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If you have sold or transferred all your shares in Overseas Chinese Town (Asia) Holdings Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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Overseas Chinese Town (Asia) Holdings Limited

華僑城（亞洲）控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03366)

**MAJOR TRANSACTION
ACQUISITION OF 5.11% EQUITY INTEREST IN
TARGET COMPANY**

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:—

“Application Proof”	the application proof published by the Target Company on the Stock Exchange on 21 June 2018;
“Board”	the board of Directors of the Company;
“business day(s)”	the legal working days in the PRC;
“BVI Subsidiary”	a company incorporated in the British Virgin Islands and wholly-owned by Suzhou Wancheng as at the date of this circular;
“City Legend”	City Legend International Limited (華昌國際有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by the Company;
“Company”	Overseas Chinese Town (Asia) Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 03366);
“controlling shareholder(s)”	has the meaning ascribed to in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Equity Transfer Agreements”	the equity transfer agreement (together with the supplemental agreement thereto) entered into between City Legend and Suzhou Wancheng on 10 May 2018;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	parties independent of and not connected with the Company and its connected persons;

DEFINITIONS

“Joinder Agreement”	the joinder agreement to the Shareholders’ Agreement;
“Latest Practicable Date”	28 August 2018, being the latest practicable date prior to the printing of this circular for ascertaining information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	the sixtieth (60th) day from the signing date of the Equity Transfer Agreements (or such other date as agreed by the parties to the Equity Transfer Agreements in writing);
“Pacific Climax”	Pacific Climax Limited, a company incorporated in the British Virgin Islands with limited liability, which is a controlling shareholder of the Company;
“percentage ratio(s)”	has the meaning ascribed to in the Listing Rules;
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	Share(s) of the Company;
“Shareholders”	holders of the Share(s);
“Shareholders’ Agreement”	the amended and restated shareholders’ agreement dated 9 March 2018 entered into among the then existing shareholders of the Target Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Suzhou Wancheng”	Suzhou Wancheng Shengda Travel Development Co., Ltd.* (蘇州萬程晟達旅遊發展有限公司), a company incorporated in the PRC;
“Target Company”	Tongcheng-Elong Holdings Limited, a company incorporated in the Cayman Islands and owned as to 13.04% by BVI Subsidiary as at the date of the Equity Transfer Agreements;

DEFINITIONS

“Target Group”	the Target Company together with its subsidiaries;
“Target Shares”	10,607,948 shares in the Target Company (representing approximately 5.11% equity interest of the Target Company) to be transferred to City Legend by Suzhou Wancheng pursuant to the Equity Transfer Agreements;
“Tongcheng Network”	Tongcheng Network Technology Limited (同程網絡科技股份有限公司), a joint stock limited company established under the laws of the PRC, and was merged with the Target Group in March 2018
“Tongcheng Online Business”	the online business unit of Tongcheng Network which comprises transportation ticketing, accommodation reservation and certain other travel-related online services offered through its online platform, which represents the principal business of Tongcheng Network when it was merged with the Target Group in March 2018
“USD”	United States Dollar, the lawful currency of the United States of America; and
“%”	per cent.

In this circular, the English names of the PRC entities or enterprises are translations of their Chinese names. In the event of any inconsistency, the Chinese names shall prevail.

LETTER FROM THE BOARD



Overseas Chinese Town (Asia) Holdings Limited

華僑城（亞洲）控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03366)

Executive Directors:

Mr. He Haibin (*Chairman*)

Ms. Xie Mei (*Chief Executive Officer*)

Mr. Lin Kaihua

Non-executive Director:

Mr. Zhang Jing

Independent Non-Executive Directors:

Mr. Lu Gong

Ms. Wong Wai Ling

Professor Lam Sing Kwong Simon

Registered Office:

Clifton House

75 Fort Street

PO Box 1350 GT

George Town

Grand Cayman

Cayman Islands

*Head Office and Principal Place
of Business:*

Suites 3203-3204, Tower 6

The Gateway, Harbour City

Canton Road

Tsim Sha Tsui

Kowloon

Hong Kong

30 August 2018

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
ACQUISITION OF 5.11% EQUITY INTEREST IN
TARGET COMPANY**

INTRODUCTION

Reference is made to the announcements of the Company dated 10 May 2018 and 22 June 2018.

On 10 May 2018 (after trading hours), City Legend, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreements with Suzhou Wancheng, pursuant to which City Legend agreed to acquire and Suzhou Wancheng agreed to sell the Target Shares at the consideration of RMB1,176,470,588 (or its USD or HK\$ equivalent which will be determined based on the foreign exchange reference rate announced by the People's Bank of China on the effective date of the Equity Transfer Agreements).

LETTER FROM THE BOARD

The purpose of this circular is to provide Shareholders with further details of the Equity Transfer Agreements and the transactions contemplated thereunder and such other information as required by the Listing Rules.

EQUITY TRANSFER AGREEMENTS

Principal terms of the Equity Transfer Agreements are set out as follows:

Date

10 May 2018 (after trading hours)

Parties

- (1) City Legend (as purchaser); and
- (2) Suzhou Wancheng (as vendor).

To the best information, knowledge and belief of the Directors, after having made all reasonable enquiries, Suzhou Wancheng, the other shareholders of the Target Company and their respective ultimate beneficial owners are Independent Third Parties.

Effectiveness of the Equity Transfer Agreements

As at the date of the Equity Transfer Agreements, Suzhou Wancheng is the sole shareholder of BVI Subsidiary, and BVI Subsidiary holds 13.04% equity interest in the Target Company.

Pursuant to the Equity Transfer Agreements, BVI Subsidiary shall transfer its 13.04% equity interest in the Target Company to Suzhou Wancheng. The Equity Transfer Agreements shall become effective upon completion of such transfer and Suzhou Wancheng having become the registered holder of the 13.04% equity interest in the Target Company.

The transactions contemplated under the Equity Transfer Agreements were subject to the Company having complied with the applicable requirements under the Listing Rules (including the obtaining of the shareholders' approval). Prior to the entering of the Equity Transfer Agreements, the Company has obtained a written approval from Pacific Climax, the controlling shareholder of the Company which held 530,894,000 Shares as at the date of the Equity Transfer Agreements and the Latest Practicable Date (representing approximately 70.94% of the issued share capital of the Company) for the approval of the Equity Transfer Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Subject Matter

After completion of the transfer of 13.04% equity interest by BVI Subsidiary to Suzhou Wancheng, Suzhou Wancheng shall sell the Target Shares, (being 10,607,948 shares in the Target Company and representing approximately 5.11% equity interest of the Target Company) to City Legend.

Completion

Completion of the Equity Transfer Agreements shall take place within three (3) business days after the Equity Transfer Agreements have become effective, Suzhou Wancheng having completed the registrations at the relevant PRC authorities regarding the change in overseas direct investment (ODI) and foreign exchange administration, and Suzhou Wancheng having opened a PRC bank account for the transactions contemplated under the Equity Transfer Agreements.

On the completion date, Suzhou Wancheng shall transfer the Target Shares to City Legend and arrange the directors appointed by it or its affiliates in the Target Company to resign, and City Legend shall enter into the Joinder Agreement with the Target Company.

As at the Latest Practicable Date, completion of the Equity Transfer Agreements has already taken place and City Legend has become the owner of approximately 5.11% in the Target Company. The Target Shares have been accounted for as financial assets of the Group. Accordingly, the Target Company will not become a subsidiary of the Company and its financial results will not be consolidated into the Group.

Consideration and Payment Manner

The consideration for the acquisition of the Target Shares is RMB1,176,470,588 (or its USD or HK\$ equivalent which will be determined based on the foreign exchange reference rate announced by the People's Bank of China on the effective date of the Equity Transfer Agreements), which shall be settled in cash by way of bank transfer by City Legend within one (1) business day after the completion date.

If Suzhou Wancheng has fulfilled its obligation to transfer the Target Shares but City Legend fails to settle the full amount of the consideration on the prescribed date, Suzhou Wancheng may select to (i) terminate the Equity Transfer Agreement and require City Legend to transfer the Target Shares back to Suzhou Wancheng within the requested time and bear the relevant costs; or (ii) require City Legend to continue with its payment obligation under the Equity Transfer Agreements and pay a daily default interest of 0.05% per day on the outstanding consideration.

As at the Latest Practicable Date, the Group has already settled the consideration by its internal resource and bank loans.

LETTER FROM THE BOARD

Basis of Consideration

The consideration was arrived at after arm's length negotiations between City Legend and Suzhou Wancheng and was determined after having taken into account the following factors:

(i) Market value of comparable listed companies in the same industry

In arriving the consideration of the Target Shares, the Board has considered the market value of the following comparable listed companies in the same industry:

Listed Company	Accumulated Revenue for the 3rd Quarter of 2017 <i>RMB billion</i>	Accumulated Net Profit for the 3rd Quarter of 2017 <i>RMB billion</i>	Market value as of 9 March 2018 <i>RMB billion</i>	Profit Earning Ratio (TTM)
Ctrip.com International Ltd.	20.4	1.6	157.4	72
Tuniu Corporation	1.7	-0.58	6.2	–
TripAdvisor Inc.	10.1	-0.12	38.4	–
Booking Holdings Inc (formerly known as Priceline Group Inc)	82.9	15.3	600.3	40.67
Expedia Group Inc	65.7	2.46	105.7	44.17

Notes:

1. The market value of the above listed companies are based on the financial information available on Wind (萬得信息技術股份有限公司), a PRC financial information services provider, as at 9 March 2018. The financial information of Ctrip and Tuniu Corporation are extracted from their 2017 third quarter report and the financial information of TripAdvisor, Priceline and Expedia are extracted from their 2017 annual report.
2. PE (TTM) of Tuniu Corporation and TripAdvisor are not available since the companies have recorded net loss for the relevant financial period.

The Board selected the companies in the above table for comparison since (i) they are principally engaged in online travel agent business, which are same as the Target Company; (ii) they are already listed, which indicates their financial and business information can be easily obtained from public domain; and (iii) all of them are reputable companies in the market. The above table has included all the comparable listed companies that have been considered by the Board.

As shown in the table above, the market values of the comparable listed companies are all maintained at a relatively high level. As at 3 March 2018, the profit earning (“PE”) ratios (TTM) of Ctrip, Priceline and Expedia were approximately 72 times, 40.67 times and 44.17 times, respectively, all of which were above 40 times.

LETTER FROM THE BOARD

As disclosed in the announcement of the Company dated 10 May 2018, the consideration of the Acquisition was determined by the Board with the then available unaudited financial information derived from summing up the net profit of the subsidiaries of the Target Company (the “**Then Available Financial Information**”) which was expected to be deviated from the financial information of the Target Group as published in the Application Proof after the signing of the Equity Transfer Agreements (the “**AP Financial Information**”) and included under the sectioned headed “Financial Information of the Target Group” and Appendices II and III to this Circular.

The Then Available Financial Information of the Target Company was collected through direct negotiation with Suzhou Wancheng and the Target Company and from the internet, and such data collection and price determination process is similar to the previous pre-IPO investments made by the Company and, to the best knowledge, information and belief of the Directors, in line with the market practice.

Although the AP Financial Information was not exactly the same as the Then Available Financial Information, the Board withholds the view that the Acquisition is fair, reasonable and in the interest of the Company and its shareholders as a whole since the performance of the Target Group (together with Tongcheng Online Business) as revealed in the AP Financial Information was better than those revealed in the Then Available Financial Information. Pursuant to the Application Proof, the Target Group and Tongcheng Online Business recorded a profit of RMB194.4 million and RMB491.3 million, respectively; and the adjusted profit of the enlarged Target Group for year 2017 was RMB712.8 million. The above said figures are higher than the net profit (after tax) of the Target Group for year 2017 in the amount of RMB594.2 million as disclosed in the Announcement, which means the consideration of the Acquisition was not overvalued and thus the Acquisition was in the interest of the Company and its shareholders.

(ii) Prospect of the Target Company’s industry and the Target Company’s market share in the PRC

The online travel agency industry in the PRC is continuously growing over the last few years and the Company is optimistic in investment in this industry. With reference to the Application Proof, the Target Company ranked third in terms of gross merchandise volume in China’s online travel market in 2017 with the highest year-over-year growth from 2015-2017 in the number of online transportation ticketing and accommodation reservation transactions in China’s online travel agencies market according to iResearch. It also ranked second in China’s online travel industry in terms of brand awareness according to a survey conducted by iResearch in April 2018, and its brand name “Tongcheng-eLong” ranked fourth in terms of brand influence among China’s online and offline travel brands according to China Travel Brand Influence Report 2018 released by the Chinese Academy of Social Science in May 2018.

LETTER FROM THE BOARD

Having considered that three out of five comparable companies have a PE ratio of over 40 times, and the prospects and the market position of the Target Company, the parties determined the consideration of the Target Shares at the current amount which is approximately equal to 39 times of the PE ratio (which was calculated with reference to the then available financial information of the Target Company as at the date of the Equity Transfer Agreements), and the Board is of the view that the consideration is fair and reasonable, and in the interest of the Company and its shareholders as a whole.

(iii) Consideration in comparable transactions

As disclosed in the Application Proof, on the signing date of the Equity Transfer Agreements, Suzhou Wancheng also entered into equity transfer agreements with other independent third parties of the Company, namely Suzhou Huafan Runhe Venture Capital Partnership (Limited Partnership) and Kinetic Creation Global Investments Limited (collectively, the “**Other Investors**”), pursuant to which Suzhou Wancheng agreed to transfer 15,381,525 shares and 1,060,795 shares in the Target Company at the price of RMB110.90 per share to the said parties, respectively. Such acquisition price (per share) paid by each of the Other Investors was same as the acquisition price paid by City Legend under the Equity Transfer Agreements, which further strengthens the Board’s view that the consideration under the Equity Transfer Agreements reflects the fair market value of the Target Company.

According to Suzhou Wancheng and the Target Company, prior to the entering of the relevant equity transfer agreements, both the Other Investors were provided with the same information received by City Legend, including the unaudited financial information of the Target Group as set out in the announcement of the Company dated 10 May 2018. Both the Other Investors also did not have access to the financial information of the Target Company disclosed in the Application Proof.

To the best knowledge, information and belief of the Directors, and based on the Company’s investment experiences in other companies (including those companies which have already published their application proof and those in private sector), the extent of information willing to be provided by a vendor to an investor varies on factors such as the investment size and other technical reasons which may affect the availability of the financial information of the target company.

Having considered that the investment made by City Legend in the Target Company was small which only amounted to 5.11%; the Target Company had to keep its financial information (which was prepared in audited standard) confidential prior to the publication of the Application Proof; and City Legend had been provided with same information as the Other Investors; the Directors believe that making the investment decision to enter the Equity Transfer Agreements was fair and reasonable and in line with market practice.

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Breach of Agreements and Indemnity

In the event the completion does not take place on or before the Long Stop Date due to the reason of any party, or any party (the “**Default Party**”) commits a material breach of the Equity Transfer Agreements, the non-Default Party may terminate the Equity Transfer Agreements by serving a written notice to the Default Party, and the Equity Transfer Agreements will be terminated from the date when the Default Party received such notice.

The non-Default Party may claim the Default Party for all losses arise from the breach, and the Default Party shall be liable for a default penalty amount to 30% of the total amount of the consideration.

Succession of Shareholder’s Rights and Obligations

Pursuant to the Equity Transfer Agreements, City Legend shall enter into the Joinder Agreement with the Target Company on the completion date, pursuant to which City Legend shall agree to become a party to the Shareholders’ Agreement and be bound by the terms and conditions therein.

Accordingly, City Legend shall success all rights and obligations of a shareholder of the Target Company from Suzhou Wancheng, save for the rights of “Principal Shareholders” and those exclusively entitled to Suzhou Wancheng and/or its affiliates under the Shareholders’ Agreement.

PRINCIPAL TERMS AND CONDITIONS OF THE SHAREHOLDERS’ AGREEMENT

A summary of the principal rights and obligation of City Legend as a shareholder under the Shareholders’ Agreement is set out as follows:

Right of Transfer

Right of First Offer

Save for transfer to an affiliate of City Legend, any transfer of shares of the Target Company is subject to the right of first offer by the other existing shareholders of the Target Company. Besides, transfer of Target Company’s shares to competitors of the Target Company and/or its certain principal shareholders is not allowed unless with the prior written consent of the management of the Target Company or the relevant principal shareholders.

Drag Along Right

If shareholders holding sixty-seven percent (67%) or more of the Target Company’s shares propose to transfer all of their respective Target Company’s shares to a third party, such shareholders may at their option require other shareholders of the Target Company (including City Legend) to transfer all their respective Target Company’s shares to such third party.

LETTER FROM THE BOARD

Corporate Governance

City Legend has the right to vote at any shareholders' meeting of the Target Company. It does not have the right to nominate or appoint the directors or the senior management of the Target Company.

INFORMATION OF THE TARGET GROUP

The Target Company, Tongcheng-Elong Holdings Limited, is a company incorporated in the Cayman Islands. It is principally engaged in investment holdings. The Target Group is a leading online travel agency (OTA) in the PRC with an optimistic growth prospect which provides one-stop travel booking service. On 20 June 2018, the Target Company has submitted an application for the listing of its shares on the Main Board of the Stock Exchange.

FINANCIAL INFORMATION OF THE TARGET GROUP

The Merger of Tongcheng Network with the Target Group

Prior to March 2017, the principal business of Tongcheng Network primarily consisted of the Tongcheng Online Business and other offline business (the “**Offline Business**”) which comprised sales of travel packages and attraction tickets and provision of financial services. On 17 March 2017, Tongcheng Network entered into a spin-off agreement with Tongcheng Holdings Co., Ltd. (同程控股股份有限公司), pursuant to which, among others, the assets, liabilities and interest in relation to the Offline Business were allocated to Tongcheng Holdings whilst the remaining assets, liabilities and interest in relation to the Tongcheng Online Business were retained within Tongcheng Network. The spin-off agreement was legally completed in 2017. Thereafter on 28 December 2017, the shareholders of Tongcheng Network entered into a restructuring agreement with, among other, the shareholders of the Target Company, pursuant to which the Target Company acquired Tongcheng Online Business and agreed to issue ordinary shares of the Target Company to the shareholders of Tongcheng Network in return for the signing of a series of contractual agreements. The said acquisition was completed in March 2018 and Tongcheng Online Business was merged with the Target Group accordingly.

Since the merger of Tongcheng Network and the Target Group was completed in March 2018, the results of operations and financial positions of Tongcheng Online Business were not consolidated into the results of operations and financial positions of the Target Group for the financial periods ended before 31 December 2017. Accordingly, the financial information of the Target Group and Tongcheng Online Business is presented separately in this section and in Appendices II, III and IV to this circular.

Set out below is the financial information of the Target Group and Tongcheng Online Business for the two years ended 31 December 2016 and 2017 extracted from the Application Proof and prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standard Board (“IASB”):

LETTER FROM THE BOARD

Target Group

For the year ended 31 December

	2016 (RMB'000)	2017 (RMB'000)
Net (loss)/profit (before tax)	(2,159,618)	134,021
Net (loss)/profit (after tax)	(2,160,596)	194,377
Net asset	(5,532,120)	(5,331,934)

Tongcheng Online Business

For the year ended 31 December

	2016 (RMB'000)	2017 (RMB'000)
Net (loss)/profit (before tax)	(70,302)	572,472
Net (loss)/profit (after tax)	(91,098)	491,338
Net asset	2,118,885	1,444,967

REASONS FOR AND BENEFIT OF ENTERING INTO THE EQUITY TRANSFER AGREEMENTS

Having considered that (i) the online travel agency industry has seen an explosive growth in recent years, and the Target Company has a good development prospect with its rapid growth in the numbers of active daily users and transactions amount; (ii) the Group's investment in the Target Company is expected to generate satisfactory return and is in the interest of the Group; and (iii) the transaction contemplated under the Equity Transfer Agreements is in line with the Company's development strategies about making investment in the industries in the new urbanization industrial ecosphere; the Directors are of the view that the terms of the Equity Transfer Agreements are on normal commercial terms, fair and reasonable and the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole.

INFORMATION OF THE GROUP AND PARTIES TO THE EQUITY TRANSFER AGREEMENTS

The principal business activity of the Company is investment holding. The Group is principally engaged in the comprehensive development business and the manufacture and sale of cartons and paper products.

