measured at fair value through profit or loss	9(e)	32,932	28,759	58,652	32,424
Other income		40,408	44,782	63,064	79,461
Other losses – net	4	(80,147)	(87,654)	(17,430)	(59,818)
Operating profit/(loss)		417,141	(128,452)	882,562	9,368
Finance income		41,488	9,678	69,425	17,446
Finance costs		(43,215)	(23,283)	(83,387)	(40,374)
Share of results of associates		11,139	(19,911)	2,050	(6,232)
Profit/(loss) before income tax		426,553	(161,968)	870,650	(19,792)
Income tax (expense)/credit	5	(66,572)	26,764	(131,701)	(18,175)
Profit/(loss) for the period		359,981	(135,204)	738,949	(37,967)
Profit/(loss) attributable to:					
– Equity holders of the Company		355,920	(132,138)	733,832	(30,994)
– Non-controlling interests		4,061	(3,066)	5,117	(6,973)
		359,981	(135,204)	738,949	(37,967)
Earnings/(losses) per share (expressed in RMB per share):					
– Basic	6	0.16	(0.06)	0.33	(0.01)
– Diluted	6	0.16	(0.06)	0.32	(0.01)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2023

	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2023	2022	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) for the period	359,981	(135,204)	738,949	(37,967)
Other comprehensive income <i>Items that may not be subsequently reclassified to profit or loss:</i>				
– Currency translation differences	<u>51,233</u>	<u>69,826</u>	<u>37,966</u>	<u>62,226</u>
Other comprehensive income for the period, net of tax	<u>51,233</u>	<u>69,826</u>	<u>37,966</u>	<u>62,226</u>
Total comprehensive income/(loss) for the period	<u>411,214</u>	<u>(65,378)</u>	<u>776,915</u>	<u>24,259</u>
Total comprehensive income/(loss) for the period attributable to:				
– Equity holders of the Company	<u>407,153</u>	<u>(62,312)</u>	<u>771,798</u>	31,232
– Non-controlling interests	<u>4,061</u>	<u>(3,066)</u>	<u>5,117</u>	<u>(6,973)</u>
	<u>411,214</u>	<u>(65,378)</u>	<u>776,915</u>	<u>24,259</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2023

		Unaudited As at June 30, 2023 <i>RMB'000</i>	Audited As at December 31, 2022 <i>RMB'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		1,632,275	1,598,381
Right-of-use assets		123,752	111,329
Investments accounted for using the equity method	8	1,413,719	1,379,267
Investments measured at fair value through profit or loss	9	794,316	758,307
Investments measured at amortized cost	9	1,973,510	1,843,160
Derivative financial instruments	12	21,791	–
Intangible assets		8,618,019	8,580,738
Deferred income tax assets		217,401	209,486
Trade receivables	11	–	48,455
Prepayment and other receivables	10	244,370	121,488
		15,039,153	14,650,611
Current assets			
Trade receivables	11	1,217,957	888,475
Prepayment and other receivables	10	3,939,066	2,697,038
Investments measured at amortized cost	9	429,282	493,951
Investments measured at fair value through profit or loss	9	2,345,803	2,669,201
Restricted cash		105,173	88,436
Cash and cash equivalents		5,404,726	3,546,988
		13,442,007	10,384,089
Total assets		28,481,160	25,034,700
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		7,718	7,710
Share premium		19,915,947	19,877,004
Other reserves		(2,493,785)	(2,685,813)
Accumulated losses		(733,157)	(1,466,989)
		16,696,723	15,731,912
Non-controlling interests		264,569	258,344
Total equity		16,961,292	15,990,256

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

As at June 30, 2023

		Unaudited	Audited
		As at	As at
		June 30,	December 31,
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	<i>13</i>	1,520,026	1,857,903
Lease liabilities		82,278	88,391
Derivative financial instruments	<i>12</i>	–	11,187
Other payables		345,553	327,446
Contract liabilities		35,460	37,904
Deferred income tax liabilities		612,448	605,011
		2,595,765	2,927,842
Current liabilities			
Borrowings	<i>13</i>	656,762	443,310
Trade payables	<i>14</i>	4,225,425	2,521,790
Other payables and accruals		3,827,192	3,039,846
Lease liabilities		31,617	25,038
Contract liabilities		75,754	51,420
Current income taxes liabilities		107,353	35,198
		8,924,103	6,116,602
Total liabilities		11,519,868	9,044,444
Total equity and liabilities		28,481,160	25,034,700

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2023

	Unaudited	
	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	2,271,243	187,917
Net cash flows used in investing activities	(103,243)	(1,337,563)
Net cash flows (used in)/generated from financing activities	(317,825)	1,856,760
Net increase in cash and cash equivalents	1,850,175	707,114
Cash and cash equivalents at beginning of the period	3,546,988	2,045,604
Effect of exchange rate changes on cash and cash equivalents	7,563	61,196
Cash and cash equivalents at end of the period	5,404,726	2,813,914

NOTES

1. General information

Tongcheng Travel Holdings Limited (the “Company”) 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 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 in the People’s Republic of China (the “PRC”).