City Legend is a wholly-owned subsidiary of the company, which is incorporated under the laws of Hong Kong with limited liability. It is principally engaged in investment holding.

LETTER FROM THE BOARD

Suzhou Wancheng is a company incorporated in the PRC. It is principally engaged in investments in travel industry.

FINANCIAL EFFECTS OF THE EQUITY TRANSFER AGREEMENTS

There would be no financial effect of the Equity Transfer Agreements on the total asset, total liabilities and earnings of the Group upon the completion of acquisition. Based on the unaudited pro forma financial information of the Group as set out in Appendix V of this circular, assuming the acquisition of 5.11% equity interest in the Target Company had taken place on 31 December 2017, the unaudited pro forma non-current assets of the Group as at 31 December 2017 would have increased by RMB1,176,470,588 and the unaudited pro forma current assets of the Group as at 31 December 2017 would have decreased by RMB1,176,470,588.

After completion of the Equity Transfer Agreements, the Target Shares have been accounted for as financial assets of the Group. The Target Company will not become a subsidiary, associate or joint venture of the Company, accordingly its financial results will not be consolidated into or equity accounted for in the consolidated financial statements of the Group.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

For the year ended 31 December 2017, the Group realised revenue of approximately RMB4,905 million, representing a year-on-year decrease of approximately 8.5%. For the year ended 31 December 2017, profit attributable to equity holders of the Group was approximately RMB1,107 million, representing a significant year-on-year increase of approximately 187.1%. For the year ended 31 December 2017, gross profit margin of the Group was approximately 34.0%, representing a year-on-year increase of approximately 3.3 percentage points. As at 31 December 2017, total assets and total equity of the Group amounted to approximately RMB23,746 million and approximately RMB13,313 million, representing a year-on-year increase of approximately 15.6% and approximately 96.7% respectively.

Looking forward, for the comprehensive development businesses, the Group will pay close attention to the real estate policies stipulated by the central and local governments and optimise its development strategies based on market conditions. The Group will continue to adhere to advanced development philosophy and clear market orientation and stay on the outlook for diversified investment opportunities. More quality lands will be acquired and the project reserve pool will be expanded through mergers and acquisitions, cooperation and other approaches, with the aim of propelling the growth of the comprehensive development business.

Shanghai Suhewan, as a riverside city comprehensive project featuring a fusion of cultural heritage, art, fashion, commercial and residential properties as well as urban recreational facilities, will continue the sales activities of waterfront multi-storey residential properties and high-rise residential towers that have highly sought-after landscape resources. It will also launch a new apartment project, Bulgari Residence for lease while at the same time

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roll out the leasing of commercial properties. The much anticipated Bulgari Hotel has commenced operation in June 2018. Regarding the Chengdu OCT Project, high-end customised villas in the only eyot of the Chengdu downtown and a new phase of high-rise residential properties will be launched, and sales activities of low-density residential properties and high-end office products will proceed along as well.

OCT Group, the controlling shareholder of the Group, has confirmed that it participates in the national new urbanisation construction with the development mode of “culture + tourism + urbanisation”, the compensation mode of “tourism + internet + finance”, and through its five industries focus, namely “cultural industry sector, tourism industry sector, new urbanisation, financial investment and electronic industry sector”.

Looking forward, as OCT Group’s only offshore listed platform, the Group’s new development mode will be “comprehensive development and investment in the new urbanisation industrial ecosystem”. The Group will develop the comprehensive development business with added vigor and on a larger scale by fully leveraging OCT’s brand equity and financial strength, and by securing projects that offer good cash flows from prime cities and OCT urbanisation projects. The Group will also actively take advantage of the domestic and overseas capital markets and financial products and develop business through domestic and overseas direct investments, indirect investments (industrial funds), financial leasing and others, helping OCT Group to create a new urbanisation industrial ecosphere.

The Board is very confident about the future development prospects of the Group. With the support of OCT Group, the Group will continue to forge ahead with innovative development and endeavor to generate ideal investment returns for shareholders.

LISTING RULES IMPLICATIONS

As one or more of the relevant applicable percentage ratios calculated pursuant to the Listing Rules in respect of the Equity Transfer Agreements is/are more than 25% but less than 100%, the Equity Transfer Agreements and the transactions contemplated thereunder constitute a major transaction of the Company for the purpose of the Listing Rules and are subject to the announcement requirement and the approval of the Shareholders under Chapter 14 of the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

Waiver from strict compliance with Rule 14.67(6)(a)(i) of the Listing Rules

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountants’ report of the Target Group and Tongcheng Online Business prepared in accordance with Chapter 4 of the Listing Rules. The accounts on which such report

LETTER FROM THE BOARD

is based must relate to a financial period ended 6 months or less before the date of this circular, and the financial information on the business, company or companies being acquired must be prepared using accounting policies which should be materially consistent with those of the Company.

Reasons for the application

The Company has applied to the Stock Exchange for a waiver in relation to Rule 14.67(6)(a)(i) of the Listing Rules due to the size of the investment in the Target Company by the Company, the Company is not entitled to full access to the financial information of the Target Group and Tongcheng Online Business together with the supporting documents required to prepare an accountants' report on it under Rule 14.67(6)(a)(i) of the Listing Rules.

Having reviewed Application Proof of the Target Group, the Company understands that the historical financial information of the Target Group and Tongcheng Online Business for the years ended 31 December 2015, 2016 and 2017 has been prepared in accordance with IFRS, which are materially consistent with HKFRS adopted by the Company. The Directors have compared the significant accounting policies adopted by the Target Group and Tongcheng Online Business as disclosed in the Application Proof with the accounting policies adopted by the Company and are not aware of any material differences between them. The directors of the Company are of the view that the historical financial information of the Target Group and Tongcheng Online Business has been prepared on a basis materially consistent with the accounting policies normally adopted by the Company.

Alternative Disclosure

In order to facilitate the Shareholders and potential investors of the Company to evaluate the transaction contemplated under the Equity Transfer Agreements, the Company has make alternative disclosures in this circular to enable Shareholders to assess the transaction pursuant to Rule 14.67 of the Listing Rules by disclosing the historical financial information of the Target Group and Tongcheng Online Business for the three years ended 31 December 2015, 2016 and 2017 as extracted from the Application Proof in this circular, details of which are set out in Appendices II and III to this circular.

The full text of the Application Proof was published on <http://www.hkexnews.hk/APP/SEHK/2018/2018062001/Documents/SEHK201806210017.pdf>

Although the Accountants' Reports are not yet signed off by the reporting accountants of the Target Company as at the Latest Practicable Date, the Company holds the view that the hyperlink references to the Accountants' reports and the Historical Financial Information as disclosed in Appendices II and III to this circular can still provide the Shareholders with sufficient information to make a properly informed assessment on the Acquisition since the Accountants' Reports were prepared based on Chapter 4 of the Listing Rules and other listing document requirements under the Listing Rules. Besides, the reporting accountants of the Target Company has also submitted a confirmation to the Stock Exchange on or around the

LETTER FROM THE BOARD

publication of the Application Proof which stated that it expected there will be no significant adjustment to be made to the accountant's reports. With such confirmation made by the reporting accountants of the Target Company, the Company believes the Accountants' Reports should be able to serve as an alternative disclosures for the information required under Rule 14.67(6)(a) of the Listing Rules, and will not result in any omission of material information in the circular nor create any undue risks to the Shareholders.

The Directors are of the view that the Company had taken reasonable steps to ensure sufficient information was provided to its Shareholders to make a properly informed assessment of the Target Company under Rule 14.67 of the Listing Rules. The granting of the waiver from strict compliance with Rule 14.67(6)(a)(i) of the Listing Rules would not result in an omission of material information in this circular and would not result in undue risks to its Shareholders.

In light of the above, the Directors are of the view this circular is not materially incomplete, misleading or deceptive and would not deprive the Shareholders of the necessary information to assess the transaction contemplated under the Equity Transfer Agreements and its impact on the Company.

The Stock Exchange has granted a waiver to the Company to waive the requirements under Rule 14.67(6)(a)(i) of the Listing Rules in this circular.

SHAREHOLDERS' WRITTEN APPROVAL

As no Shareholder has material interest in the Equity Transfer Agreements and the transactions contemplated thereunder, none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the Equity Transfer Agreements and the transactions contemplated thereunder. The Company has obtained a written approval from Pacific Climax, the controlling shareholder of the Company which held 530,894,000 Shares as at the date of this circular (representing approximately 70.94% of the issued share capital of the Company) for the approval of the Equity Transfer Agreements and the transactions contemplated thereunder. As such, no extraordinary general meeting will be convened by the Company to approve the Equity Transfer Agreements and the transactions contemplated thereunder.

RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the terms of the Equity Transfer Agreements are fair and reasonable and the transaction contemplated thereunder is in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

By order of the Board
Overseas Chinese Town (Asia)
Holdings Limited
He Haibin
Chairman

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out in this circular the financial information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2015 has been set out in pages 59 to 138 of the annual report 2015 of the Company which was posted on 7 April 2016 on the Stock Exchange's website (<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0407/LTN20160407369.pdf>).

The audited consolidated financial statements of the Group for the year ended 31 December 2016 has been set out in pages 77 to 172 of the annual report 2016 of the Company which was posted on 26 April 2017 on the Stock Exchange's website (<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0426/LTN20170426481.pdf>).

The audited consolidated financial statements of the Group for the year ended 31 December 2017 has been set out in pages 77 to 178 of the annual report 2017 of the Company which was posted on 13 April 2018 on the Stock Exchange's website (<http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0413/LTN20180413403.pdf>).

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 July 2018, being the date of this indebtedness statement prior to the printing of this circular, the Group had a total borrowings of approximately RMB7,300.89 million, comprising secured and guaranteed bank and related party loans of approximately RMB1,809.08 million, unsecured bank and related party loans of approximately RMB5,491.61 million, and bills payable of approximately RMB0.20 million.

As at 31 July 2018, the Group's secured and guaranteed bank loans and bills payable were secured by pledged deposits with total carrying values of approximately RMB750.02 million, and guarantee provided by an intermediate parent of the Company.

As at 31 July 2018, save for the guarantees of approximately RMB833.21 million given to financial institutions for mortgage loan facilities granted to purchasers of the Group's properties, the Group had no other material contingent liabilities.

Foreign currency amounts have been, for the purposes of this indebtedness statement, translated into Renminbi at the approximate rates of exchange applicable at the close of business on 31 July 2018.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 July 2018, the Group did not have any other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase lease commitments, liabilities under acceptance or acceptance credit, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group including the internally generated funds and the present available bank facilities, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

The followings are the extracts of the text of the Application Proof of the Target Company, enclosing, among others, the historical financial information of the Target Group for the three years ended 31 December 2015, 2016 and 2017, which were prepared by the management of the Target Company and published on the website of the Stock Exchange at <http://www.hkexnews.hk/APP/SEHK/2018/2018062001/a15792/ETEHL-20180620-29.PDF>. For the avoidance of doubt, references in the Financial Information on the Target Group in this Appendix II to “the Company” are to the Target Company and not to the Company.

The Financial Information on the Target Group was not prepared for the Company or its shareholders, nor for the purpose of incorporation in this circular. Neither the Target Company nor its reporting accountants shall take or assume any responsibility or liability for the contents of the Financial Information on the Target Group as reproduced in this circular towards the Company, its Shareholders or any other persons making use of this circular.

The contents of the Financial Information on the Target Group has also not been independently verified by the Group or any of its affiliates, advisers, agents, directors, employees, officers or representatives. Neither the Group nor any of its affiliates, advisers, agents, directors, employees, officers or representatives make any representation as to the accuracy, completeness or fairness of the contents of the Financial Information on the Target Group, nor shall take or assume any responsibility for the contents of the Financial Information on the Target Group.

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise stated.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Consolidated statements of comprehensive (loss)/income

		Year ended December 31,		
	Note	2015	2016	2017
		RMB'000	RMB'000	RMB'000
Revenue	5	1,026,124	2,204,565	2,518,591
Cost of revenue	6	(639,723)	(1,032,913)	(811,781)
Gross profit		386,401	1,171,652	1,706,810
Service development expenses	6	(399,073)	(517,648)	(522,018)
Selling and marketing expenses	6	(775,464)	(1,882,779)	(1,094,977)
Administrative expenses	6	(272,584)	(898,337)	(97,379)
Fair value changes on investments measured at fair value through profit or loss	17	17,646	(4,031)	863
Other income	9	49,006	10,547	12,805
Other gains/(losses), net	10	51,107	4,689	22,610
Operating (loss)/profit		(942,961)	(2,115,907)	28,714
Finance income	11	9,156	8,402	10,145
Finance costs	11	(5,831)	(4,114)	(163)
Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss	24	–	(36,781)	97,576
Share of results of associates	15	(18,177)	(11,218)	(2,251)
(Loss)/profit before income tax		(957,813)	(2,159,618)	134,021
Income tax (expense)/credit	12	(5,206)	(978)	60,356
(Loss)/profit for the year		(963,019)	(2,160,596)	194,377
(Loss)/profit attributable to:				
– Equity holders of the Company		(916,266)	(2,139,267)	195,575
– Non-controlling interests		(46,753)	(21,329)	(1,198)
		<u>(963,019)</u>	<u>(2,160,596)</u>	<u>194,377</u>

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

		Year ended December 31,		
	Note	2015	2016	2017
		RMB'000	RMB'000	RMB'000
(Loss)/earnings per share				
(expressed in RMB per share)	13			
– Basic		<u>(12.50)</u>	<u>(46.01)</u>	<u>7.51</u>
– Diluted		<u>(12.50)</u>	<u>(46.01)</u>	<u>1.12</u>
(Loss)/profit for the year		(963,019)	(2,160,596)	194,377
Other comprehensive income/(loss)				
<i>Items that will not be reclassified to profit or loss:</i>				
– Fair value change relating to preferred shares due to own credit risk	24	–	36,781	(46,592)
Other comprehensive income/(loss) for the year, net of tax		<u>–</u>	<u>36,781</u>	<u>(46,592)</u>
Total comprehensive (loss)/income for the year		<u>(963,019)</u>	<u>(2,123,815)</u>	<u>147,785</u>
Total comprehensive (loss)/income attributable to:				
– Equity holders of the Company		(916,266)	(2,102,486)	148,983
– Non-controlling interests		<u>(46,753)</u>	<u>(21,329)</u>	<u>(1,198)</u>
		<u>(963,019)</u>	<u>(2,123,815)</u>	<u>147,785</u>

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Consolidated statements of financial position

	Note	As of December 31, 2015 RMB'000	2016 RMB'000	2017 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	14	98,800	101,074	441,722
Investments accounted for using the equity method	15	51,087	39,869	37,618
Investments measured at fair value through profit or loss	17	49,881	45,685	25,239
Intangible assets	18	209,146	347,904	308,831
Deferred income tax assets	19	–	–	61,877
Prepayment and other receivables	20	48,149	49,761	49,172
		<u>457,063</u>	<u>584,293</u>	<u>924,459</u>
Current assets				
Trade receivables	21	461,431	883,382	539,217
Prepayment and other receivables	20	235,867	274,188	195,938
Short-term investments measured at amortized cost	17	224,507	–	–
Short-term investments measured at fair value through profit or loss	17	21,046	71,041	236,107
Restricted cash	22	146,480	153,606	170,541
Cash and cash equivalents	22	710,403	339,299	701,748
		<u>1,799,734</u>	<u>1,721,516</u>	<u>1,843,551</u>
Total assets		<u><u>2,256,797</u></u>	<u><u>2,305,809</u></u>	<u><u>2,768,010</u></u>
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	27	–	84	99
Share premium	27	–	1,514,310	1,514,310
Treasury stock	27	–	–	(15)
Other reserves	28	2,658,337	(3,275,866)	(3,270,057)
Accumulated losses		<u>(1,637,460)</u>	<u>(3,776,727)</u>	<u>(3,581,152)</u>
		1,020,877	(5,538,199)	(5,336,815)
Non-controlling interests		<u>27,510</u>	<u>6,079</u>	<u>4,881</u>
Total equity		<u><u>1,048,387</u></u>	<u><u>(5,532,120)</u></u>	<u><u>(5,331,934)</u></u>
LIABILITIES				
Non-current liabilities				
Borrowings	23	–	–	172,305
Deferred income tax liabilities	19	3,738	4,283	201
Redeemable convertible preferred shares	24	–	6,398,631	6,347,647
Other payables and accruals	26	2,950	2,375	1,839
		<u>6,688</u>	<u>6,405,289</u>	<u>6,521,992</u>
Current liabilities				
Borrowings	23	–	–	19,692
Trade payables	25	658,566	921,633	1,114,917
Other payables and accruals	26	540,753	510,593	437,358
Current income taxes liabilities		<u>2,403</u>	<u>414</u>	<u>5,985</u>
		<u>1,201,722</u>	<u>1,432,640</u>	<u>1,577,952</u>
Total liabilities		<u><u>1,208,410</u></u>	<u><u>7,837,929</u></u>	<u><u>8,099,944</u></u>
Total equity and liabilities		<u><u>2,256,797</u></u>	<u><u>2,305,809</u></u>	<u><u>2,768,010</u></u>

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Statements of Financial Position of the Company

	As of December 31,	
	2016	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	7,913,025	7,913,025
Prepayment and other receivables	—	15
Total assets	<u>7,913,025</u>	<u>7,913,040</u>
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	84	99
Share premium	1,514,310	1,514,310
Other reserves	(36,781)	46,592
Retained profits	<u>36,781</u>	<u>4,392</u>
Total equity	<u>1,514,394</u>	<u>1,565,393</u>
LIABILITIES		
Non-current liabilities		
Redeemable convertible preferred shares	<u>6,398,631</u>	<u>6,347,647</u>
Total liabilities	<u>6,398,631</u>	<u>6,347,647</u>
Total equity and liabilities	<u>7,913,025</u>	<u>7,913,040</u>

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Consolidated statements of changes in equity

	Share capital RMB'000	Share premium RMB'000	Treasury stock RMB'000	Other reserves RMB'000	Attributable to equity holders of the Company Accumulated losses RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
As of January 1, 2015	–	–	–	2,504,792	(715,033)	1,789,759	76,650	1,866,409
Comprehensive loss								
Loss for the year	–	–	–	–	(916,266)	(916,266)	(46,753)	(963,019)
Total comprehensive loss	–	–	–	–	(916,266)	(916,266)	(46,753)	(963,019)
Transactions with owners								
Share-based compensations (Note 8)	–	–	–	208,296	–	208,296	–	208,296
Statutory reserves	–	–	–	6,161	(6,161)	–	–	–
Exercise of stock options (Note 8)	–	–	–	25,397	–	25,397	–	25,397
Share based compensation of a subsidiary	–	–	–	3,278	–	3,278	(226)	3,052
Disposal of a subsidiary	–	–	–	–	–	–	(2,161)	(2,161)
Purchase of vested eLong Equity Awards in connection with the Expedia Transaction (Note 8)	–	–	–	(89,587)	–	(89,587)	–	(89,587)
Total transactions with owners recognized directly in equity	–	–	–	153,545	(6,161)	147,384	(2,387)	144,997
As of December 31, 2015	–	–	–	2,658,337	(1,637,460)	1,020,877	27,510	1,048,387
As of January 1, 2016	–	–	–	2,658,337	(1,637,460)	1,020,877	27,510	1,048,387
Comprehensive loss								
Loss for the year	–	–	–	–	(2,139,267)	(2,139,267)	(21,329)	(2,160,596)
Changes in fair value of the preferred shares – attributable to its credit risk	–	–	–	36,781	–	36,781	–	36,781
Total comprehensive loss	–	–	–	36,781	(2,139,267)	(2,102,486)	(21,329)	(2,123,815)
Transactions with owners								
Share-based compensations (Note 8)	–	–	–	71,325	–	71,325	–	71,325
Exercise of stock options (Note 8)	–	–	–	1,719	–	1,719	–	1,719
Exchange of high-vote ordinary shares to preferred shares in connection with the Restructuring (Note 24)	–	–	–	(3,527,596)	–	(3,527,596)	–	(3,527,596)
Re-designation of ordinary shares to preferred shares in connection with the Restructuring (Note 24)	–	–	–	(920,414)	–	(920,414)	–	(920,414)
Purchase of vested Equity Awards (Note 8)	–	–	–	(81,624)	–	(81,624)	–	(81,624)
Incorporation of the Company and consummation of the Restructuring	84	1,514,310	–	(1,514,394)	–	–	–	–
Purchase of non-controlling interest	–	–	–	–	–	–	(102)	(102)
Total transactions with owners recognized directly in equity	84	1,514,310	–	(5,970,984)	–	(4,456,590)	(102)	(4,456,692)
As of December 31, 2016	84	1,514,310	–	(3,275,866)	(3,776,727)	(5,538,199)	6,079	(5,532,120)