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by International Accounting Standard Board (“IASB”).

The accounting policies adopted by the Group are consistent with those of the prior financial year and corresponding interim reporting period, except for the adoption of new or amended standards as set out below.

(a) New or amended standards adopted by the Group

The Group has applied the following new or amended standards for the first time for the Group’s financial year beginning on January 1, 2023:

- Insurance Contracts – IFRS 17
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates – Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The above new or amended standards did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(b) New or amended standards not yet adopted

The following new or amended standards have been published that are not mandatory for reporting periods commencing on January 1, 2023 and have not been early adopted by the Group.

	Effective date
• Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 1, 2024
• Non-current Liabilities with Covenants – Amendments to IAS 1	January 1, 2024
• Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	January 1, 2024
• Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	January 1, 2024
• Lack of Exchangeability – Amendments to IAS 21	January 1, 2025
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	To be determined

These new or amended standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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/(loss), excluding those items which are not directly related to the segment performance like the other income/expenses – net, fair value changes on investments measured at fair value through profit or loss, and other losses – net (the “core operating results”). The CODM reviews the core operating results when making decisions about allocating resources and assessing performance of the Group as a whole. The Group has only one reportable segment which mainly operates its businesses in the PRC and earns substantially all of the revenues from customers attributed to the PRC. As at June 30, 2023 and December 31, 2022, substantially all of the non-current assets of the Group were located in the PRC. Therefore, no geographical segments are presented. No analysis of segment assets or segment liabilities is presented as they are not used by the CODM when making decisions about allocating resources and assessing performance of the Group.

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Operating profit/(loss) per interim condensed consolidated income statement	417,141	(128,452)	882,562	9,368
Add/(less):				
Other income	(40,408)	(44,782)	(63,064)	(79,461)
Fair value changes on investments measured at fair value through profit or loss	(32,932)	(28,759)	(58,652)	(32,424)
Other losses – net	80,147	87,654	17,430	59,818
Operating profit/(loss) presented to the CODM	423,948	(114,339)	778,276	(42,699)

Revenue by service type for the three and six months ended June 30, 2023 and 2022 are as follows:

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accommodation reservation services	1,055,396	543,526	1,889,657	1,086,608
Transportation ticketing services	1,494,582	619,521	2,877,276	1,636,740
Others	316,291	155,603	685,479	313,301
Total revenue	<u>2,866,269</u>	<u>1,318,650</u>	<u>5,452,412</u>	<u>3,036,649</u>

3. Expense by nature

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	747,303	522,834	1,437,020	1,086,211
Advertising and promotion expenses	709,308	315,230	1,324,486	710,398
Order processing cost	325,788	147,763	641,193	342,968
Depreciation and amortization expense	221,748	208,886	441,240	415,520
Commission expenses	157,537	52,873	282,635	108,162
Procurement costs	90,262	32,496	169,570	86,694
Cost of pre-purchased travel related products	58,484	34,499	105,554	85,818
Bandwidth and servers fee	36,347	35,312	71,834	72,372
Professional service fees and subcontractor charges	28,148	26,347	54,094	58,186
Travelling and entertainment expenses	25,644	10,253	46,701	22,563
Short-term rental and utility fees	16,120	9,200	29,386	19,815
Tax and surcharges	12,071	7,251	24,086	14,080
Telephone and communication	3,154	2,587	6,035	5,037
Others	14,697	12,136	27,701	38,480
	<u>2,446,611</u>	<u>1,417,667</u>	<u>4,661,535</u>	<u>3,066,304</u>

4. Other losses – net

	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Foreign exchange loss, net	(131,023)	(106,715)	(98,914)	(100,058)
Investment income from investments measured at amortized cost	23,271	21,401	48,291	39,157
Net gain/(loss) on derivative financial instruments	28,510	(16,263)	34,254	(16,253)
Net (loss)/gain on disposal/partial disposal of investments accounted for using the equity method	(335)	11,486	(335)	17,399
Net (loss)/gain on disposal of property, plant and equipment	(290)	190	(218)	(253)
Donation	(78)	(53)	(212)	(411)
Others	(202)	2,300	(296)	601
	(80,147)	(87,654)	(17,430)	(59,818)

5. Income tax expense/(credit)

The income tax expense/(credit) of the Group for the three and six months ended June 30, 2023 and 2022 is analyzed as follows:

	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Current income tax	70,037	13,738	125,326	24,782
Deferred income tax	(3,465)	(40,502)	6,375	(6,607)
	66,572	(26,764)	131,701	18,175

Income tax expense/(credit) is recognized based on management's best estimate of the income tax rates expected for the financial year.