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Attributable to equity holders of the Company Treasury stock <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
As of January 1, 2017	84	1,514,310	–	(3,275,866)	(3,776,727)	(5,538,199)	6,079	(5,532,120)
Comprehensive income/(loss)								
Profit/(loss) for the year	–	–	–	–	195,575	195,575	(1,198)	194,377
Changes in fair value of the preferred shares – attributable to its credit risk	–	–	–	(46,592)	–	(46,592)	–	(46,592)
Total comprehensive income/(loss)	–	–	–	(46,592)	195,575	148,983	(1,198)	147,785
Transactions with owners								
Share-based compensations (<i>Note 8</i>)	–	–	–	56,783	–	56,783	–	56,783
Issuance of RSUs (<i>Note 8</i>)	15	–	(15)	–	–	–	–	–
Purchase of vested Equity Awards (<i>Note 8</i>)	–	–	–	(4,382)	–	(4,382)	–	(4,382)
Total transactions with owners recognized directly in equity	15	–	(15)	52,401	–	52,401	–	52,401
As of December 31, 2017	99	1,514,310	(15)	(3,270,057)	(3,581,152)	(5,336,815)	4,881	(5,331,934)

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Consolidated statements of cash flows

		Year ended December 31,		
	Note	2015	2016	2017
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash (used in)/generated from operations	31	(794,526)	(413,844)	715,021
Interest received		35,206	6,700	4,310
Income tax (paid)/refund		(16,872)	(3,017)	563
Net cash (outflow)/inflow from operating activities		<u>(776,192)</u>	<u>(410,161)</u>	<u>719,894</u>
Cash flows from investing activities				
Payments for investments accounted for using the equity method		(58,142)	–	–
Payments for investments measured at fair value through profit or loss		(15,000)	–	–
Payment for business combination	30	(5,000)	–	–
Purchases of property, plant and equipment		(44,012)	(56,530)	(392,134)
Proceeds from disposal of property, plant and equipment and intangible assets		56	108	62
Proceeds from disposal of a subsidiary		64,310	–	–
Proceeds from disposal of investments accounted for using the equity method		19,350	–	–
Proceeds from disposal of long-term investments measured at fair value through profit or loss		–	–	20,000
Increase in restricted cash		(22,543)	(7,126)	(16,935)
Payments for purchases of short-term investments		(917,311)	(475,075)	(1,673,388)
Proceeds from redemptions of short-term investments		<u>2,103,439</u>	<u>656,023</u>	<u>1,520,440</u>
Net cash inflow/(outflow) from investing activities		<u>1,125,147</u>	<u>117,400</u>	<u>(541,955)</u>
Cash flows from financing activities				
Purchase of vested eLong Equity Awards		–	(81,624)	(4,382)
Proceeds from bank borrowings		–	–	196,920
Repayments of bank borrowings		–	–	(6,663)
Settlement of share-based awards		(86,580)	–	–
Exercise of stock options		<u>25,397</u>	<u>1,719</u>	<u>–</u>
Net cash (outflow)/inflow from financing activities		<u>(61,183)</u>	<u>(79,905)</u>	<u>185,875</u>
Net increase/(decrease) in cash and cash equivalents		<u>287,772</u>	<u>(372,666)</u>	<u>363,814</u>
Cash and cash equivalents at beginning of the year	22	412,892	710,403	339,299
Effect of exchange rate changes on cash and cash equivalents		<u>9,739</u>	<u>1,562</u>	<u>(1,365)</u>
Cash and cash equivalents at end of the year	22	<u>710,403</u>	<u>339,299</u>	<u>701,748</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION, HISTORY OF THE GROUP, MATERIAL ACQUISITIONS AND BASIS OF PRESENTATION****1.1 General information**

Tongcheng-Elong Holdings Limited (the “Company”, formerly known as China E-Dragon Holdings Limited) is an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 14, 2016.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the provision of travel related services, including accommodation reservation services, transportation ticketing services, and online advertising services (the “Listing Business”) in the People’s Republic of China (the “PRC”).

1.2 History of the Group, material acquisitions and group structure***1.2.1 History of the Group***

eLong Inc. (“eLong”) and its subsidiaries (collectively, the “eLong Group”) was the group of companies operating the Listing Business throughout the Track Record Period. Prior to May 31, 2016, the ordinary shares of eLong were listed and traded on NASDAQ Global Select Market (“NASDAQ”) in the form of American Depositary Shares (“ADS”). eLong had a dual-class share structure with each ordinary share entitled to one vote and each high-vote ordinary share entitled to fifteen votes.

eLong used to be controlled by Expedia, Inc. (“Expedia”) with the majority ownership and voting rights of eLong held by Expedia. Another major shareholder of eLong at the time was TCH Sapphire Limited, a company wholly owned by Tencent Holdings Limited (“Tencent”). On May 22, 2015, Expedia sold all of its equity interest in eLong to several investors, including C-Travel International Limited, a wholly owned subsidiary of Ctrip.com International Ltd. (“Ctrip”), Keystone Lodging Holdings Limited (“Keystone”), Plateno Group Limited (“Plateno”), and Luxuriant Holdings Limited (“Luxuriant”) (the “Expedia Transaction”). In connection with the Expedia Transaction, the board of directors and certain management of eLong were changed. After the Expedia Transaction, eLong no longer has any controlling shareholder and its substantial shareholders include Ctrip and Tencent. On August 17, 2015, Keystone and Plateno transferred their respective shareholding in eLong to Ocean Imagination L.P. (“Ocean Imagination”).

On May 31, 2016, eLong consummated a restructuring pursuant to which eLong was acquired by the Company, with all of the then existing ordinary shares of eLong being exchanged with an equivalent number of ordinary shares or convertible and redeemable preferred shares (the “Preferred Shares”) of the Company (the “Restructuring”). In conjunction with the Restructuring, Tencent, Ocean Imagination and certain management members (collectively the “Buyers”) purchased all the ordinary shares of eLong that were not owned by Ctrip, Luxuriant and the Buyers. These ordinary shares purchased by the Buyers were exchanged to the same number of the Preferred Shares of the Company. Thereafter, the ADSs of eLong ceased to be listed on NASDAQ and eLong became a wholly owned subsidiary of the Company.

On March 27, 2018, the Company changed its name to Tongcheng-Elong Holdings Limited.

1.2.2 Material acquisitions

On December 28, 2017, the Company entered into an agreement with Tongcheng Network Technology Limited (“Tongcheng Network”) and its shareholders whereby the Company acquired Tongcheng Network’s Online Travel Agency Business (“Tongcheng Online Business”) by entering into a series of contractual arrangements with Tongcheng Network and its then shareholders, and the consideration was satisfied by issuing the Company’s 96,721,818 ordinary shares to the then shareholders of Tongcheng Network (the “Acquisition”). In conjunction with the Acquisition, Tencent, through one of its wholly owned subsidiaries, subscribed additional ordinary shares of the Company at a cash consideration of approximately US\$30 million. The Acquisition was completed on March 9, 2018 and thereafter, Tongcheng Network became a company controlled by the Company under the contractual arrangements as further described below. The Acquisition will be accounted for using the purchase method of accounting when it is consummated thus the Historical Financial Information for the Track Record Period does not include the financial information of Tongcheng Online Business.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1.2.3 Principal subsidiaries of the Group

During the Track Record Period and up to the date of this report, the Company had direct or indirect interests in the following companies:

Company name	Country/place of operation and date of incorporation	Particulars of issued/ paid-in capital	Equity/beneficial interest held	At the date of this report	Principal activities	Type of legal entity	Statutory auditor (Note)
Directly held:							
eLong Inc.	PRC/April 4, 2001	US\$0.01	100%	100%	Investment holding	Limited liability entity	(a)
Indirectly held:							
eLong Net Information Technology (Beijing) Co., Ltd. (藝龍網信息技術(北京)有限公司)	PRC/August 17, 1999	US\$214,277,229	100%	100%	Platform service of hotel business	Limited liability entity	(b)(i)
eLong Information Technology (Hefei) Co., Ltd. (藝龍信息技術(合肥)有限公司)	PRC/July 9, 2012	US\$5,000,000	100%	100%	Hotel business service/ business process outsourcing service	Limited liability entity	(b)(i)
Beijing eLong Information Technology Co., Ltd. (北京藝龍信息技術有限公司) (Note e)	PRC/November 28, 2000	RMB16,000,000	100%	100%	Information technology outsourcing/ advertising service	Limited liability entity	(b)(ii)
Beijing eLong Air Services Co., Ltd. (北京藝龍航空服務有限公司)	PRC/October 23, 2002	RMB23,000,000	100%	100%	Air ticket service	Limited liability entity	(b)(ii)
Beijing eLong International Travel Co., Ltd. (北京藝龍國際旅行社有限公司)	PRC/July 29, 2004	RMB1,500,000	100%	100%	Hotel business service/ other travel service	Limited liability entity	(b)(ii)
Tianjin Chengmei Technology Development Co., Ltd. (天津成美科技發展有限公司)	PRC/December 31, 2013	RMB15,000,000	100%	100%	Investment holding	Limited liability entity	(b)(i)
Shenzhen JL-Tour International Travel Service Co., Ltd. (深圳市捷旅國際旅行社有限公司)	PRC/October 9, 2001	RMB2,430,769	56%	56%	International Travel Service	Limited liability entity	(b)(iii)

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Company name	Country/place of operation and date of incorporation	Particulars of issued/ paid-in capital	Equity/beneficial interest held			At the date of this report	Principal activities	Type of legal entity	Statutory auditor (Note)
			2015	2016	2017				
Suzhou Chenghuiwan International Travel Agency Co., Ltd. (蘇州程會玩國際旅行社有限公司)	PRC/November 24, 2015	RMB1,000,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(vi)
Nanjing Tongyou Tianxia Car Rental Co., Ltd. (南京同遊天下汽車租賃有限公司)	PRC/October 28, 2016	-	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(vi)
Suzhou Chuanglv Tianxia Information Technology Co., Ltd. (蘇州創旅天下信息技術有限公司)	PRC/December 23, 2015	RMB100,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(v)
Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司)	PRC/January 12, 2011	RMB5,000,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(iv)
Beijing Tianyuan Difang Insurance Agency Company Limited (天圓地方(北京)保險代理有限公司)	PRC/May 28, 2010	RMB50,000,000	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(viii)
Suzhou Chengyi Internet Technology Limited (蘇州程藝網絡科技有限公司) (Note e)	PRC/March 21, 2018	-	0%	0%	0%	100%	Travel related services	Limited liability entity	(a)
Tongcheng Network Technology Limited (同程網絡科技股份有限公司) (Note e)	PRC/March 10, 2004	RMB111,319,969	0%	0%	0%	100%	Travel related services	Limited liability entity	(b)(viii)

(a) No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective places of incorporation.

(b) The statutory auditors of these companies for the Track Record Period were as follows:

(i) 北京中瑞誠會計師事務所有限公司 for the years ended December 31, 2015 and 2016; 上海中瑞誠會計師事務所(特殊普通合伙) for the year ended December 31, 2017

(ii) 北京中瑞誠會計師事務所有限公司 for the years ended December 31, 2015, 2016 and 2017

- (iii) 深圳東海會計師事務所 for the years ended December 31, 2015, 2016 and 2017
- (iv) 蘇州鑫城會計師事務所有限公司 (Suzhou Xincheng CPAs Co. Ltd.) for the year ended December 31, 2015; 江蘇華星會計師事務所有限公司 (Jiangsu Welsen CPAs Co. Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
- (v) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the years ended December 31, 2015 and 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
- (vi) No statutory audit was required for the year ended December 31, 2015; 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
- (vii) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2015; 華普天健會計師事務所(特殊普通合夥) (Huapu Tianjian CPAs LLP) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
- (viii) 江蘇公證天業會計師事務所(特殊普通合夥) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2015; 北京中兆國際會計師事務所有限公司 (Beijing Zhongzhao International CPAs Co., Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合夥) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017
- (c) The English names of certain subsidiaries referred herein represent the Directors' best effort at translating the Chinese names of these companies as no English names have been registered.
- (d) All companies comprising the Group have adopted December 31 as their financial year end date.
- (e) The prevailing PRC rules and regulations restrict foreign ownership of companies that provide internet content, call center services, travel agency and transportation ticketing services, which represent the core activities of and services provided by the Group. As a result of such restrictions, the Company does not have equity interests in certain of its PRC operating subsidiaries. However, pursuant to a series of contractual arrangements of the Group with each of Beijing E-dragon Information Technology Limited (北京藝龍信息技術有限公司) ("Beijing E-dragon"), Suzhou Chengyi International Technology Limited (蘇州程藝網絡科技有限公司) ("Suzhou Chengyi"), Tongcheng Network and their respective equity holders ("Beijing E-dragon Contractual Arrangement", "Suzhou Chengyi Contractual Arrangement", "Tongcheng Network Contractual Arrangement", and collectively, the "Contractual Arrangements"), which include powers of attorney, technical services agreements, business operations agreements, equity interest pledge agreements, exclusive purchase right agreements and loan agreement, the Company is able to effectively control, recognize and receive substantially all the economic benefits of the business and operations of the PRC operating subsidiaries. Accordingly, the PRC operating subsidiaries are treated as structured entities controlled by the Company and the financial positions and results of operations of the PRC operating entities have been/will be consolidated based on the respective dates when the Company first obtained control of these PRC operating subsidiaries.

1.3 Basis of presentation

Immediately prior to and after the Expedia Transaction and the Restructuring, the Listing Business was carried out by eLong Group. The Expedia Transaction, which was the transaction between shareholders of eLong, did not change the business substance of the Listing Business. Pursuant to the Restructuring, the Listing Business were effectively controlled by the Company through its acquisition of the entire equity interest in eLong. The Company had not been involved in any business prior to the Restructuring and its operations did not meet the definition of a business. Therefore, the Restructuring was merely a recapitalization of the Listing Business and did not change the business substance, management or major shareholders of the Listing Business. Accordingly, the Group resulting from the Expedia Transaction and the Restructuring is regarded as a continuation of the Listing Business conducted by eLong Group. For the purpose of this report, the Historical Financial Information has been prepared and presented using the carrying amounts of the Listing Business as recorded in the consolidated financial statements of eLong for the Track Record Period.

For companies acquired from or disposed of to a third party, including those involved in the Acquisition, their financial information is included in or excluded from the Historical Financial Information from the respective dates of the acquisitions or disposals.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standard Board (“IASB”). In preparing the Historical Financial Information, the Group has early adopted IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”).

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including redeemable convertible preferred shares) which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2017, are consistently applied to the Group for the Track Record Period.

(a) New and amended standards early adopted by the Group

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. The Group has reviewed its financial assets and liabilities and has elected to early apply IFRS 9 which has been applied consistently throughout the Track Record Period.

IFRS 15, “Revenue from contracts with customers” replaces the previous revenue standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. The Group has elected to early apply IFRS 15 which has been applied consistently throughout the Track Record Period.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

(b) *New standards and interpretations not yet adopted*

The following new standards, amendments and interpretations to existing standards, which are relevant to the Group have been issued and are effective for further reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 40	Transfers of investment property	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle (<i>Note (i)</i>)	Retirement of short-term exemptions in IFRS 1 Clarifying measurements of investments under IAS 28	January 1, 2018
IFRS 2 (Amendment) (<i>Note (i)</i>)	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
Amendments to IAS 28 (<i>Note (i)</i>)	Long-term interest in associate or joint ventures	January 1, 2019
IFRS 16 (<i>Note (ii)</i>)	Leases	January 1, 2019
IFRIC 23 (<i>Note (i)</i>)	Uncertainty over income tax treatments	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
IFRS 10 and IAS 28 (Amendments) (<i>Note (i)</i>)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Notes:

- (i) The Group has already commenced an assessment of the impact of these new or revised standards, and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.
- (ii) IFRS 16, "Leases", address the definition of a lease, recognition and measurement of leased and established principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that almost all operating leases will be accounted for in the Consolidated Statement of Financial Position for lessees. The accounting for lessors will not significantly change.

The Group is a lessee of certain office spaces which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in Note 2.23, is to record the rental expenses in profit or loss when such expenses were incurred, with the related operating lease commitments being separately disclosed (Note 34). IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognize the leases outside of the Consolidated Statement of Financial Position. Instead, all non-current leases should be recognized in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Consolidated Statement of Financial Position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the Consolidated Statement of Financial Position. In the Consolidated Statement of Comprehensive (loss)/Income, as a result, the annual rental and amortization expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard will impact the Consolidated Statement of Financial Position in terms of total assets and liabilities.

The Group has disclosed its non-cancellable operating lease commitments amounting to RMB28 million as of December 31, 2017 in Note 34. The standard will affect primarily the accounting for Group's operating leases. However, the Group has just commenced its assessment and had not yet determined to what extent its commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's operating results and classification of cash flow. Based on the preliminary assessment results, it is expected that certain portion of these operating lease commitments aforementioned will be required to be recognized in the Consolidated Statements of Financial Position as right-of-use assets and lease liabilities.

The application of IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. The Group does not intend to early adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group's financial performance and position.

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Subsidiaries controlled through contractual arrangements

As described in Note 1.2 as at the date of this report, the Company and its wholly-owned subsidiaries have entered into the Contractual Arrangements which enable the Company to:

- govern the financial and operating policies of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi;
- exercise equity holders' voting rights of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi;
- receive substantially all of the economic interest returns generated by Beijing E-dragon, Tongcheng Network and Suzhou Chengyi, in consideration for the technical services and software license provided by wholly-owned subsidiaries of the Company;
- have the irrevocable and exclusive right, at any time when applicable PRC law permits foreign invested companies to operate an internet content provision business, to purchase from the equity holders of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi for their respective equity interests in Beijing E-dragon, Tongcheng Network and Suzhou Chengyi. The exercise price of the option is equal to the actual paid-in registered capital (or pro rata portion thereof, as appropriate) unless otherwise specified under PRC law on the date of exercise. If the transfer price of the equity interest is greater than the loan amount, the shareholders are required to immediately return the proceeds from the transfer price in excess of the loan amount to the Company; and
- obtain a pledge over the entire ownership interests of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi from their respective equity holders to secure the payment obligations of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Company has rights to exercise power over Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries, receive variable returns from its involvement with Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries, and has the ability to affect those returns through its power over Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries. Therefore, the Company is considered to have the power to control Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries. Consequently, the Company regards Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries as the controlled entities and consolidates the financial positions and results of operations of these entities in the consolidated financial statements of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Beijing E-dragon, Tongcheng Network and Suzhou Chengyi and their respective subsidiaries. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(ii) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is a financial asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of profit or loss.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Separate financial statements

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income or loss is reclassified to consolidated statement of comprehensive income or loss where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated statement of comprehensive income or loss, and its share of post-acquisition movements in other comprehensive income or loss is recognized in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of results of associates" in the consolidated statement of comprehensive income or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated statement of comprehensive income or loss.

(b) Investments in associates in the form of redeemable convertible preferred shares

Investments in associates in the form of redeemable convertible preferred shares or ordinary shares with preferential rights shares are accounted as financial assets measured at fair value through profit or loss (Note 2.9).

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, vice presidents and directors of the Company that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company is Renminbi (“RMB”). The Company’s primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group during the Track Record Period are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Translation differences on non-monetary financial assets and liabilities such as instruments held at fair value through profit or loss are recognized in profit or loss as part of the fair value changes.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.6 Property, plant and equipment

All property, plant and equipment is stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income or loss during the financial period in which they are incurred. Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Software	3 years
IT equipment	2 to 5 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
Furniture and fixtures	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in "Other gains/(losses), net" in the consolidated statement of comprehensive income or loss.

Construction in progress represents office building and leasehold improvements under construction. Construction in progress is stated at cost less accumulated impairment losses, if any.

Cost includes the costs of construction and acquisition, and capitalized costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as set out above.