(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 ended June 30, 2023 and 2022.

(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 ended June 30, 2023 and 2022, 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 periods ended June 30, 2023 and 2022.

Three of the Company’s directly held subsidiaries incorporated in the PRC are qualified as High and New Technology Enterprises, and accordingly, they are subject to a reduced preferential CIT rate of 15% for the periods ended June 30, 2023 and 2022, according to the applicable CIT law.

Other subsidiaries of the Company incorporated in the PRC are subject to the general PRC CIT rate of 25% during the periods ended June 30, 2023 and 2022.

(d) PRC Withholding Tax (“WHT”)

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

As of June 30, 2023 and December 31, 2022, 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 at June 30, 2023 and December 31, 2022.

6. Earnings/(losses) per share

(a) Basic

Basic earnings/(losses) per share for the three and six months ended June 30, 2023 and 2022 are calculated by dividing the profit/(losses) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Profit/(loss) attributable to equity holders of the Company (RMB'000)	355,920	(132,138)	733,832	(30,994)
Weighted average numbers of ordinary shares in issue (thousand shares)	2,241,776	2,218,239	2,241,307	2,218,026
Basic earnings/(losses) per share (RMB)	<u>0.16</u>	<u>(0.06)</u>	<u>0.33</u>	<u>(0.01)</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.

As at June 30, 2023, 124,664,130 share options and 23,436,782 RSUs were outstanding in total. For the three months and six months ended June 30, 2023, the share options and RSUs granted by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and RSUs granted by the Company (collectively forming the denominator for computing the diluted earnings per share). No adjustment is made to earnings (numerator).

	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2023	2022	2023	2022
Profit/(loss) attributable to equity holders of the Company (RMB'000)	<u>355,920</u>	<u>(132,138)</u>	<u>733,832</u>	<u>(30,994)</u>
Weighted average number of ordinary shares in issue (thousand shares)	2,241,776	2,218,239	2,241,307	2,218,026
Adjustments for RSUs granted to employees (thousand shares)	1,694	–	1,559	–
Adjustments for share options granted to employees (thousand shares)	<u>36,026</u>	<u>–</u>	<u>36,815</u>	<u>–</u>
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	2,279,496	2,218,239	2,279,681	2,218,026
Diluted earnings/(losses) per share (RMB)	<u>0.16</u>	<u>(0.06)</u>	<u>0.32</u>	<u>(0.01)</u>

7. Dividend

No dividend has been paid or declared by the Company during the three and six months ended June 30, 2023 and 2022.

8. Investments accounted for using the equity method

	Unaudited Six months ended June 30,	
	2023 RMB'000	2022 RMB'000
At beginning of the period	1,379,267	1,127,921
Addition	45,680	320,900
Disposal	(2,265)	(74,054)
Dividend received	(11,382)	–
Share-based compensation to employees of the Group's associates	322	249
Shares of profit/(losses)	2,050	(6,232)
Currency translation differences	47	(468)
At end of the period	<u>1,413,719</u>	<u>1,368,316</u>

9. Investments

	Unaudited As at June 30, 2023 RMB'000	Audited As at December 31, 2022 RMB'000
Current assets		
Short-term investments measured at		
– Amortized cost (a)	429,282	493,951
– Fair value through profit or loss (b)	<u>2,345,803</u>	<u>2,669,201</u>
	<u>2,775,085</u>	<u>3,163,152</u>
Non-current assets		
Long-term investments measured at		
– Amortized cost (c)	1,973,510	1,843,160
– Fair value through profit or loss (d)	<u>794,316</u>	<u>758,307</u>
	<u>2,767,826</u>	<u>2,601,467</u>

(a) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are time deposits within terms less than one year, with returns calculated at fixed interest rates and are denominated in USD or HKD. The investments are held for collection of contractual cash flows which qualify for solely payments of principal and interest, hence they are measured at amortized cost. None of these investments are past due as at June 30, 2023.

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

Short-term investments measured at fair value through profit or loss represent investments in wealth management products.