2.7 Intangible assets**(a) Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) *Other intangible assets acquired in a business combination*

Other intangible assets acquired in a business combination, mainly including customer lists, trade names, copy rights and internet domain names, are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate the costs of acquired intangible assets over the following estimated useful lives:

Customer lists	5 years
Trade names	5 years
Internet domain names	5 years

(c) *Other intangible assets*

Other intangible assets mainly include business cooperation arrangement. It was initially recognized and measured at cost or estimated fair value of intangible assets acquired at the acquisition date (Note 18). Other intangible assets are amortized over their estimated useful lives (generally 3 to 5 years) using the straight-line method.

(d) *Research and development expenditures*

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

All development costs incurred by the Group during Track Record Period do not meet the R&D capitalization criteria and hence are fully expensed off.

2.8 Impairment of non-financial assets other than goodwill

Intangible assets other than goodwill that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 16 for details about each type of financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented in other gains/(losses), net.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in profit or loss within other gains/(losses), net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/(losses) in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) *Impairment*

The Group has types of financial assets subject to IFRS 9's new expected credit loss model:

- trade receivables for sales of goods or provision of services; and
- other receivables.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at a amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Group uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

2.10 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business.

Trade and other receivables are generally due for settlement within one year and therefore are all classified as current.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.15 Redeemable convertible preferred shares

Redeemable convertible preferred shares issued by the Company are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of the Company or agreed by majority of the holders as detailed in Note 24.

The Group designated the redeemable convertible preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive (loss)/income.

Subsequent to initial recognition, the redeemable convertible preferred shares are carried at fair value with changes in fair value recognized in the consolidated statements of comprehensive (loss)/income in the year in which they arise.

The redeemable convertible preferred shares are classified as non-current liabilities because the Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income or loss, except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity. In this case, the tax is also recognized in other comprehensive income or loss or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries/territories where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

(a) Defined contribution plans

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities.

(b) Bonus plan

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

(d) Share-based compensation

Equity-settled share-based payment transactions

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("RSUs") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense in the consolidated statements of comprehensive (loss)/income with a corresponding increase in equity.

In terms of the shares, RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Including the impact of any non-vesting conditions.

Non-marketing performance and service conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statements, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium. Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period.

Cash-settled share-based payment transactions

Share-based compensation awards which are settled in cash upon vesting are classified as liabilities in the consolidated balance sheets. Compensation expense is determined based on the current share price at the balance sheet dates, and the proportionate amount of the requisite service that has been rendered to such date. Changes in the fair value of the liability-classified awards, after the requisite service period has been completed and before the awards are vested, are recognized as compensation expenses in the period in which the change in fair value occurs.

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.19 Revenue recognition

The Group offers a variety of travel related services, including accommodation reservation service, transportation ticketing service and, to a much lesser extent, online advertising service.

Revenues are recognized when or as the control of the goods or services is transferred to the customer. Depending the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

(a) Principal agent consideration

The Group determines the presentation of its revenue by assessing whether it acts as the principal of the services that are rendered. The Group presents its revenues on a net basis (that is, the amount billed to the users less the amount paid to the travel service suppliers) when the Group acts as an agent with no control over the underlying services and does not assume inventory risk. The Group presents its revenue on a gross basis (that is, the amount billed to the users) when the Group assumes inventory risk and acts as a principal by pre-purchasing the hotel room nights or tickets from the travel service suppliers. The purchase payments to the travel suppliers are recorded as “cost of revenue” in the consolidated statements of comprehensive (loss)/income.

The Group presents majority of its revenue on net basis as the supplier is primarily responsible for providing the underlying travel services and the Group does not control the service provided by the supplier prior to its transfer to the user.

(b) *Timing of revenue recognition*

Accommodation reservation services

The Group generates revenue as a result of the booking of travel products and services on its websites and mobile apps and derives its revenue mainly from the commissions earned from intermediating services for facilitating reservations of hotel accommodations. Commissions from accommodation reservation services are recognized when the accommodation reservations placed by users through the Group become non-cancellable.

Transportation ticketing services

Transportation ticketing services primarily consist of the reservation of air tickets and train tickets, sale of travel insurance and other transportation-related services. The commissions from such services are recognized upon the issuance of the tickets or the travel insurance, net of estimated cancellations.

Other Services

Other revenues are primarily derived from technical development service and advertising business. The revenues are recognized over the service period.

(c) *Contract asset and contract liability*

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment. A contract asset is the Group's right to consideration in exchange for services that the Group has transferred to its customer. A contract liability is the Group's obligation to transfer services to its customer for which the Group has received consideration from the customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as contract assets and subsequently amortized when the related revenue is recognized. The Group did not recognize any significant contract asset or liability for the services it rendered in the Track Record Period.

(d) *Users incentive programs*

The Company provides various users incentive programs. Where participating travelers are awarded incentives on current transactions that can be redeemed for future reservations through the Company's platforms or redeemed for cash, the estimated fair value of the incentives that are expected to be redeemed is recognized as a reduction of revenues at the time the incentives are granted.

2.20 Service development expense

Service development expense represents the expenses incurred to develop and diversify the travel products and services the Company sources from its travel service providers as well as the expenses in relation to research and development of service providers assist system and the Company's online platforms.

2.21 Interest income

Interest income is recognized on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.22 Government grants/subsidies

Grants/subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognized as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income or loss on a straight-line basis over the period of the lease.

2.24 Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Apart from the PRC operating entities under the Group's control through the Contractual Arrangements being accounted for as subsidiaries as described in Note 2.2(a) above, the estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income or loss.

(b) Valuation of redeemable convertible preferred shares

The preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the preferred shares. Key assumptions, such as discount rate, risk-free interest rate, lack of marketability discount and volatility are disclosed in Note 24.

(c) Useful lives and amortization charges of intangible assets

The Group's management determines the estimated useful lives and related amortization charges for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortization charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

(d) Current and deferred income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group does not hedge against any fluctuation in foreign currency during the Track Record Period.

The Group operates mainly in the PRC with most of the transactions settled in RMB, management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Group are denominated in the currencies other than the respective functional currencies of the Group's entities.

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating rates (Note 23), time deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 10 percent higher/lower, the profit before income tax for the year ended December 31, 2017 would have been approximately RMB264,000 lower/higher.

If the interest rate of time deposits had been 10 percent higher/lower, the profit before income tax for the year ended December 31, 2015 would have been approximately RMB28,000 higher/lower.

If the interest rate of short-term investments measured at fair value through profit or loss had been 10 percent higher/lower, the profit before income tax the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB3,437,000 higher/lower, RMB195,000 higher/lower and RMB745,000 higher/lower, respectively.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and bank deposits, trade and other receivables and short-term investments measured at fair value through profit or loss.

The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and bank deposits and wealth management products issued by commercial banks, The Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions.

Trade receivables at each end of Track Record Period are mainly due from the third-party customers including hotels or related agents, etc. in cooperation with the Group and other receivables mainly include deposits and others ("Receivables"). The Group considers the probability of default upon initial recognition of Receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, The Group compares the risk of a default occurring on the Receivables as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors, etc.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on Receivables are when the counterparty fails to make contractual payments within 180 days of when they fall due.

The Group makes periodic assessment on the credit risk of the Receivables based on the history of cooperation with customers, settlement records and past experience, the Directors believe that the credit risk inherent in the outstanding Receivables due from the debtors is not material.

(c) Price risk

The Group is exposed to price risk in respect of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 4.3 for detail.

(d) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyzes the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2015					
Trade payables	658,566	–	–	–	658,566
Other payables and accruals	256,339	–	–	–	256,339
	<u>914,905</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>914,905</u>
At December 31, 2016					
Trade payables	921,633	–	–	–	921,633
Redeemable convertible preferred shares	–	–	6,398,631	–	6,398,631
Other payables and accruals	123,624	–	–	–	123,624
	<u>1,045,257</u>	<u>–</u>	<u>6,398,631</u>	<u>–</u>	<u>7,443,888</u>
At December 31, 2017					
Borrowings	29,643	28,581	79,375	106,141	243,740
Trade payables	1,114,917	–	–	–	1,114,917
Redeemable convertible preferred shares	–	–	6,347,647	–	6,347,647
Other payables and accruals	120,610	–	–	–	120,610
	<u>1,265,170</u>	<u>28,581</u>	<u>6,427,022</u>	<u>106,141</u>	<u>7,826,914</u>

4.2 Capital risk management

The Group's objectives when managing capital (including funding from the Group and related parties) are to safeguard the Group's ability to continue as a going concern in order to provide returns for the Group and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity value in the long-term.

4.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of December 31, 2015, 2016 and 2017, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2015				
Assets				
– Long-term investments measured at fair value through profit or loss (Note 17)	–	–	49,881	49,881
– Short-term investments measured at fair value through profit or loss (Note 17)	–	–	21,046	21,046
	–	–	70,927	70,927

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2016				
Assets				
– Long-term investments measured at fair value through profit or loss (Note 17)	–	–	45,685	45,685
– Short-term investments measured at fair value through profit or loss (Note 17)	–	–	71,041	71,041
	–	–	116,726	116,726
Liabilities				
– Redeemable convertible preferred shares (Note 24)	–	–	6,398,631	6,398,631

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2017				
Assets				
– Long-term investments measured at fair value through profit or loss (Note 17)	–	–	25,239	25,239
– Short-term investments measured at fair value through profit or loss (Note 17)	–	–	236,107	236,107
	–	–	261,346	261,346
Liabilities				
– Redeemable convertible preferred shares (Note 24)	–	–	6,347,647	6,347,647

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) *Financial instruments in level 3*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

Level 3 instruments of the Group's assets and liabilities include long-term investment measured at fair value through profit or loss, short-term investments measured at fair value through profit or loss and redeemable convertible preferred shares.

The changes in level 3 instruments of the Preferred Shares for the years ended December 31, 2015, 2016 and 2017 are presented in the Note 24.

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	15,000	49,881	45,685
Addition	15,000	—	—
Reclassify from investments accounted for using the equity method	2,424	—	—
Disposal	—	—	(19,247)
Changes in fair value	17,457	(4,196)	(1,199)
At the end of the year	49,881	45,685	25,239

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the year ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
At the beginning of the year	91,998	21,046	71,041
Addition	226,298	425,623	1,673,388
Disposal	(302,247)	(383,064)	(1,520,439)
Changes in fair value	4,997	6,436	12,117
At the end of the year	21,046	71,041	236,107
Net unrealized gains for the year	189	165	2,062

The valuation of the level 3 instruments mainly included the Preferred Shares (Note 24), long-term investments measured at fair value through profit or loss in unlisted companies (Note 17) and short-term investments measured at fair value through profit or loss (Note 17). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc. Major assumptions used in the valuation for the preferred shares are presented in Note 24.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements of the short-term and long-term investments.

Description	Fair Values As of December 31,			Valuation techniques	Significant unobservable inputs	Range of inputs As of December 31,			Relationship of unobservable inputs to fair values
	2015 RMB'000	2016 RMB'000	2017 RMB'000			2015 RMB'000	2016 RMB'000	2017 RMB'000	
Investments measured at fair value through profit or loss	49,881	45,685	25,239	Market approach	Expected volatility	48.8%~ 59.9%	47.2%~ 52%	35%~ 43.1%	The higher the expected volatility, the lower the fair value
					Risk-free rate	2.6%~ 3.2%	2.7%~ 2.8%	3.8%~ 3.9%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	21,046	71,041	236,107	Discounted cash flows	Expected rate of return	0.4%~ 5.4%	0.8%~ 6.0%	1.5%~ 6.0%	The higher the expected rate of return, the higher the fair value

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB7.1 million higher/lower, RMB11.7 million higher/lower and RMB26.1 million higher/lower, respectively.

Fair value of the Preferred Shares is affected by changes in the Company's equity value, if the Company's equity value had increased/decreased by 10% with all other variables held constant, the profit before income tax for the years ended December 31, 2016 and 2017 would have been approximately RMB604 million lower/RMB605 million higher and RMB591 lower/RMB595 million higher, respectively.

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2015, 2016 and 2017.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

5. REVENUE AND SEGMENT INFORMATION

The CODM assesses the performance of the operating segment mainly based on the measure of operating profit, excluding items which are not directly related to the segment performance (“combined results”). These include non-operating income/(expenses) such as government subsidies, fair value gains on short-term investments measured at fair value through profit or loss, and other non-operating items. The CODM reviews the combined results when making decisions about allocating resources and assessing performance of the Group as a whole. Therefore, the Group has only one reportable segment which mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC. As of December 31, 2015, 2016 and 2017, substantially all of the non-current assets of the Group were located in the PRC. Therefore, no geographical segments are presented. No analysis of segment assets or segment liabilities is presented as they are not used by the CODM when making decisions about allocating resources and assessing performance of the Group.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Operating (loss)/profit per consolidated statements of comprehensive (loss)/income	(942,961)	(2,115,907)	28,714
Less: Other income	(49,006)	(10,547)	(12,805)
Fair value changes on investments measured at fair value through profit or loss	(17,646)	4,031	(863)
Other gains/(losses), net	(51,107)	(4,689)	(22,610)
Operating (loss)/profit presented to the CODM	<u>(1,060,720)</u>	<u>(2,127,112)</u>	<u>(7,564)</u>

Revenue by service type for the years ended December 31, 2015, 2016 and 2017 are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accommodation reservation services	907,649	2,094,050	2,361,625
Transportation ticketing services	89,378	86,650	61,295
Others	29,097	23,865	95,671
Total revenue	<u>1,026,124</u>	<u>2,204,565</u>	<u>2,518,591</u>

Since no revenue derived from sale to single customer of the Group has individually accounted for over 10% of the Group's total revenue during each of the years presented, no information about major customers in accordance with IFRS 8 *Operating Segment* is presented.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

6. EXPENSES BY NATURE

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Commission expenses	182,002	473,276	659,761
Employee benefit expense (Note 7)	722,577	688,790	635,186
Cost of pre-purchased inventory risk-taking room nights	239,686	677,359	532,870
Advertising and promotion expenses	567,557	1,357,769	356,776
Depreciation and amortization expense (Note 14 & 18)	73,292	77,333	84,150
Order processing cost	52,371	46,708	51,841
Rental and utility fees	44,583	42,995	38,963
Telephone and communication	35,375	38,022	37,779
Professional fees	18,932	39,596	35,032
Audit fees	7,352	4,158	1,491
Travelling and entertainment expenses	25,736	21,762	23,613
Bandwidth and server fees	18,426	20,949	23,581
Tax and surcharges	56,896	21,549	7,815
Charges related to re-designation of ordinary shares to the Preferred Shares in connection with the Restructuring (Note 24)	–	742,467	–
Others	42,059	78,944	37,297
	<u>2,086,844</u>	<u>4,331,677</u>	<u>2,526,155</u>

7. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	372,506	458,322	446,399
Pension costs – defined contribution plans	55,813	62,167	62,881
Other social security costs, housing benefits and other employee benefits	82,758	95,958	69,123
Share-based compensation expenses (Note 8)	211,500	72,343	56,783
	<u>722,577</u>	<u>688,790</u>	<u>635,186</u>

(a) Pension costs – defined contribution plans

Employees of the Group in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. The Group contributes funds which are calculated on a fixed percentage of 14% of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

(b) Directors' emoluments

With the completion of the Acquisition, the emoluments of individual directors of the Company are set out below which accounts for the directors of the Company after the Acquisition:

	Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiaries undertaking							Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking	Total
	Fees	Salary	Discretionary Bonuses	Housing allowance	Estimated money value of other benefits	Employer's contribution of a retirement benefit scheme	Share-based compensation expenses		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2015									
Executive Director – Mr. Jiang Hao	-	328	-	7	14	21	3,943	-	4,313
Year ended December 31, 2016									
Executive Director – Mr. Jiang Hao	-	675	-	14	26	42	11,055	-	11,812
Year ended December 31, 2017									
Executive Director – Mr. Jiang Hao	-	925	1,662	16	26	46	9,447	-	12,122

The remuneration shown above represents remuneration received from the Group by the director in his capacity as employee to the companies comprising the Group. No directors waived any emolument during the Track Record Period.

No director fees were paid to the director in his capacity as director of the Company. No emoluments were paid by the Company or the companies comprising the Group as an inducement to join the Company or the companies comprising the Group, or as compensation for loss of office during the Track Record Period.

Mr. Wu Zhixiang was appointed as the Company's Co-chairman and executive director on March 9, 2018.

Mr. Ma Heping, Mr. Jiang Hao were appointed as the Company's executive director on March 9, 2018 and March 9, 2018 respectively.

Mr. Liang Jianzhang was appointed as the Company's Co-chairman and non-executive director on March 9, 2018.

Mr. Lin Haifeng, and Mr. Brent Richard Irvin were appointed as the Company's non-executive directors on March 9, 2018 and March 9, 2018 respectively.

Mr. Wu Haibing, Mr. Dai Xiaojing and Ms. Han Yuling were appointed as the Company's independent non-executive directors on [●], [●], and [●] respectively. During the Track Record Period, the independent non-executive directors have not yet been appointed and did not receive any remuneration.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Track Record Period include 0, 1 and 1 director whose emoluments are reflected in the analysis shown in “Directors’ emoluments”. The emoluments payable to the remaining 5, 4 and 4 individuals for the Track Record Period are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	6,247	4,234	5,306
Pension costs – defined contribution plans	201	172	198
Other social security costs, housing benefits and other employee benefits	392	292	234
Share-based compensation expenses (<i>Note 8</i>)	119,344	9,285	6,105
	<u>126,184</u>	<u>13,983</u>	<u>11,843</u>

The emoluments fell within the following band:

	Number of individuals		
	2015	2016	2017
HKD2 million to HKD3 million	–	–	3
HKD3 million to HKD4 million	–	3	–
HKD4 million to HKD5 million	–	–	–
HKD5 million to HKD10 million	4	1	1
Over HKD10 million	<u>1</u>	<u>–</u>	<u>–</u>

8. SHARE-BASED COMPENSATION EXPENSES

(a) Share incentive plans

In July 2004, eLong adopted a share and annual incentive plan (the “2004 Plan”), which allows eLong grants share options, share appreciation rights, restricted shares or Restricted Share Units (“RSUs”) to officers, employees, non-employees, directors or consultants of eLong up to a maximum of 4,000,000 ordinary shares of eLong.

In May 2009, eLong adopted a share and annual incentive plan (the “2009 Plan”), which allows eLong to grant share options, share appreciation rights, restricted shares or RSUs to officers, employees, directors or consultants of eLong up to an aggregate of 17,000,000 ordinary shares of eLong.

In August 2016, the Company adopted a 2016 share incentive plan (the “2016 Plan”), which allows officers, employees, non-employees, directors of the Company to (i) acquire ordinary shares of the Company pursuant to options granted hereunder, (ii) receive RSU awards, and (iii) make direct purchases of restricted shares. The maximum number of ordinary shares that may be subject to the awards granted under the 2016 Plan is 10,136,000.

Share options granted under the 2004 Plan expired in five or ten years, and generally vested and became exercisable ratably over three to five years from the date of grant. Options granted under the 2009 Plan generally expired in five years and vested and became exercisable over one to three years from the date of grant.

RSUs are rights to receive the ordinary shares of eLong or the Company, when applicable in the case of grants to the Company’s independent directors, a cash award linked to the Company’s ordinary share value. RSUs generally vest over a two to five-year period, and are not entitled to dividends or voting rights.

(b) Equity Awards in connection with the Expedia Transaction

In May 2015, in connection with the Expedia Transaction which resulted in the change of control of eLong, the Board of Directors of eLong resolved the follows:

- to accelerate the vesting and cash settlement of unvested restricted share units held by certain then directors for a price of US\$14.635 per RSU. The associated cost for the accelerating vesting of these RSU amounted to RMB4.1 million and was recognized in administrative expenses for the year ended December 31, 2015;
- to accelerate the vesting of 3,655,722 then un-vested RSUs previously granted to the then CEO of eLong. The associated cost for the accelerating vesting of these RSUs amounted to RMB110.3 million and was recognized in administrative expenses for the year ended December 31, 2015;
- eLong to repurchase 253,804 then unvested RSUs and share options held by certain senior management at a price of US\$14.635 per share. The cost for such repurchase amounted to RMB6.8 million and was recognized in administrative expenses for the year ended December 31, 2015;
- to accelerate the vesting of then-unvested options and RSUs held by employees and granted to such employees a right to sell to eLong the ordinary shares issued upon vesting, for a price of \$14.635 per share. In this connection, the Company repurchased 740,226 vested RSUs and share options from the employees who exercised the right. The cost arising from the acceleration of the vesting amounted to RMB98.4 million and was recognized in administrative expenses for the year ended December 31, 2015.

In connection with the Expedia Transaction, the then CEO of eLong sold 1,588,692 ordinary shares of eLong to Ctrip at a price of \$14.635 per share. As Ctrip became the largest shareholder of eLong upon the completion of the Expedia Transaction, the aggregate difference between the selling price and the then market price of related shares amounted to RMB22.1 million was recognized in administrative expenses for the year ended December 31, 2015. In addition, Ctrip also granted an option to the then CEO of eLong to exchange 529,564 ordinary shares of eLong for 27,679 ordinary shares of Ctrip, which was exercised on November 22, 2015. The fair value of such option amounted to RMB23.7 million was recorded in administrative expenses for the year ended December 31, 2015.

(c) Equity Awards in connection with the Restructuring

In August 2017, to align the interests of key employees with that of the Company, the Company established several employees' equity awards entities in the form of limited liability partnerships in 2017 (the "EAEs") and the EAEs jointly established an employees' equity awards holding company (the "EAE Holdco"). According to the agreements between the EAEs and EAE Holdco, the Company has the discretion to invite any employee of the Company to participate in the EAEs by subscribing for their partnership interest. The participating employees are entitled to all the economic benefits generated by the EAEs with the requisition service period. As the general partner of these EAEs are designated by the Company, the EAEs and EAE Holdco are therefore controlled and consolidated by the Company as structured entities and all the ordinary shares issued to EAE Holdco for the purpose of equity incentives are recorded as treasury stock of the Company.

(d) Equity Awards after the Restructuring

After the incorporation of EAEs and EAE Holdco, to assume and replace the RSUs of eLong granted under eLong Equity Awards as aforementioned, the Company issued 2,068,671 ordinary shares to EAE Holdco which represented the then outstanding RSUs under eLong Equity Awards held by the related employees of these RSUs participated in EAEs.

On September 1, 2017, the Company, through EAEs and EAE Holdco, granted 2,350,000 RSUs to certain selected employees, 662,667 of which were immediately vested upon the grant with the remaining portion to be vested in 5 instalments over a 2.5 year requisite service period.

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The share-based compensation expense recognized for employee services received during the Track Record Period is shown in the following table:

	Year ended December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Expense arising from equity-settled share-based payment transactions	211,500	72,343	56,783

Share options

The following table summarizes information with respect to share options outstanding as of December 31, 2015, 2016 and 2017 and the weighted average exercise prices ("WAEP").

	2015 number	2015 WAEP USD	2016 number	2016 WAEP USD	2017 number	2017 WAEP
Outstanding at January 1	972,139	7.39	183,513	8.35	n/a	n/a
Forfeited and expired during the year	(101,288)	8.48	(97,216)	8.74	n/a	n/a
Exercised during the year	(603,786)	6.83	(29,872)	7.14	n/a	n/a
Repurchased during the year	(83,552)	8.02	(56,425)	8.36	n/a	n/a
Outstanding at December 31	183,513	8.35	–	–	n/a	n/a
Exercisable at December 31	183,513	8.35	–	–	n/a	n/a

There was no new share option granted during the year ended December 31, 2015, 2016 and 2017.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2015 was 2.13 years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

Share options outstanding at the end of 2015 have the following expiry date and exercise prices:

Expiry date – December 31,	Exercise price in USD per share option	Number of share options 2015
2016	3.18~10.26	40,676
2017	7.19~8.5	87,037
2020	8.82	55,800
		183,513

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RSUs

The following table summarizes information with respect to RSUs arrangements through EAEs and EAE Holdco as aforementioned as of December 31, 2015, 2016 and 2017 and the weighted average fair value (“WAFV”).

	2015 number	2015 WAFV USD	2016 number	2016 WAFV USD	2017 number	2017 WAFV USD
Outstanding at January 1	6,156,728	8.09	3,937,415	8.33	2,158,679	8.54
Granted during the year	2,619,913	8.49	410,000	8.77	2,350,000	9.54
Forfeited and expired during the year	(1,197,022)	8.07	(504,384)	7.94	(3,229)	9.00
Exercised during the year	(2,731,726)	8.16	(211,433)	8.04	–	–
Repurchased during the year	(910,478)	8.02	(1,472,919)	8.32	(86,779)	7.35
Outstanding at December 31	3,937,415	8.33	2,158,679	8.54	4,418,671	9.09
Exercisable at December 31	3,937,415	8.33	2,158,679	8.54	4,418,671	9.09

The fair value of RSUs grants during years ended December 31, 2015 and 2016 were determined by the trading price of eLong’s ADR or ordinary share on NASDAQ Global Select Market. While, to determine the fair value of RSUs granted during fiscal year 2017, the Company used discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share.

9. OTHER INCOME

	Year ended December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Government subsidies	20,955	10,547	12,805
Interest income from time deposit	28,051	–	–
	49,006	10,547	12,805

10. OTHER GAINS/(LOSSES), NET

	Year ended December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Fair value gains from short-term investments measured at fair value through profit or loss	4,808	6,271	10,056
Foreign exchange gain/(loss)	2,931	(3,086)	1,294
Gain on disposal of long-term investments	–	–	753
Impairment of goodwill and other intangible assets (Note 18)	(40,402)	–	–
Impairment loss on equity investments (Note 15)	(459)	–	–
Gain on disposal of equity investments (Note 15)	13,191	–	–
Gain from disposal of a subsidiary (a)	71,082	–	–
Others	(44)	1,504	10,507
	51,107	4,689	22,610

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

- (a) On March 15, 2015, the Group disposed all of the Group's equity interest in Nanjing Xici Information Technology Share Co., Ltd. ("Nanjing Xici") to an independent third party for cash consideration of RMB75,820,000 with a gain of RMB71,081,854.

11. FINANCE INCOME AND COSTS

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Finance income			
Interest income on bank deposits	8,601	7,972	9,800
Others	555	430	345
	<u>9,156</u>	<u>8,402</u>	<u>10,145</u>
Finance costs			
Service fee for bank guarantee	(585)	(879)	(475)
Others	(5,246)	(3,235)	312
	<u>(5,831)</u>	<u>(4,114)</u>	<u>(163)</u>
Net finance income	<u>3,325</u>	<u>4,288</u>	<u>9,982</u>

12. INCOME TAX EXPENSE/(CREDIT)

The income tax expense/(credit) of the Group for the years ended December 31, 2015, 2016 and 2017 is analyzed as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current income tax	20,040	433	5,603
Deferred income tax (<i>Note 19</i>)	(14,834)	545	(65,959)
	<u>5,206</u>	<u>978</u>	<u>(60,356)</u>

(a) Cayman Islands income tax

Under the current laws of the Cayman Islands, the Company is not subject to tax on the Company's income or capital gains. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

(b) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

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(c) PRC corporate income tax (“CIT”)

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the years ended December 31, 2015, 2016 and 2017, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% in 2015, 2016 and 2017.

One subsidiary of the Company is qualified as High and New Technology Enterprise, and accordingly, its subject to a reduced preferential CIT rate of 15% for the years ended December 31, 2015, 2016 and 2017 according to the applicable CIT law.

(d) PRC Withholding Tax (“WHT”)

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

During the Track Record Period, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was provided as of December 31, 2015, 2016 and 2017.

The tax on the Group’s profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2015, 2016 and 2017, being the tax rate of the major subsidiaries of the Group. The difference is analyzed as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(Loss)/profit before income tax	<u>(957,813)</u>	<u>(2,159,618)</u>	<u>134,021</u>
Tax calculated at PRC statutory tax rate of 25%	(239,453)	(539,905)	33,505
Tax effects of:			
Preferential income tax rates	108,683	228,595	(18,075)
Super deduction for research and development expenses*	(10,911)	(14,190)	(18,142)
Expenses not deductible for tax purposes	3,044	272,023	16,148
Utilization/(recognition) of previously unrecognized tax losses and temporary differences**	140,536	57,083	(74,079)
Others	<u>3,307</u>	<u>(2,628)</u>	<u>287</u>
Income tax expense/(credit)	<u>5,206</u>	<u>978</u>	<u>(60,356)</u>

* According to the relevant tax laws and regulations in the PRC, that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year

** The Group did not recognize the deferred tax assets for its tax losses in 2015 and 2016 considering that there is substantial uncertainty in utilization of the tax losses when the Company’s PRC subsidiaries were still in loss making position. In 2017, with its major PRC subsidiaries turning to be profitable, the Group recognized the associated deferred tax assets based on its best estimate of the future utilization of the tax losses.

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13. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings or loss per share for the years ended December 31, 2015, 2016 and 2017 are calculated by dividing the profit or loss attribute to the Company's equity holders by the weighted average number of ordinary shares in issue during the respective years.

As of December 31, 2015, 2016 and 2017, 3,937,415, 2,158,679 and 4,418,671 ordinary shares were issued to certain employees respectively. However, the shareholder's rights of these shares were restricted and would be vested over certain service periods. Accordingly, these shares were accounted for as RSUs. The Group did not include these ordinary shares in the calculation of basic earnings/(loss) per share for the years ended December 31, 2015, 2016 and 2017 as these shares are not considered outstanding for earnings/(loss) per share calculation purposes.

	Year ended December 31,		
	2015	2016	2017
Net profit/(loss) attributable to the owners of the Company (RMB'000)	(916,266)	(2,139,267)	195,575
Weighted average number of ordinary shares in issue ('000)	73,300	46,497	26,052
Basic earnings/(loss) per share (RMB)	<u>(12.50)</u>	<u>(46.01)</u>	<u>7.51</u>

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

As the Group incurred losses for the years ended December 31, 2015 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended December 31, 2015 and 2016 are the same as basic loss per share of the respective years.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net profit/(loss) attributable to the owners of the Company (RMB'000)	(916,266)	(2,139,267)	195,575
Adjustment for redeemable convertible preferred shares (RMB'000)	<u>—</u>	<u>—</u>	<u>(97,576)</u>
Net profit/(loss) for calculation of diluted earnings/(loss) per share (RMB'000)	(916,266)	(2,139,267)	97,999
Weighted average number of ordinary shares in issue ('000)	73,300	46,497	26,052
Adjustments for redeemable convertible preferred shares ('000)	<u>—</u>	<u>—</u>	<u>60,534</u>
Adjustments for RSUs granted to employees ('000)	<u>—</u>	<u>—</u>	<u>1,167</u>
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share ('000)	73,300	46,497	87,753
Diluted earnings/(loss) per share (RMB)	<u>(12.50)</u>	<u>(46.01)</u>	<u>1.12</u>

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14. PROPERTY, PLANT AND EQUIPMENT

	IT equipment RMB'000	Furniture and fixtures RMB'000	Software RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2015						
Cost	117,458	12,506	153,306	16,049	–	299,319
Accumulated depreciation	(63,857)	(7,793)	(105,535)	(9,778)	–	(186,963)
Net book amount	53,601	4,713	47,771	6,271	–	112,356
Year ended December 31, 2015						
Opening net book amount	53,601	4,713	47,771	6,271	–	112,356
Additions	15,051	1,228	24,267	1,126	–	41,672
Depreciation charge	(20,154)	(1,827)	(28,443)	(1,643)	–	(52,067)
Disposal	(2,722)	(273)	(36)	(130)	–	(3,161)
Closing net book amount	45,776	3,841	43,559	5,624	–	98,800
At December 31, 2015						
Cost	121,225	11,669	170,681	16,209	–	319,784
Accumulated depreciation	(75,449)	(7,828)	(127,122)	(10,585)	–	(220,984)
Net book amount	45,776	3,841	43,559	5,624	–	98,800
Year ended December 31, 2016						
Opening net book amount	45,776	3,841	43,559	5,624	–	98,800
Additions	40,173	1,128	13,066	1,063	–	55,430
Depreciation charge	(22,799)	(1,748)	(27,094)	(1,204)	–	(52,845)
Disposal	(217)	(87)	(7)	–	–	(311)
Closing net book amount	62,933	3,134	29,524	5,483	–	101,074
At December 31, 2016						
Cost	158,034	12,222	174,824	13,719	–	358,799
Accumulated depreciation	(95,101)	(9,088)	(145,300)	(8,236)	–	(257,725)
Net book amount	62,933	3,134	29,524	5,483	–	101,074
Year ended December 31, 2017						
Opening net book amount	62,933	3,134	29,524	5,483	–	101,074
Additions	30,239	446	130	138	356,565	387,518
Depreciation charge	(24,311)	(1,387)	(18,054)	(1,325)	–	(45,077)
Disposal	(1,532)	(179)	–	(82)	–	(1,793)
Closing net book amount	67,329	2,014	11,600	4,214	356,565	441,722
At December 31, 2017						
Cost	174,841	11,420	174,167	13,564	356,565	730,557
Accumulated depreciation	(107,512)	(9,406)	(162,567)	(9,350)	–	(288,835)
Net book amount	67,329	2,014	11,600	4,214	356,565	441,722

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Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cost of revenue	45,935	47,250	39,961
Service development expenses	4,511	4,244	4,072
Administrative expenses	1,305	1,184	905
Selling and marketing expenses	316	167	139
	<u>52,067</u>	<u>52,845</u>	<u>45,077</u>

Note: Construction in progress with carrying amount of RMB356,564,820 were pledged as security for the Group's bank borrowings of RMB191,997,000 as of December 31, 2017 (Note 23).

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	78,306	51,087	39,869
Shares of results	(18,177)	(11,218)	(2,251)
Impairment loss (<i>Note 10</i>)	(459)	—	—
Reclassify to long-term investment measured as fair value through profit or loss (<i>b</i>)	(2,424)	—	—
Disposal of investments accounted for using the equity method	<u>(6,159)</u>	<u>—</u>	<u>—</u>
At the end of the year	<u>51,087</u>	<u>39,869</u>	<u>37,618</u>

Set out below are the particulars of the associate of the Group as of December 31, 2015, 2016 and 2017.

Name of associate	Place of incorporation	Principal activities	Equity interest held as of December 31,		
			2015	2016	2017
2012 Affiliate Company ^(a)	The PRC	Property management software development	46.5%	46.5%	46.5%

Notes:

(a) *Equity Method Investment – 2012 Affiliate Company*

In 2012, the Group acquired 30% equity interest in an unlisted company (the “2012 Affiliate Company”) at RMB5.6 million. The Company accounted for its investment using the equity method. In 2013, the 2012 Affiliate Company changed its business focus to property management software development, which was considered as better business collaboration with the Group. As such, in 2014, the Group acquired an additional 19% equity interest in the associate at consideration of RMB76,663,200.

In 2015, the Group reached an agreement with a third party to sell a 2.5% equity interest in the 2012 Affiliate Company for cash consideration of RMB13,750,000, and recognized a gain of RMB10,014,455 on the date of the disposal.

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(b) *Equity Method Investment – 2014 Affiliate Company*

On December 12, 2014, the Group invested RMB5,600,000 to acquire a 30% equity interest in 2014 Affiliate Company and accounted for this investment using the equity method. On July 20, 2015, the Group disposed of a 15% equity interest in 2014 Affiliate Company for proceeds of RMB5,600,000 and realized a gain of RMB3,176,066. Upon the completion of the disposition, the Group held a remaining 15% equity interest in 2014 Affiliate Company and switched to short-term investment measured at fair value through profit or loss due to the Group's lack of ability to exercise significant influence.

The Company's investments in affiliates, either accounted for under equity method or measured at fair value through profit and loss, are not considered material in individual or aggregated basis in the Track Record Period.

16. FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Assets as per consolidated statement of financial position			
Financial assets at fair value through profit or loss:			
– Long term investments measured at fair value through profit or loss (Note 17)	49,881	45,685	25,239
– Short-term investments measured at fair value through profit or loss (Note 17)	21,046	71,041	236,107
Financial assets at amortized costs:			
– Trade receivables (Note 21)	461,431	883,382	539,217
– Other receivables (Note 20)	118,126	128,015	115,400
– Time deposits (Note 17)	224,507	–	–
– Restricted cash (Note 22)	146,480	153,606	170,541
– Cash and cash equivalents (Note 22)	710,403	339,299	701,748
	<u>1,731,874</u>	<u>1,621,028</u>	<u>1,778,252</u>
Liabilities as per consolidated statement of financial position			
Financial liabilities at amortized cost:			
– Trade payables (Note 25)	658,566	921,633	1,114,917
– Other payables (Note 26)	256,339	123,624	120,610
– Borrowings (Note 23)	–	–	191,997
Financial liabilities at fair value through profit or loss:			
– Redeemable convertible preferred shares (Note 24)	–	6,398,631	6,347,647
	<u>914,905</u>	<u>7,443,888</u>	<u>7,775,171</u>

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

17. INVESTMENTS

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current assets			
Short-term investments measured at			
– Amortized cost (a)	224,507	–	–
– Fair value through profit or loss (b)	21,046	71,041	236,107
	<u>245,553</u>	<u>71,041</u>	<u>236,107</u>
Non-current assets			
Long-term investments measured at fair value			
through profit or loss (c)	49,881	45,685	25,239
	<u>49,881</u>	<u>45,685</u>	<u>25,239</u>

(a) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are time deposits with maturities above 3 months to one year with fixed interest rates and denominated in RMB. The investments are held for collection of contractual cash flow and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.

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

The short-term investments measured at fair value through profit or loss are wealth management products denominated in RMB and with expected rates of return ranging from 0.4% to 5.4%, 0.8% to 6.0%, and 1.5% to 6.0% per annum for the years ended December 31, 2015, 2016 and 2017, respectively. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

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

As of December 31, 2015, 2016 and 2017, long-term investments measured at fair value through profit or loss are equity interests held by the Group in several private companies in the PRC.

The equity interests held by the Group in the private companies are (i) less than 20% of each entity and the Group does not have control nor significant influence over each of these entities, or (ii) not considered to be common equity due to the investment having a substantive liquidation preference or redemption rights. Therefore, these investments are classified as long-term investments measured at fair value through profit or loss.

The fair values of the long-term investments are measured using a valuation technique with unobservable inputs and hence classified as Level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 4.3.

(d) Amounts recognized in profit or loss

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fair value changes in long-term investments	17,457	(4,196)	(1,199)
Fair value changes in short-term investments			
measured at fair value through profit or loss	189	165	2,062
	<u>17,646</u>	<u>(4,031)</u>	<u>863</u>

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

18. INTANGIBLE ASSETS

	Goodwill (Note c) RMB'000	Customer lists RMB'000	Trade names RMB'000	Copy-rights RMB'000	Business cooperation arrangement and internet domain names (Note a) RMB'000	Others RMB'000	Total RMB'000
At January 1, 2015							
Cost	186,846	9,191	86,467	192	3,904	4,930	291,530
Accumulated amortization	–	(7,410)	(7,730)	(192)	(2,162)	(1,886)	(19,380)
Impairment	(5,524)	–	–	–	(555)	–	(6,079)
Net book amount	181,322	1,781	78,737	–	1,187	3,044	266,071
Year ended December 31, 2015							
Opening net book amount	181,322	1,781	78,737	–	1,187	3,044	266,071
Addition	2,920	510	1,570	–	–	37	5,037
Amortization charge	–	(714)	(18,435)	–	(454)	(1,622)	(21,225)
Disposal	–	–	–	–	(335)	–	(335)
Impairment loss (Note b)	–	–	(40,402)	–	–	–	(40,402)
Closing net book amount	184,242	1,577	21,470	–	398	1,459	209,146
At December 31, 2015							
Cost	189,766	9,701	88,037	192	3,049	4,967	295,712
Accumulated amortization	–	(8,124)	(26,165)	(192)	(2,096)	(3,508)	(40,085)
Impairment	(5,524)	–	(40,402)	–	(555)	–	(46,481)
Net book amount	184,242	1,577	21,470	–	398	1,459	209,146
Year ended December 31, 2016							
Opening net book amount	184,242	1,577	21,470	–	398	1,459	209,146
Addition (Note a)	–	–	–	–	163,246	–	163,246
Amortization charge	–	(682)	(5,728)	–	(16,723)	(1,355)	(24,488)
Closing net book amount	184,242	895	15,742	–	146,921	104	347,904
At December 31, 2016							
Cost	189,766	9,701	88,037	192	166,295	4,967	458,958
Accumulated amortization	–	(8,806)	(31,893)	(192)	(18,819)	(4,863)	(64,573)
Impairment	(5,524)	–	(40,402)	–	(555)	–	(46,481)
Net book amount	184,242	895	15,742	–	146,921	104	347,904
Year ended December 31, 2017							
Opening net book amount	184,242	895	15,742	–	146,921	104	347,904
Amortization charge	–	(683)	(5,727)	–	(32,649)	(14)	(39,073)
Closing net book amount	184,242	212	10,015	–	114,272	90	308,831
At December 31, 2017							
Cost	189,766	9,701	88,037	192	166,295	4,967	458,958
Accumulated amortization	–	(9,489)	(37,620)	(192)	(51,468)	(4,877)	(103,646)
Impairment	(5,524)	–	(40,402)	–	(555)	–	(46,481)
Net book amount	184,242	212	10,015	–	114,272	90	308,831

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Notes:

(a) Business cooperation arrangement

In July 2016, the Company entered into a Strategic Cooperation Arrangement with one of its shareholders (the “Shareholder”), which includes a Business Cooperation Arrangement and a compensation to promotion and marketing service rendered by the Shareholder to the Company by issuing 11,111,111 Preferred Shares of the Company. The Business Cooperation Arrangement has a term of five years and the shareholder will deploy certain agreed-upon business resources to the Company to increase the user traffic in 2016 of the Company’s platform. The Company assessed and concluded that the Business Cooperation Arrangement was qualified as an intangible asset to recognize in separate from the total consideration. Based on the valuation performed by the Company with assistance from the independent appraisal, the fair value of the 11,111,111 newly issued Preferred Shares was RMB1,208 million, out of which RMB163 million was attributable to the fair value of Business Cooperation Arrangement which is recorded as intangible asset and amortized over five years under straight line method, the remaining RMB1,045 million represented the compensation for the promotion and marketing service rendered by the Shareholder and was recorded as selling and marketing expense upon the issuance of the Preferred Shares.