The wealth management products were denominated in RMB or USD, with expected rates of return ranging from -1.06% to 5.20%, per annum for the six months ended June 30, 2023 (for the same period of 2022: 2.21% to 5.33% per annum). The returns on all 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 as at June 30, 2023. The fair values are based on cash flows as discounted by using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

(c) Long-term investments measured at amortized cost

Long-term investments measured at amortized cost are time deposits with terms from 3 years to 5 years which bear interests at fixed interest rates ranging from 3.55% to 4.50% per annum for the six months ended June 30, 2023 (for the same period of 2022: 3.40% to 3.99% per annum), and are all denominated in RMB. The investments are held for collection of contractual cash flows which qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due as at June 30, 2023.

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

As at June 30, 2023 and December 31, 2022, long-term investments measured at fair value through profit or loss are equity interests held by the Group in several private and listed companies as well as investments in wealth management products with terms of more than one year.

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 valuation techniques with unobservable inputs and hence classified as level 3 of the fair value hierarchy for equity interests in private companies. For equity interests in listed companies, they are measured based on the quoted market prices in active markets and hence classified as level 1 of the fair value hierarchy.

The wealth management products held by the Group with terms of more than one year are denominated in RMB, with expected rates of return ranging from 2.01% to 3.50% per annum for the six months ended June 30, 2023 (for the same period of 2022: 4.15% to 4.30% per annum). The returns on all of these wealth management products are not guaranteed, hence their contractual cash flow 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 flows as discounted by using the expected rate of return based on management judgment and are within level 3 of the fair value hierarchy.

The Company's investments in affiliates measured at fair value through profit or loss are not considered as material on individual basis as none of them individually exceeds 5% of the Group's total assets as at June 30, 2023 and December 31, 2022.

(e) Amounts recognized in profit or loss

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Fair value changes on short-term investments measured at fair value through profit or loss	19,090	23,197	40,959	36,180
Fair value changes on long-term investments measured at fair value through profit or loss	13,842	5,562	17,693	(3,756)
	32,932	28,759	58,652	32,424

10. Prepayment and other receivables

	Unaudited As at June 30, 2023 RMB'000	Audited As at December 31, 2022 RMB'000
Non-current		
Prepayment to suppliers	14,474	8,938
Prepayment for property, plant and equipment	116,498	109,015
Prepayment to related parties	1,066	106
Prepayment for equity investment	104,181	–
Total non-financial assets	236,219	118,059
Deposits	2,155	2,196
Others	5,996	1,233
Total financial assets	8,151	3,429
Non-current, total	244,370	121,488
Current		
Prepayment to accommodation suppliers	95,169	70,795
Prepaid taxation	97,117	144,063
Prepayment to tickets suppliers	417,876	399,448
Prepayment for advertising	50,047	39,350
Prepayment for office rental	2,207	1,374
Prepayment to related parties	45,672	32,973
Others	151,054	107,857
Total non-financial assets	859,142	795,860
Designated deposit account with restrictive use (Note c)	2,412,148	1,184,342
Receivables from related parties (Notes d and 31(c))	417,082	419,158
Deposits	240,822	194,109
Others	138,890	205,893
	3,208,941	2,003,502
Less: provision for impairment	(129,018)	(102,324)
Total financial assets	3,079,924	1,901,178
Current, total	3,939,066	2,697,038

11. Trade receivables

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

	Unaudited As at June 30, 2023 RMB'000	Audited As at December 31, 2022 RMB'000
Up to 6 months	1,227,353	861,467
Over 6 months	169,931	258,025
	1,397,284	1,119,492
Less: provision for impairment	(179,327)	(182,562)
	1,217,957	936,930

	Unaudited As at June 30, 2023 <i>RMB'000</i>	Audited As at December 31, 2022 <i>RMB'000</i>
Included in non-current assets	–	48,455
Included in current assets	1,217,957	888,475
Total	<u>1,217,957</u>	<u>936,930</u>

12. Derivative financial instruments

The Group has the following derivative financial instruments which are accounted for as financial assets/liabilities at fair value through profit or loss:

	Unaudited As at June 30, 2023 <i>RMB'000</i>	Audited As at December 31, 2022 <i>RMB'000</i>
Non-current assets		
Capped foreign exchange forward contracts	<u>21,791</u>	<u>–</u>
Non-current liabilities		
Capped foreign exchange forward contracts	<u>–</u>	<u>11,187</u>

Amounts recognized in profit or loss

The following amounts were recognized in profit or loss in relation to derivative financial instruments:

	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Net realized gains/(losses) on foreign exchange forward contracts recognized in other losses – net	2,167	(7,508)	2,167	(7,508)
Unrealized gains/(losses) on foreign exchange forward contract recognized in other losses – net	<u>26,343</u>	<u>(8,755)</u>	<u>32,087</u>	<u>(8,745)</u>
	<u>28,510</u>	<u>(16,263)</u>	<u>34,254</u>	<u>(16,253)</u>

13. Borrowings

	Unaudited As at June 30, 2023 <i>RMB'000</i>	Audited As at December 31, 2022 <i>RMB'000</i>
Non-current:		
Long-term secured long-term bank borrowings (a)	–	73,845
Long-term unsecured long-term bank borrowings (b)	1,520,026	1,784,058
	1,520,026	1,857,903
Current:		
Current portion of long-term secured bank borrowings (a)	–	19,692
Current portion of long-term unsecured bank borrowings (b)	556,762	323,525
Short-term secured bank borrowing	–	100,093
Short-term unsecured bank borrowing	100,000	–
	656,762	443,310
	2,176,788	2,301,213

Notes:

- (a) The bank borrowings were denominated in RMB, secured by property, plant and equipment of the Group and borne interest at China Interbank Offered Rate with a markup of 10% per annum from January 1, 2021 to September 15, 2021 and at a fixed rate 4.8% per annum from September 16, 2021 onwards. The loan was all early repaid in February 2023.
- (b) In January 2022, the Company has drawn down a long-term bank borrowing of USD296 million (equivalent to approximately RMB1,893.2 million). The bank borrowing is unsecured, denominated in USD and bears interest at London Interbank Offered Rate plus a margin of 1.5% per annum from February 18, 2022 to January 17, 2023 and at Secured Overnight Financing Rate with a markup of 1.5% per annum starting from January 18, 2023. As at June 30, 2023, a bank deposit of USD5.0 million (equivalent to approximately RMB36.3 million) has been restricted as a guarantee deposit for the settlement of the related interest payable.

14. Trade payables

An aging analysis of trade payables based on invoice date is as follows:

	Unaudited As at June 30, 2023 <i>RMB'000</i>	Audited As at December 31, 2022 <i>RMB'000</i>
Up to 6 months	4,093,547	2,379,632
Over 6 months	131,878	142,158
	4,225,425	2,521,790

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, 2023, the Group has used RMB90.3 million to expand our product and service offerings and our TSPs and user bases, RMB2.8 million to fund equity interest investments, RMB76.8 million to enhance our overall technology capabilities and RMB46.8 million for working capital and general corporate purposes. For details of the breakdown of the use of proceeds, please refer to the 2023 interim report to be published in due course.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of dividend for the six months ended June 30, 2023 to the Shareholders.

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, 2023.

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 for the six months ended June 30, 2023.

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 for the six months ended June 30, 2023.

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, 2023, 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. Yang Chia Hung (chairman of the Audit Committee) and Ms. Han Yuling and one non-executive Director, being Mr. Xie Qing Hua, 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 financial results of the Group for the six months ended June 30, 2023. The Audit Committee considers that the financial results for the six months ended June 30, 2023 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Event After the Six Months Ended June 30, 2023

There has been no material event after June 30, 2023 which requires disclosure in this announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The Company's interim report for the three and six months ended June 30, 2023 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
“2022 RSU Plan”	the 2022 restricted share unit plan adopted and approved by the Company on March 22, 2022
“2022 Share Option Plan”	the 2022 share option plan approved by an ordinary resolution passed by shareholders of the Company at the annual general meeting of the Company on May 31, 2022
“APUs”	annual paying users
“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 Travel Holdings Limited (同程旅行控股有限公司) (formerly known as 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
“Global Offering”	the offering of the Company’s shares as described in the prospectus dated November 14, 2018 issued by 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
“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
“paying ratio”	the ratio calculated as average MPUs divided by average MAUs
“PMS”	Property Management System
“pp”	percent point
“RMB”	Renminbi, the lawful currency of China
“Share(s)”	ordinary share(s) in the share capital of the Company, currently of nominal value USD0.0005 each

“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent”	Tencent Holdings Limited, a company 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 of Hong Kong Limited (stock code: 700)
“TSP(s)”	travel service provider(s)
“USD”	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 Travel Holdings Limited
Ma Heping
Executive Director and Chief Executive Officer

Hong Kong, August 22, 2023

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

Yang Chia Hung
Dai Xiaojing
Han Yuling

Non-executive Directors

Liang Jianzhang (*Co-Chairman*)
Jiang Hao
Xie Qing Hua
Brent Richard Irvin