(b) Impairment tests for trade names

In 2015, changes in circumstances in the geographical territory covered by one of the Company’s subsidiary indicated that the carrying value of the trade name might not be recoverable. With the assistance of an external valuer, the management of the Group decided to write down the value of trade name to its fair value less cost of disposal, which was measured using the relief from royalty method. As such, an impairment charge of RMB40,401,740 was recorded as “Other gain/(loss), net” in the consolidated statements of comprehensive (loss)/income for the year ended December 31, 2015.

(c) Impairment tests for goodwill

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount. Management reviews the business performance of the Group at group level as a single segment which goodwill is monitored. The recoverable amount for goodwill impairment assessment is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the Directors for the next five-year period using the estimated growth in revenue with a range of 5.9% to 19.8% and gross profit margin with a range from 67.8% to 74.8%. Thereafter, the cash flows are extrapolated using the terminal growth rate not exceeding the long-term average growth rate for the Group. The key assumptions such as discount rate and the constant growth rate used for value-in-use calculations in 2015, 2016 and 2017 are as follows:

	As of December 31,		
	2015	2016	2017
Discount rate	14.5%	14.50%	14.50%
Constant growth rate	3%	3%	3%

Amortization charges were expensed in the following categories in the consolidated statements of comprehensive (loss)/income:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cost of revenue	—	—	—
Service development expenses	—	—	—
Selling and marketing expenses	—	16,324	32,649
Administrative expenses	21,225	8,164	6,424
	<u>21,225</u>	<u>24,488</u>	<u>39,073</u>

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19. DEFERRED INCOME TAX

The amount of offsetting deferred income tax assets and liabilities is RMB5,343,000, RMB4,165,000 and RMB3,071,000 for the years ended 2015, 2016 and 2017, respectively. The analysis of deferred income tax assets and liabilities is as follows:

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
– to be recovered after more than 12 months	5,343	4,165	50,506
– to be recovered within 12 months	–	–	14,442
	<u>5,343</u>	<u>4,165</u>	<u>64,948</u>
Deferred tax liabilities:			
– to be recovered after more than 12 months	(9,081)	(8,448)	(3,272)
	<u>(9,081)</u>	<u>(8,448)</u>	<u>(3,272)</u>

The movements in the deferred income tax assets are as follows:

	Accrued liabilities and provisions RMB'000	Impairment on investment, trade receivables and prepayment and other receivables RMB'000	Future deductible expenses and others RMB'000	Tax losses RMB'000	Total RMB'000
At January 1, 2015	–	–	–	–	–
Statement of profit or loss credit/(charge) (Note 12)	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,343</u>	<u>5,343</u>
At December 31, 2015	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,343</u>	<u>5,343</u>
At January 1, 2016	–	–	–	5,343	5,343
Statement of profit or loss credit/(charge) (Note 12)	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,178)</u>	<u>(1,178)</u>
At December 31, 2016	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,165</u>	<u>4,165</u>
At January 1, 2017	–	–	–	4,165	4,165
Statement of profit or loss credit/(charge) (Note 12)	<u>14,576</u>	<u>4,247</u>	<u>35,217</u>	<u>6,743</u>	<u>60,783</u>
At December 31, 2017	<u>14,576</u>	<u>4,247</u>	<u>35,217</u>	<u>10,908</u>	<u>64,948</u>

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The movements in the deferred income tax liability are as follows:

	Intangible assets acquired in business combination RMB'000	Fair value changes in investments measured at fair value through profit or loss RMB'000	Others RMB'000	Total RMB'000
At January 1, 2015	(18,534)	–	(38)	(18,572)
Statement of profit or loss credit/(charge) (Note 12)	13,935	(4,444)	–	9,491
At December 31, 2015	<u>(4,599)</u>	<u>(4,444)</u>	<u>(38)</u>	<u>(9,081)</u>
At January 1, 2016	(4,599)	(4,444)	(38)	(9,081)
Statement of profit or loss credit/(charge) (Note 12)	1,200	(592)	25	633
At December 31, 2016	<u>(3,399)</u>	<u>(5,036)</u>	<u>(13)</u>	<u>(8,448)</u>
At January 1, 2017	(3,399)	(5,036)	(13)	(8,448)
Statement of profit or loss credit/(charge) (Note 12)	1,200	3,976	–	5,176
At December 31, 2017	<u>(2,199)</u>	<u>(1,060)</u>	<u>(13)</u>	<u>(3,272)</u>

Details of unrecognized deferred tax are as follows:

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB164,686,000 and RMB243,907,000 and RMB236,713,000 as of December 31, 2015, 2016 and 2017, respectively, in respect of tax losses amounting to RMB986,710,000 and RMB1,394,086,000 and RMB1,381,382,000 of certain subsidiaries comprising the Group as at those dates, respectively, that can be carried forward against future taxable income, and will expire between 2021 and 2022 under PRC tax regulations.

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

20. PREPAYMENT AND OTHER RECEIVABLES

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Included in non-current assets			
Deposits (financial assets) (Note 22(b))	38,303	38,303	38,303
Others (financial assets)	9,846	11,458	10,869
	<u>48,149</u>	<u>49,761</u>	<u>49,172</u>
Included in current assets			
Advances to accommodation suppliers	109,454	174,155	51,682
Prepaid taxation	15,403	74	46,588
Advances to tickets suppliers	4,733	4,247	12,389
Prepayment for advertising	23,396	4,052	4,875
Prepayment for office rental	3,773	3,320	2,656
Others	9,131	10,086	11,520
	<u>165,890</u>	<u>195,934</u>	<u>129,710</u>
Total non-financial assets			
Deposits	60,268	70,247	52,386
Interest receivables	2,059	357	6,192
Receivables from Nanjing Xici disposal	7,650	7,650	7,650
	<u>69,977</u>	<u>78,254</u>	<u>66,228</u>
Total financial assets			
	<u>69,977</u>	<u>78,254</u>	<u>66,228</u>
Current, total	<u>235,867</u>	<u>274,188</u>	<u>195,938</u>

(a) The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Other receivables that are measured at amortized costs mainly included deposits, interest receivables and receivables from Nanjing Xici disposal. The Group considers the probability of default upon initial recognition of other receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Based on the assessment and analysis conducted by the Directors, no actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant increase of credit risk, and thus the impairment provisions, excluding that of receivable from Nanjing Xici disposal, recognized during the years ended December 31, 2015, 2016 and 2017 were limited to 12 months expected losses. For the receivables from Nanjing Xici disposal, it was arising from the Group's disposal of equity interest in Nanjing Xici in 2015 (Note 10(a)) and secured by collateral assets. The Directors do not expect any significant credit risk relating to the receivables after considering the collateral assets.

(b) Movement in impairment of other receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	338	4,753	2,350
Reverse for impairment	—	(2,767)	(521)
Provision for impairment	4,415	364	398
At the end of the year	<u>4,753</u>	<u>2,350</u>	<u>2,227</u>

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21. TRADE RECEIVABLES

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Receivables from third parties	251,619	354,040	213,696
Receivables from related parties (Note 35)	216,331	534,812	329,618
	<u>467,950</u>	<u>888,852</u>	<u>543,314</u>
Less: allowance for impairment of trade receivables	(6,519)	(5,470)	(4,097)
	<u>461,431</u>	<u>883,382</u>	<u>539,217</u>

Notes:

- (a) Movements on the Group's allowance for impairment of trade receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	(4,991)	(6,519)	(5,470)
Provision for doubtful receivables	(7,505)	(30,042)	(700)
Receivables written off during the year as uncollectible	5,977	31,091	2,073
	<u>(6,519)</u>	<u>(5,470)</u>	<u>(4,097)</u>

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

	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 6 months	461,431	883,382	539,217
Over 6 months	6,519	5,470	4,097
	<u>467,950</u>	<u>888,852</u>	<u>543,314</u>

- (c) Trade receivables are classified as financial assets measured at amortized cost under "loan and receivables". The carrying amount of trade receivable approximated their fair values due to their short maturities.

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- (d) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision is determined as follows:

	Not past due RMB'000	Up to 2 months past due RMB'000	2 to 3 months past due RMB'000	Over 3 months past due RMB'000	Total RMB'000
As of December 31, 2015					
Expected loss rate	0.27%	0.66%	3.81%	14.01%	[●]
Gross carrying amount	317,226	97,657	23,517	29,550	467,950
Loss allowance provision	843	640	895	4,141	6,519
As of December 31, 2016					
Expected loss rate	0.11%	0.30%	2.70%	12.11%	[●]
Gross carrying amount	633,606	200,649	26,176	28,421	888,852
Loss allowance provision	719	601	707	3,443	5,470
As of December 31, 2017					
Expected loss rate	0.22%	0.80%	11.28%	46.78%	[●]
Gross carrying amount	466,582	65,505	7,632	3,595	543,314
Loss allowance provision	1,032	522	861	1,682	4,097

22. BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As of December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Cash on hand	26	95	82
Cash at bank	710,377	339,204	701,666
Cash at bank and on hand	710,403	339,299	701,748

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Restricted cash

	As of December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Deposits to business partners	146,480	153,606	170,541

Restricted cash represents cash that cannot be withdrawn without the permission of third parties. In connection with the Group's air ticket business and the accommodation reservation services, the Group was required by its business partners to pay deposits as guarantee in order for the issuance of air tickets and timely payment. As of December 31, 2015, 2016 and 2017, the amount of the deposit placed in commercial banks under these guarantee arrangements was approximately RMB134 million, RMB91 million and RMB115 million, respectively and recorded as restricted cash; and the amount of the deposit deployed in commercial institution under these guarantee arrangements was approximately RMB38 million, RMB38 million and RMB38 million, respectively and recorded as prepayment and other receivables (Note 20).

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23. BORROWINGS

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Secured bank borrowings (<i>note a</i>)	–	–	191,997
Less: current portion	–	–	(19,692)
	<u>–</u>	<u>–</u>	<u>–</u>
Non-current portion	–	–	172,305
	<u>–</u>	<u>–</u>	<u>172,305</u>

Note:

- (a) The borrowings were secured by property, plant and equipment of the Group (Note 14) and bear interest at CHIBOR floating rate with 10% per annum.

At December 31, 2015, 2016 and 2017, the Group's borrowings were repayable as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 1 year	–	–	19,692
1-2 years	–	–	19,692
2-5 years	–	–	59,076
Over 5 years	–	–	93,537
	<u>–</u>	<u>–</u>	<u>93,537</u>
	<u>–</u>	<u>–</u>	<u>191,997</u>

The exposure of the Group's borrowings to interest rate change at December 31, 2017 is disclosed in Note 4.1.

The Group is in compliance with all banking covenants as of December 31, 2015, 2016 and 2017.

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES

In connection with the Restructuring as discussed in Note 1, all of eLong's then outstanding ordinary shares were cancelled and all of its then existing ordinary shares were exchanged for the ordinary shares or the Preferred Shares of the Company in the following manner:

- All the then outstanding ordinary shares of eLong were exchanged to the same number of ordinary shares of the Company;
- All the then outstanding high-vote ordinary shares of eLong were exchanged to the same number of the Preferred Shares of the Company; and
- In connection with the Restructuring, the ordinary shares of eLong that were purchased by the Buyers were re-designated and exchanged to the same number of the Preferred Shares of the Company.

After the completion of the Restructuring, the equity shareholdings of eLong, as if-converted basis, by its then existing shareholders have not changed. The Preferred Shares were recognized based on its fair value of RMB3,527 million, and the difference between the fair value of the Preferred Shares and the carrying value of the high-vote ordinary shares relinquished was recorded against the other reserve of RMB3,527 million.

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The Company also assessed the re-designation of ordinary shares purchased by the Buyers and concluded that the difference between the fair value of the Preferred Shares that the Buyers obtained and the fair value of the ordinary shares purchased and relinquished by the Buyers should be recognized as expenses to reflect the benefit received by the Buyers. Therefore, the total difference between the carrying value of the ordinary shares that the Buyers purchased and the fair value of the Preferred Shares that the Buyers obtained with amount to RMB1,662 million was further allocated as (1) RMB742 million, being the difference between the fair value of the Preferred Shares that the Buyers obtained and the fair value of the ordinary shares purchased and relinquished by the Buyers, was deemed as share based payment received by Buyers and recorded as administrative expenses for the year ended December 31, 2016; and (2) RMB920 million, being the difference between the carrying value and fair value of the ordinary shares that the Buyers purchased was recorded as deduction of other reserve.

In July 2016, the Company issued 11,111,111 preferred shares to one of its shareholders with the total fair value of RMB1,208 million on the issuance date. Please refer to Note 18 for details.

The key terms of the Preferred Shares of the Company are as follows:

Voting

Each ordinary share has one vote. Each of the Preferred Shares carries a number of votes equal to the number of ordinary shares into which such preferred share could be converted into. The holders of ordinary shares and the Preferred Shares shall vote together as a single class.

Dividends

The holders of the Preferred Shares shall rank senior to the holders of ordinary shares in respect of any dividends declared by the Company and shall be entitled to participate in dividends on the ordinary shares on an as-converted basis.

Liquidation

Upon any liquidation or winding up of the Company, whether voluntary or involuntary or any deemed liquidation event, to the extent lawfully possible, before any distribution or payment shall be made to the holders of any ordinary shares, the holders of the Preferred Shares shall be entitled to receive an amount with respect to each preferred share equal to the greater of:

- (a) the liquidation preference ("Liquidation Preference") means the higher of (i) \$13.50 or (ii) \$9.00 plus an 8% compounding annual rate commencing on the date of issuance; and
- (b) the amount distributable to such holder of the Preferred Shares if the funds and assets of the Company available for distribution to the prefer shareholders are distributed pro rata amongst all the shareholders of the Company on an as-converted basis.

Conversion

Each of the Preferred Shares shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Liquidation Preference by the applicable Conversion Price in effect at the time of conversion. The "Conversion Price" shall initially be equal to the Original Issue Price and such Conversion Price shall be subject to adjustment.

On December 28, 2017, in connection with the merger agreement entered into among the Company, Tongcheng Network and Tongcheng Network's shareholders, the holders of the Preferred Shares agreed to change the conversion of the Preferred Shares as immediately prior to the completion of the Acquisition, each of the Preferred Share shall be converted into one ordinary share of the Company. Such change of the conversion constituted a modification to the Preferred Shares and resulted in, excluding other factors, a decrease in fair value of the Preferred Shares.

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Redemption Rights

If (i) a Qualified IPO has not been completed before the fifth (5th) anniversary of May 31, 2016, or (ii) the Company or any other group company is in material breach of the shareholders' agreement, each of the preferred shareholders shall have the right but not the obligation, to require the Company to redeem and purchase all (but not part) of the Preferred Shares held by such preferred shareholder (the "Redemption Right") at a price (the "Redemption Price") equal to the Liquidation Preference per preferred share to be paid in cash, subject to applicable bankruptcy, insolvency, corporate "solvency" requirements or similar laws. The Redemption Right may be exercised at each preferred shareholder's discretion but may only be exercised once.

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

The movement of the Preferred Shares is set as below:

	Number of Shares	RMB'000
At January 1, 2016		
Exchange of high-vote ordinary shares to the Preferred Shares in connection with the Restructuring	33,589,204	3,527,596
Re-designation of ordinary shares to the Preferred Shares in connection with the Restructuring	15,833,693	1,662,882
Issuance of the Preferred Shares to one of shareholders	11,111,111	1,208,153
Changes in fair value – attribute to changes in the credit risk of the financial liability		(36,781)
Changes in fair value – others		36,781
At December 31, 2016		<u>6,398,631</u>
At January 1, 2017		6,398,631
Changes in fair value – attribute to changes in the credit risk of the financial liability		46,592
Changes in fair value – others		(97,576)
At December 31, 2017		<u>6,347,647</u>

The Group has used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Preferred Shares as of the dates of issuance and at the end of each reporting period.

Key valuation assumptions used to determine the fair value of the Preferred Shares are as follows:

	As of December 31,		
	2015	2016	2017
Discount rate	N/A	14.50%	14.50%
Risk-free interest rate	N/A	1.93%	1.60%
Discounts for lack of marketability ("DLOM")	N/A	16.50%	16.00%
Volatility	N/A	48.00%	45.30%

Discount rate (post-tax) was estimated by weighted average cost of capital as of each valuation date. The risk-free interest rate based on the yield of US Treasury Strip Bond with a maturity life equal to the expected terms as of valuation date. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for a period from the respective valuation date and with

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similar span as time to expiration. Probability weight under each of the redemption feature and liquidation preferences was based on the Group's best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of the Preferred Shares on each valuation date.

The fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability amounted to RMB(36,781,000) and RMB46,592,000 for the years ended December 31, 2016 and 2017, respectively.

Changes in fair value of the Preferred Shares were recorded in "Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss" in the consolidated statements of comprehensive (loss)/income.

25. TRADE PAYABLES

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Payables to third parties	623,611	789,629	960,940
Payables to related parties (Note 35)	34,955	132,004	153,977
	<u>658,566</u>	<u>921,633</u>	<u>1,114,917</u>

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

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 6 months	<u>658,566</u>	<u>921,633</u>	<u>1,114,917</u>

26. OTHER PAYABLES AND ACCRUALS

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accrual for users incentive program	217,359	75,567	67,862
Payable to travel service suppliers	21,501	24,001	25,759
Deposits from sales channel	16,924	23,675	26,336
Payables to related parties (Note 35)	<u>555</u>	<u>381</u>	<u>653</u>
Total financial liabilities	<u>256,339</u>	<u>123,624</u>	<u>120,610</u>
Advances from users	92,364	177,389	116,044
Accrued payroll and welfare	<u>69,669</u>	<u>94,277</u>	<u>77,919</u>
Accrued commissions	27,279	23,851	13,701
Business and other taxes	24,076	2,023	13,573
Accrued advertisement expenses	17,296	23,310	30,788
Accrued professional fees	6,187	9,125	11,100
Others	<u>50,493</u>	<u>59,369</u>	<u>55,462</u>
Total non-financial liabilities	<u>287,364</u>	<u>389,344</u>	<u>318,587</u>
Total	<u><u>543,703</u></u>	<u><u>512,968</u></u>	<u><u>439,197</u></u>

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27. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares '000	Ordinary share capital RMB'000	Ordinary share premium RMB'000	Treasury stock RMB'000	Total RMB'000
At January 1, 2015					
Exercise of stock options	–	–	–	–	–
Vesting of RSUs	–	–	–	–	–
At December 31, 2015	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At January 1, 2016	–	–	–	–	–
Incorporation of the Company and consummation of the Restructuring (a)	26,052	84	1,514,310	–	1,514,394
At December 31, 2016	<u>26,052</u>	<u>84</u>	<u>1,514,310</u>	<u>–</u>	<u>1,514,394</u>
At January 1, 2017	26,052	84	1,514,310	–	1,514,394
Issuance of new shares (b)	4,419	15	–	(15)	–
At December 31, 2017	<u>30,471</u>	<u>99</u>	<u>1,514,310</u>	<u>(15)</u>	<u>1,514,394</u>

(a) In connection of incorporation of the Company and consummation of the Restructuring, the Company issued 26,051,810 ordinary shares, a share premium of RMB1,514 million arisen from the difference between its fair value and par value.

(b) In 2017, the Company issued 4,418,671 ordinary shares to EAE Holdco with amount of RMB14,714 for the purpose of granting RSUs to the employees (Note (8)).

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28. OTHER RESERVES

	Capital reserve RMB'000	Statutory reserve RMB'000	Share-based compensations reserve RMB'000	Others (a) RMB'000	Total RMB'000
At January 1, 2015	563,802	3,665	1,453,712	483,613	2,504,792
Statutory reserves	–	6,161	–	–	6,161
Exercise of stock options	25,397	–	–	–	25,397
Share-based compensation of a subsidiary	–	–	3,278	–	3,278
Share-based compensations (Note 8)	–	–	208,296	–	208,296
Purchase of eLong Equity Awards in connection with the Expedia Transaction	–	–	(89,587)	–	(89,587)
At December 31, 2015	<u>589,199</u>	<u>9,826</u>	<u>1,575,699</u>	<u>483,613</u>	<u>2,658,337</u>
At January 1, 2016	589,199	9,826	1,575,699	483,613	2,658,337
Fair value change of the Preferred Shares attributable to changes in credit risk	–	–	–	36,781	36,781
Exercise of stock options	1,719	–	–	–	1,719
Exchange of high-vote ordinary shares to the Preferred Shares in connection with the Restructuring	(3,527,596)	–	–	–	(3,527,596)
Redesignation of ordinary shares to the Preferred Shares in connection with the Restructuring	(920,414)	–	–	–	(920,414)
Purchase of vested Equity Awards in connection with the Restructuring	–	–	(81,624)	–	(81,624)
Incorporation of the Company and consummation of the Restructuring	(1,514,394)	–	–	–	(1,514,394)
Share-based compensations (Note 8)	–	–	71,325	–	71,325
At December 31, 2016	<u>(5,371,486)</u>	<u>9,826</u>	<u>1,565,400</u>	<u>520,394</u>	<u>(3,275,866)</u>
At January 1, 2017	(5,371,486)	9,826	1,565,400	520,394	(3,275,866)
Fair value change of the Preferred Shares attributable to changes in credit risk	–	–	–	(46,592)	(46,592)
Purchase of Equity Awards in connection with the Restructuring	–	–	(4,382)	–	(4,382)
Share-based compensations (Note 8)	–	–	56,783	–	56,783
At December 31, 2017	<u>(5,371,486)</u>	<u>9,826</u>	<u>1,617,801</u>	<u>473,802</u>	<u>(3,270,057)</u>

(a): Others mainly represents the reserves arising from the conversion of preferred shares of eLong before the Track Record Period and the fair value change of the Preferred Shares attributable to changes in credit risk.

29. DIVIDEND

No dividend has been paid or declared by the Company or the companies now comprising the Group during each of the years ended December 31, 2015, 2016 and 2017.

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30. BUSINESS COMBINATION

In February 2015, the Group acquired the accommodation reservation business (“Accommodation Reservation Business”) from Beijing Jiuyou Technology Co., Ltd. (“Jiuyou”) for RMB5,000,000. The Group accounted for the acquisition of Accommodation Reservation Business as a business combination.

The following table summarizes the allocation of the purchase price for assets related to the Accommodation Reservation Business:

	February 2015 RMB'000
Consideration	
Cash consideration	5,000
Total consideration paid by the Group	5,000
Fair value of identifiable assets acquired	
Trade name	1,570
Customer list	510
Total identifiable net assets	2,080
Goodwill	2,920
	5,000

Goodwill, which is not tax deductible, is primarily attributable to the synergies expected to be achieved from the acquisition.

The fair value of the trade name was measured using the relief from royalty method, with a royalty rate of 1.5%, a tax rate of 25% and a discount rate of 19%, while the fair value of the customer list was measured using the multi-period excess earnings method, using an annual revenue growth rate ranging from -5% to 5%, a terminal growth rate of 3% and a discount rate of 19%.

31. NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit/(loss) before income tax	(957,813)	(2,159,618)	134,021
Adjustment for:			
– Foreign exchange losses	(9,739)	(1,562)	1,365
– Impairment of intangible assets (Note 18)	40,402	–	–
– Allowance for doubtful accounts	11,920	27,637	1,098
– Loss on disposal of property, plant and equipment (Note 14)	155	203	534
– Depreciation of property, plant and equipment (Note 14)	52,067	52,845	45,077
– Amortization of intangible assets (Note 18)	21,225	24,488	39,073
– Share-based compensation (Note 8)	211,500	72,343	56,783
– Gain on disposal of a subsidiary	(71,082)	–	–
– Gain from disposal of equity investments	(13,191)	–	(753)
– Impairment on equity investment	459	–	–

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	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
– Fair value changes on investments measured at fair value through profit or loss	(17,646)	4,031	(863)
– Fair value change on redeemable convertible preferred shares measured at fair value through profit or loss (Note 24)	–	36,781	(97,576)
– Finance income	(9,156)	(8,402)	(10,145)
– Other income	(28,051)	–	–
– Other gains/(losses), net	(4,808)	(6,271)	(10,056)
– Share of results from investments in associates (Note 15)	18,177	11,218	2,251
– Selling and marketing expenses which were settled with newly issued preferred shares (Note 24)	–	1,044,908	–
– Charges for re-designation of ordinary shares to the Preferred Shares in connection with the Restructuring (Note 24)	–	742,467	–
Changes in working capital:			
– Trade receivables	(122,702)	(451,991)	343,464
– Prepayment and other receivables	(21,514)	(35,235)	84,881
– Trade payables	88,577	263,067	199,640
– Accrued expenses and other current liabilities	16,694	(30,755)	(73,773)
Cash generated from/(used in) operating activities	(794,526)	(413,844)	715,021

In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net book value	211	311	596
Loss on disposal of property, plant and equipment	(155)	(203)	(534)
Proceeds from disposal of property, plant and equipment	56	108	62

The principal non-cash transaction is the issue of preferred shares (i) as consideration for settlement of selling and marketing expenses, (ii) and for re-designation of ordinary shares, as discussed in Note 24.

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Reconciliation of liabilities generated from financing activities

	Borrowings due within a year RMB'000	Borrowings due after a year RMB'000	Interest payable RMB'000	Redeemable convertible preferred shares RMB'000	Total RMB'000
As of January 1, 2015	–	–	–	–	–
Cash flows	–	–	–	–	–
As of December 31, 2015	–	–	–	–	–
Cash flows	–	–	–	【●】	【●】
Issuance of the Preferred Shares	–	–	–	6,398,631	6,398,631
As of December 31, 2016	–	–	–	6,398,631	6,398,631
Cash flows	19,692	172,305	(1,740)	–	190,257
Fair value changes of the Preferred Shares	–	–	–	(97,576)	(97,576)
Fair value change relating to preferred shares due to own credit risk	–	–	–	46,592	46,592
Accrued interest expenses	–	–	1,740	–	1,740
As of December 31, 2017	19,692	172,305	–	6,347,647	6,539,644

32 BANKING FACILITIES

As of December 31, 2015, 2016 and 2017, the Company had banking facilities available in the form of letters of guarantee of RMB40.0 million, RMB63.2 million and RMB39.1 million, respectively, in which RMB40.0 million, RMB63.2 million and RMB39.1 million, respectively are utilised and provided to a business partner in connection with air ticketing business for financial security.

33. CONTINGENCIES

As of December 31, 2015, 2016 and 2017, the Group did not have any significant contingent liabilities.

34. COMMITMENT

(a) Operating lease commitments

The Group leases offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
No later than 1 year	19,800	19,278	15,131
Between 1 and 2 years	15,971	15,083	5,736
Between 2 and 5 years	20,146	10,771	7,027
	55,917	45,132	27,894

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(b) Purchase commitments

The purchase commitments represent the minimum payment that the Company would pay for the prepurchase of hotel room nights assuming inventory risk pursuant to the existing agreements with hotels.

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Purchase commitments	15,722	48,947	54,436

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

Save as disclosed in elsewhere of the report, the following significant transactions were carried out between the Group and its related parties during the Track Record Period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during the Track Record Period.

Company	Relationship with the Group
Ctrip and its affiliated companies	Shareholder with significant influence over the Group
Tencent and its affiliated companies	Shareholder with significant influence over the Group
Plateno and its affiliated hotels	Shareholder with significant influence over the Group prior to August 2015
Beijing Miot Technology Co., Ltd. ("Miot")	Associate
Expedia and its affiliates	Shareholder of eLong prior to May 2015

(b) Significant transactions with related parties

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Commission and other service income received from related parties:			
– Ctrip and its affiliates	9,532	85,781	243,783
– Expedia and its affiliates	56,542	–	–
– Plateno and its affiliated hotels	5,771	–	–
Total	71,845	85,781	243,783
Commission, settlement and other service fees paid to related parties:			
– Ctrip and its affiliates	7,378	261,140	573,128
– Tencent and its affiliates	5,701	1,224,655	31,655
– Others	2,737	50	–
Total	15,816	1,485,845	604,783

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(c) Balance with related parties

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables from related parties (<i>Note 21</i>):			
– Ctrip and its affiliates	187,548	506,461	273,480
– Plateno and its affiliated hotels	323	–	–
– Tencent and its affiliates	28,460	28,351	56,138
	<u>216,331</u>	<u>534,812</u>	<u>329,618</u>
Total	<u>216,331</u>	<u>534,812</u>	<u>329,618</u>

The receivables from related parties arise mainly from ordinary course of business. The receivables are unsecured, interest-free and with no fixed term of repayment. No provisions have been made against receivables from related parties.

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables and other payables to related parties (<i>Note 25 & 26</i>):			
– Ctrip and its affiliates	34,515	132,382	152,826
– Plateno and its affiliated hotels	654	–	–
– Tencent and its affiliates	341	–	362
– Others	–	3	1,442
	<u>35,510</u>	<u>132,385</u>	<u>154,630</u>
Total	<u>35,510</u>	<u>132,385</u>	<u>154,630</u>

The payables to related parties are unsecured, interest-free and with no fixed term of repayment.

(d) Key management personnel compensations

The compensations paid or payable to key management personnel (including CEO and other senior executives) for employee services are show below:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	2,380	3,901	6,188
Pension costs – defined contribution plans	146	184	198
Other social security costs, housing benefits and other employee benefits	173	218	234
Share-based compensation expenses (<i>Note 8</i>)	14,137	14,946	11,916
	<u>16,836</u>	<u>19,249</u>	<u>18,536</u>

APPENDIX II HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

36. SUBSEQUENT EVENTS

Save as disclosed in the report, the following significant events took place subsequent to December 31, 2017:

(i) Acquisition of Tongcheng Online Business

As disclosed in 1.2.2, on March 9, 2018, the Company consummated the acquisition of Tongcheng Network. The Company accounted for the acquisition of Tongcheng Network as business combination.

The Company performed the valuation with the assistance from the independent appraisals. The preliminary valuation of acquisition cost and the allocation of the purchase price of the assets acquired and liabilities assumed based on their fair values was as follows:

	<i>RMB'000</i>
Current assets	2,680,810
Non-current assets	974,720
Current liabilities	<u>(1,764,774)</u>
Net assets of Tongcheng Network acquired	1,890,756
Identifiable intangible assets – trade name	1,788,360
Identifiable intangible assets – business relationship	1,686,704
Identifiable intangible assets – technology platform	232,506
Deferred tax liabilities	(594,465)
Goodwill	<u>3,652,249</u>
Fair value of total purchase consideration by issued shares	<u>8,656,110</u>

As of the date of this report, the Company is still working on the valuation and the above result of purchase price allocation reflects the Company's current and preliminary estimate, which is subject to change.

(ii) Capitalisation Issue

Pursuant to a shareholders' resolution passed on [●], subject to the share premium account of the Company being credited as a result of the [●], the Company will allot and issue a total of 1,719,906,084 shares by way of capitalisation of the sum of US\$859,953 standing to the credit of the share premium account of the Company upon the [●].

(iii) Share incentive plan

In March 2018, the Company adopted a 2018 share incentive plan (the "2018 Plan"), which allows senior management, other employees, non-employees, directors of the Company, with certain vesting conditions being fulfilled, to (i) acquire ordinary shares of the Company pursuant to options granted, (ii) receive RSU awards, and (iii) make direct purchases of restricted shares. The maximum number of ordinary shares that may be subject to the awards granted under the 2018 Plan is 163,240,270.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2017 and up to the date of this report. Save as disclosed in this report, no dividends or distribution has been declared or made by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2017.

The followings are the extracts of the text of the Application Proof of the Target Company, enclosing, among others, the historical financial information of the Tongcheng Online Business for the three years ended 31 December 2015, 2016 and 2017, which were prepared by the management of the Target Company and published on the website of the Stock Exchange at <http://www.hkexnews.hk/APP/SEHK/2018/2018062001/a15792/ETEHL-20180620-30.PDF>. For the avoidance of doubt, references in the Financial Information on Tongcheng Online Business in this Appendix III to “the Company” are to the Target Company and not to the Company.

The Financial Information on the Target Group was not prepared for the Company or its shareholders, nor for the purpose of incorporation in this circular. Neither the Target Company nor its reporting accountants shall take or assume any responsibility or liability for the contents of the Financial Information on Tongcheng Online Business as reproduced in this circular towards the Company, its Shareholders or any other persons making use of this circular.

The contents of the Financial Information on Tongcheng Online Business has also not been independently verified by the Group or any of its affiliates, advisers, agents, directors, employees, officers or representatives. Neither the Group nor any of its affiliates, advisers, agents, directors, employees, officers or representatives make any representation as to the accuracy, completeness or fairness of the contents of the Financial Information on Tongcheng Online Business, nor shall take or assume any responsibility for the contents of the Financial Information on Tongcheng Online Business.

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX III	HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS
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Combined statements of comprehensive (loss)/income

		Year ended December 31,		
	<i>Note</i>	2015	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	580,523	1,434,957	2,707,499
Cost of revenue	7	<u>(228,465)</u>	<u>(530,211)</u>	<u>(858,806)</u>
Gross profit		352,058	904,746	1,848,693
Service development expenses	7	(164,277)	(371,720)	(514,800)
Selling and marketing expenses	7	(580,764)	(515,174)	(670,732)
Administrative expenses	7	(56,830)	(91,119)	(132,772)
Other income	9	3,574	2,097	7,583
Other gains/(losses), net	10	<u>516</u>	<u>(1,864)</u>	<u>31,545</u>
Operating (loss)/profit		<u>(445,723)</u>	<u>(73,034)</u>	<u>569,517</u>
Finance income	11	<u>2,177</u>	<u>2,732</u>	<u>2,955</u>
(Loss)/profit before income tax		<u>(443,546)</u>	<u>(70,302)</u>	<u>572,472</u>
Income tax credit/(expense)	12	<u>108,437</u>	<u>(20,796)</u>	<u>(81,134)</u>
(Loss)/profit for the year		<u><u>(335,109)</u></u>	<u><u>(91,098)</u></u>	<u><u>491,338</u></u>
(Loss)/earnings per share	13	<u><u>Not applicable</u></u>	<u><u>Not applicable</u></u>	<u><u>Not applicable</u></u>
Other comprehensive income/(loss)		<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Total comprehensive (loss)/income for the year		<u><u>(335,109)</u></u>	<u><u>(91,098)</u></u>	<u><u>491,338</u></u>

APPENDIX III	HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS
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Combined statement of financial position

		As of December 31,		
	<i>Note</i>	2015	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS				
Non-current assets				
Property, plant and equipment	14	93,989	145,596	207,777
Land use rights	15	–	16,236	15,907
Intangible assets	16	712,886	570,033	421,793
Deferred income tax assets	18	151,686	140,480	65,892
Prepayment and other receivables	19	5,752	1,030	7,949
		<u>964,313</u>	<u>873,375</u>	<u>719,318</u>
Current assets				
Trade receivables	20	129,760	418,257	227,041
Prepayment and other receivables	19	295,628	1,058,644	388,031
Short-term investments measured at fair value through profit or loss	21	–	35,000	204,650
Restricted cash	22	5,740	7,394	18,076
Cash and cash equivalents	22	243,169	947,340	1,268,206
		<u>674,297</u>	<u>2,466,635</u>	<u>2,106,004</u>
Total assets		<u><u>1,638,610</u></u>	<u><u>3,340,010</u></u>	<u><u>2,825,322</u></u>
EQUITY				
Owners' net investments	2	<u><u>1,265,895</u></u>	<u><u>2,118,885</u></u>	<u><u>1,444,967</u></u>
LIABILITIES				
Current liabilities				
Trade payables	23	94,866	323,486	489,562
Other payables and accruals	24	272,807	887,797	851,212
Contract liabilities	25	5,036	5,697	37,217
Current income taxes liabilities		6	4,145	2,364
		<u>372,715</u>	<u>1,221,125</u>	<u>1,380,355</u>
Total liabilities		<u><u>372,715</u></u>	<u><u>1,221,125</u></u>	<u><u>1,380,355</u></u>
Total equity and liabilities		<u><u>1,638,610</u></u>	<u><u>3,340,010</u></u>	<u><u>2,825,322</u></u>

Combined statements of changes in equity

	<i>Note</i>	Owners' net investments <i>RMB'000</i>
As of January 1, 2015		1,712,444
Comprehensive loss		
Loss for the year		(335,109)
Transactions with owners		
Distribution to owners	2	<u>(111,440)</u>
As of December 31, 2015		<u><u>1,265,895</u></u>
As of January 1, 2016		1,265,895
Comprehensive loss		
Loss for the year		(91,098)
Transactions with owners		
Additional capital from owners	2	<u>944,088</u>
As of December 31, 2016		<u><u>2,118,885</u></u>
As of January 1, 2017		2,118,885
Comprehensive income		
Profit for the year		491,338
Transactions with owners		
Distribution to owners	2	<u>(1,165,256)</u>
As of December 31, 2017		<u><u>1,444,967</u></u>

APPENDIX III	HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS
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Combined statements of cash flows

		Year ended December 31,		
	<i>Note</i>	2015	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities				
Cash generated from operations	27	903,087	374,827	1,309,311
Interest received		2,177	2,732	2,955
Income tax paid		—	(5,452)	(8,326)
Net cash inflow from operating activities		<u>905,264</u>	<u>372,107</u>	<u>1,303,940</u>
Cash flows from investing activities				
Purchases of property, plant and equipment		(60,293)	(104,022)	(122,631)
Proceeds from disposal of property, plant and equipment and intangible assets	27	296	—	—
Purchase of land use rights		—	(16,315)	—
Purchase of intangible assets		(740,187)	(10,023)	(7,373)
Purchase of short-term investments measured at fair value through profit or loss		—	(35,000)	(4,246,400)
Redemption of short-term investments measured at fair value through profit or loss		—	187	4,119,425
Temporary funding received from/(provided to) related parties, net		130,991	(402,442)	449,843
Acquisition of subsidiaries, net of cash acquired		(6,500)	(42,755)	—
Decrease/(increase) in restricted cash		<u>5,740</u>	<u>(1,654)</u>	<u>(10,682)</u>
Net cash (outflow)/inflow from investing activities		<u>(669,953)</u>	<u>(612,024)</u>	<u>182,182</u>
Cash flows from financing activities				
(Distribution to)/contribution from owners		<u>(111,440)</u>	<u>944,088</u>	<u>(1,165,256)</u>
Net increase in cash and cash equivalents		123,871	704,171	320,866
Cash and cash equivalents at beginning of the year	22	<u>119,298</u>	<u>243,169</u>	<u>947,340</u>
Cash and cash equivalents at end of the year	22	<u><u>243,169</u></u>	<u><u>947,340</u></u>	<u><u>1,268,206</u></u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 GENERAL INFORMATION****1.1 General information**

Tongcheng Network Technology Co., Ltd. (“Tongcheng Network”) is a limited liability company incorporated in Jiangsu Province of the People’s Republic of China (the “PRC”) on March 10, 2004. Prior to March 2017, the principal businesses of Tongcheng Network and its subsidiaries (the “Old Tongcheng Network”) primarily consisted of two business units, (i) online business unit which comprises transportation ticketing, accommodation reservation and certain travel-related online services offered through its online platforms (“Tongcheng Online Business”); and (ii) offline business unit which primarily comprises sales of travel packages and attraction tickets and provision of financial services (the “Offline Business”). Due to the difference in nature of the two business units, Tongcheng Online Business and the Offline Business of the Old Tongcheng Network were developed and operated separately under different management, sales and business strategies.

In March 2017, in order to promote further growth and development of its online travel business, Tongcheng Network and Tongcheng Holdings Co., Ltd. (“Tongcheng Holdings”) entered into a spin-off agreement (the “Spin-off Agreement”), pursuant to which (i) the capitalization of the Old Tongcheng Network was split between Tongcheng Network and Tongcheng Holdings, while the shareholding structure of both Tongcheng Network and Tongcheng Holdings remained the same; (ii) the assets, liabilities and interests in relation to the Offline Business were allocated to Tongcheng Holdings and the remaining assets, liabilities and interests of the Old Tongcheng Network were retained within Tongcheng Network; and (iii) the employees of the Old Tongcheng Network were allocated between Tongcheng Network and Tongcheng Holdings based on their involvement in the respective businesses (the “Spin-Off”).

The Spin-Off was legally completed in 2017 except for the disposal of the entire equity interest in Guangzhou Firefly Small Sum Loans Co., Ltd. (“Guangzhou Firefly”), which operated the Offline Business but was temporarily retained under Tongcheng Network, pending the completion of the relevant regulatory procedures that are subsequently completed on June 6, 2018.

Following the Spin-Off, Tongcheng Network entered into online platform service agreement with Tongcheng Holdings, pursuant to which Tongcheng Holdings paid Tongcheng Network access fees so as to offer its products and services on the online platforms operated by Tongcheng Network.

On December 28, 2017, the shareholders of Tongcheng Network entered into a restructuring agreement with the shareholders of China E-Dragon Holdings Limited (the “Company”, which subsequently changed its name to Tongcheng-Elong Holdings Limited on March 27, 2018) and Image Frame Investment (HK) Limited (“Image Frame”), whereby the Company acquired Tongcheng Online Business and agreed to issue to the shareholders of Tongcheng Network 96,721,818 ordinary shares of the Company in return for the signing of a series of contractual agreements with Suzhou Longyue Tiancheng Information Technology Co., Ltd. (“Longyue Tiancheng WFOE”), and issue to Image Frame 3,374,369 ordinary shares of the Company for a total cash consideration of US\$30,032,589 (the “Acquisition”). The Acquisition was completed on March 9, 2018. The scope of the Acquisition excluded the entire equity interest in Guangzhou Firefly.

1.2 Carve-out Financial Statements

In connection with the Acquisition, carve-out financial statements of Tongcheng Online Business (the “Carve-out Financial Statements”) have been derived from the historical accounting records of the Old Tongcheng Network. The Carve-out Financial Statements were purported to reflect the historical results of operations and the historical assets and liabilities of Tongcheng Online Business that was the subject of the Acquisition.

As Tongcheng Online Business was not conducted by a separate group of legal entities within the Old Tongcheng Network, for the purpose of preparing the Carve-out Financial Statements, certain account balances of the financial statements of the Old Tongcheng Network were allocated between Tongcheng Network and Tongcheng Holdings, and these allocations were made either on specifically identifiable basis or using the ratio of Gross Merchandise Volume (“GMV”), headcount or other reasonable methods. Please refer to Note 2 below for further details of the allocation basis.

The Directors believe that the allocation bases underlying the preparation of the Carve-out Financial Statements are reasonable reflections of the financial performance and financial position of Tongcheng Online Business according to its utilization of the resources of the Old Tongcheng Network. However, the actual costs and expenses that Tongcheng Online Business would have incurred as a separate group of legal entities could be higher or lower than the allocated costs reflected in the Carve-out Financial Statements. As such, the Carve-out Financial Statements may not necessarily reflect the actual financial position, results of operations or cash flows of Tongcheng Online Business had it been operated as a stand-alone business throughout the periods presented.

During the Track Record Period and up to the date of this report, Tongcheng Network had direct or indirect interests in the following principal subsidiaries:

Company name	Country/Place of operation and date of incorporation	Particulars of issued/paid-in capital	Equity/beneficial interest held as at December 31, 2015	Equity/beneficial interest held as at December 31, 2016	Equity/beneficial interest held as at December 31, 2017	Equity/beneficial interest held as at the date of this report	Principal activities	Type of legal entity	Statutory auditors (Note)
Suzhou Chenghuiwan International Travel Agency Co., Ltd. (蘇州程會玩國際旅行社有限公司)	PRC/November 24, 2015	RMB1,000,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(i)
Nanjing Tongyou Tianxia Car Rental Co., Ltd. (南京同遊天下汽車租賃有限公司)	PRC/October 28, 2016	-	-	100%	100%	100%	Travel related services	Limited liability entity	(a)(i)
Suzhou Chuanglv Tianxia Information Technology Co., Ltd. (蘇州創旅天下信息技術有限公司)	PRC/December 23, 2015	RMB100,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(iii)
Beijing Tongcheng Huading International Travel Agency Company Limited (北京同程華鼎國際旅行社有限公司)	PRC/January 12, 2011	RMB5,000,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(ii)
Beijing Tianyuan Difang Insurance Agency Company Limited (天圓地方(北京)保險代理有限公司)	PRC/May 28, 2010	RMB50,000,000	100%	100%	100%	100%	Travel related services	Limited liability entity	(a)(iv)

(a) The statutory auditors of these companies for the Track Record Period were as following:

- (i) No statutory audit was required for the year ended December 31, 2015; 江蘇公證天業會計師事務所(特殊普通合伙) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合伙) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017;
- (ii) 蘇州鑫城會計師事務所有限公司 (Suzhou Xincheng CPAs Co., Ltd.) for the year ended December 31, 2015; 江蘇華星會計師事務所有限公司 (Jiangsu Welsen CPAs Co. Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合伙) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017;
- (iii) 江蘇公證天業會計師事務所(特殊普通合伙) (Jiangsu Gongzheng Tianye CPAs LLP) for the years ended December 31, 2015 and 2016; 普華永道中天會計師事務所(特殊普通合伙) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017;
- (iv) 江蘇公證天業會計師事務所(特殊普通合伙) (Jiangsu Gongzheng Tianye CPAs LLP) for the year ended December 31, 2015; 北京中兆國際會計師事務所有限公司 (Beijing Zhongzhao International CPAs Co., Ltd.) for the year ended December 31, 2016; 普華永道中天會計師事務所(特殊普通合伙) (PricewaterhouseCoopers Zhong Tian LLP) for the year ended December 31, 2017.

(b) The English names of certain subsidiaries referred herein represent the Directors' best effort at translating the Chinese names of these companies as no English names have been registered.

(c) All companies comprising Tongcheng Online Business have adopted December 31 as their financial year end date.

2 BASIS OF PRESENTATION

The Historical Financial Information of Tongcheng Online Business have been derived from the consolidated financial statements of the Old Tongcheng Network, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Directors consider that it is appropriate to present the Historical Financial Information on a carve-out basis in view of the following factors: (1) the scope of Tongcheng Online Business is clearly defined in the Spin-off Agreement and can be clearly delineated from the Offline Business; (2) Tongcheng Online Business and the Offline Business of the Old Tongcheng Network were developed and operated separately under different management, sales and business strategies, although there were certain extent of sharing of common resources of the Old Tongcheng Network among the two businesses; (3) majority of the revenue generated and expenses incurred by Tongcheng Online Business and its assets and liabilities were recorded in the specific departmental codes within the Old Tongcheng Network’s accounting records or the accounting records of the legal entities which operate Tongcheng Online Business.

The Historical Financial Information of Tongcheng Online Business comprises the assets, liabilities, revenue and expenses directly attributable to its specific business departments which were recorded in the specific departmental codes within the Old Tongcheng Network’s accounting records or the accounting records of the legal entities which operate Tongcheng Online Business. Assets and liabilities of the Old Tongcheng Network which were not separately distinguished between the two businesses in the past were allocated based on legal ownership or obligations, the splitting principles set out in the Spin-off Agreement or other reasonable methods. Costs and expenses of the Old Tongcheng Network which were not separately distinguished between the two businesses in the past, such as costs of other functional departments like marketing, research and development, finance, human resources, administration and other supporting departments, were allocated using the ratio of GMV, headcount or other reasonable methods.

The following balances of the Historical Financial Information contain material allocated balances:

Combined Statements of Financial Position**– Cash and cash equivalents**

Cash and cash equivalents were allocated to Tongcheng Online Business according to the legal ownership by those entities comprising Tongcheng Online Business. Pursuant to the Spin-off Agreement, all cash and cash equivalents held by the Old Tongcheng Network were not allocated and were included in the Combined Statements of Financial Position.

– Trade receivables and other current assets

Trade receivables and other current assets which were directly attributable to the operations of Tongcheng Online Business were included in the Combined Statements of Financial Position. Pursuant to the Spin-off Agreement, trade receivables and other current assets held by the Old Tongcheng Network which cannot be allocated and were included in the Combined Statements of Financial Position.

– Intangibles and other non-current assets

All intangibles and other non-current assets directly used for Tongcheng Online Business were included in the Combined Statements of Financial Position. Office premises and other non-current assets owned by the Offline Business pursuant to the Spin-off Agreement were not included in the Combined Statements of Financial Position.

– Taxation

The tax charge attributable to the Old Tongcheng Network is based on the tax charge attributable to the individual entity in the relevant individual tax jurisdictions, on a separate return basis.

Pursuant to the Spin-off Agreement, tax losses of the Old Tongcheng Network were allocated between Tongcheng Network and Tongcheng Holdings after the Spin-Off according to the approval by the local tax bureau. Deferred tax assets recognized in the Combined Statements of Financial Position comprise allocated tax losses approved by the local tax bureau, together with tax losses and temporary differences identified at the level of the subsidiaries comprising Tongcheng Online Business.

Income tax liabilities are included in the Combined Statements of Financial Position according to legal obligations of those entities comprising Tongcheng Online Business.

– ***Debts***

Payables which were directly attributable to the operations of Tongcheng Online Business were included in the Combined Statements of Financial Position. Pursuant to the Spin-off Agreement, other payables of the Old Tongcheng Network which cannot be allocated and were included in the Combined Statements of Financial Position.

– ***Owners' net investments***

Owners' net investments in Tongcheng Online Business were presented for the purpose of this report instead of different categories of owners' equity (capital, accumulated losses/retained profits, other reserves), due to the fact that Tongcheng Online Business was not operated under a separate group of legal entities throughout the periods presented, and that Guangzhou Firefly, which operated the Offline Business, is still a wholly owned subsidiary of Tongcheng Network up to December 31, 2017.

Combined Statements of Comprehensive Income

– ***Revenue and cost of revenue***

Revenue and the corresponding cost of revenue attributable to Tongcheng Online Business were specifically identifiable and no allocation was required. They are all included in the Combined Statements of Comprehensive Income.

– ***Expenses prior to Spin-Off***

All expenses directly attributable to Tongcheng Online Business were recorded in the specific departmental codes within the Old Tongcheng Network's accounting records or the accounting records of the legal entities which operate Tongcheng Online Business. They are all included in the Combined Statements of Comprehensive Income.

Selling and marketing expenses were allocated based on the pre-agreed percentage of GMV sold by the respective business units. Research and development expenses, which mainly consist of employee benefits, usage fee of cloud resource and content delivery network fee, were allocated based on the actual usage by the respective business units.

The allocation of expenses of other supporting functions, including property costs and utilities, was determined based on headcounts of the respective business units. Details of these allocated expenses are disclosed in Note 32.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period.

The combined financial statements present the combined assets, liabilities, revenue, expenses and cash flows attributable to Tongcheng Online Business for the years presented as described in Note 1.2 above.

The Historical Financial Information has been prepared in accordance with IFRSs and under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise its judgment in the process of applying Tongcheng Online Business' accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5 of this Section.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2017, are consistently applied throughout the Track Record Period.

Changes in accounting policy and disclosures

(a) New and amended standards early adopted by Tongcheng Online Business

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. Tongcheng Online Business has reviewed its financial assets and liabilities and has elected to early apply IFRS 9 applied consistently throughout the Track Record Period.

IFRS 15, “Revenue from contracts with customers” replaces the previous revenue standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on after January 1, 2018 and earlier application is permitted. Tongcheng Online Business has elected to early apply IFRS 15 which has been applied consistently throughout the Track Record Period.

(b) New standards and interpretations not yet adopted

The following new standards, amendments and interpretations to existing standards, have been issued and are effective for further reporting periods and have not been early adopted by Tongcheng Online Business.

		Effective for annual periods beginning on or after
IFRS 2 (Amendment) (Note (i))	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle (Note (i))	Retirement of short-term exemptions in IFRS 1 Clarifying measurements of investments under IAS 28	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IAS 40	Transfers of investment property	January 1, 2018
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRIC 23 (Note (i))	Uncertainty over income tax treatments	January 1, 2019
IFRS 16 (Note (ii))	Leases	January 1, 2019
Amendments to IAS 28	Long-term interest in associate or joint ventures	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021
IFRS 10 and IAS 28 (Amendments) (Note (i))	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

- (i) Tongcheng Online Business has already commenced an assessment of the impact of these new or revised standards, and amendments, certain of which are relevant to Tongcheng Online Business. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and positions of Tongcheng Online Business is expected when they become effective.
- (ii) IFRS 16, “Leases”, address the definition of a lease, recognition and measurement of leased and established principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that almost all operating leases will be accounted for on the balance sheet for lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Tongcheng Online Business is a lessee of certain office spaces which are currently classified as operating leases. Tongcheng Online Business' current accounting policy for such leases, as set out in Note 3.22, is to record the rental expenses in the profit or loss for the current year with the related operating lease commitments being separately disclosed. IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognize leases outside of the Combined Statement of Financial Position. Instead, all non-current leases must be recognized in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Combined Statement of Financial Position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the Combined Statement of Financial Position. In the Combined Statements of Comprehensive Income, as a result, the annual rental and amortization expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard will impact the Combined Statement of Financial Position in terms of total assets and liabilities.

Tongcheng Online Business has disclosed its non-cancellable operating lease commitments amounting to RMB10,493,000, RMB24,838,000 and RMB41,608,000 as of December 31, 2015, 2016 and 2017 in Note 30. The standard will affect primarily the accounting for its operating leases. However, Tongcheng Online Business has just commenced its assessment and had not yet determined to what extent its commitments will result in the recognition of an asset and a liability for future payments and how this will affect Tongcheng Online Business' profit and classification of cash flow.

The application of IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. Tongcheng Online Business does not intend to early adopt the standard before its effective date. Tongcheng Online Business intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on Tongcheng Online Business' financial performance and position.

3.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Tongcheng Online Business has control. Tongcheng Online Business controls an entity when Tongcheng Online Business is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to Tongcheng Online Business. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with Tongcheng Online Business' accounting policies.

(b) Business combination

Tongcheng Online Business applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by Tongcheng Online Business. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Tongcheng Online Business recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either

fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by Tongcheng Online Business is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be a financial asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statements of comprehensive income.

(c) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) *Disposal of subsidiaries*

When Tongcheng Online Business ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if Tongcheng Online Business had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(e) *Separate financial statements*

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by Tongcheng Network on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, vice presidents and the Directors that makes strategic decisions.

3.4 Foreign currency translation**(a) Functional and presentation currency**

Items included in the Historical Financial Information of each of the entities conducting Tongcheng Online Business through Track Record Period are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Historical Financial Information are presented in Renminbi ('RMB'), which is presentation currency of the Historical Financial Information.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive (loss)/income on a net basis within other gains/(losses), net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Tongcheng Online Business and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Estimated useful life
IT equipment	3 to 5 years
Motor vehicles	4 years
Furniture, fixtures and others	5 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in "other gains/(losses), net" in the combined statements of comprehensive (loss)/income.

3.6 Land use rights

Land use rights represent upfront payments made for the land use rights and are expensed in the statements of comprehensive income on a straight-line basis over the periods of the leases.

3.7 Intangible assets

(a) Business cooperation arrangement and domain name

Business cooperation arrangement and domain name which are capitalized on the basis of the costs incurred to acquire and bring to use the specific channel. These costs are amortized over their estimated useful lives.

(b) Trademark right

Trademark rights are initially recognized and measured at costs incurred to acquire and bring them to use. These costs are amortized on a straight-line basis over their estimated useful lives (generally 5 to 10 years), and recorded in amortization within operating expenses in the Historical Financial Information.

(c) Software

Software is initially recognized and measured at costs incurred to acquire and bring them to use. These costs are amortized on a straight-line basis over their estimated useful lives (generally 5 to 10 years), and recorded in amortization within operating expenses in the Historical Financial Information.

(d) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over Tongcheng Online Business' interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(e) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the software product so that it will be available for use; (2) management intends to complete the software product and use or sell it; (3) there is an ability to use or sell the software product; (4) it can be demonstrated how the software product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and (6) the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives.

All development costs incurred by Tongcheng Online Business do not meet the R&D capitalization criteria and hence are fully expensed off during the Track Record Period.

3.8 Impairment of non-financial assets other than goodwill

Intangible assets other than goodwill that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Financial assets

(a) Classification

Tongcheng Online Business classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether Tongcheng Online Business has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 17 for details about each type of financial asset.

Tongcheng Online Business reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Measurement

At initial recognition, Tongcheng Online Business measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurements of financial assets are as follows:

Debt instruments

Subsequent measurement of debt instruments depends on Tongcheng Online Business' business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which Tongcheng Online Business classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented in other gains (losses), net.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in profit or loss within other gains/(losses), net in the period in which it arises.

Equity instruments

All equity investments for those Tongcheng Online Business has no significant influence are subsequently measured at fair value. Where Tongcheng Online Business has elected to present the fair value movement in other comprehensive income, there is no subsequent reclassification of fair value

gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when Tongcheng Online Business' right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gain/(losses), net in profit or loss except for those equity instruments that are not reported separately from other changes in fair value.

(c) Impairment

Tongcheng Online Business has types of financial assets subject to IFRS 9's new expected credit loss model:

- trade receivables for provision of services; and
- other receivables.

Expected credit losses associated with its debt instruments carried at amortized cost and FVOCI are assessed on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4.1(b) details how Tongcheng Online Business determines whether there has been a significant increase in credit risk.

For trade receivables, Tongcheng Online Business applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Tongcheng Online Business uses practical expedients when estimating life time expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

3.10 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment (Note 3.9(c)).

3.11 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.12 Trade and other payables

These amounts represent liabilities for goods and services provided to Tongcheng Online Business prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

3.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Tongcheng Online Business has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.14 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.15 Current and deferred income tax

The income tax expense or credit for the period is the tax payable or recoverable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where Tongcheng Network's subsidiaries operate and generate taxable income. The Directors periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax*Inside basis differences*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by Tongcheng Online Business and it is probable that the temporary difference will not reverse in the foreseeable future. Generally Tongcheng Online Business

is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives Tongcheng Online Business the ability to control the reversal of the temporary difference not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.16 Employee benefits

(a) Pension obligations

Tongcheng Online Business contributes on a monthly basis to various defined contribution plan organized by the relevant governmental authorities. Tongcheng Online Business' liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities.

(b) Bonus plan

The expected cost of bonuses is recognized as a liability when Tongcheng Online Business has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

3.17 Revenue recognition

Revenues are recognized when or as the control of the goods or services is transferred to the customer. Depending the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Tongcheng Online Business offers a variety of travel-related services, including accommodation reservation, transportation ticketing, as well as, to a much lesser extent, internet-related advertising and other related services. Tongcheng Online Business generates revenue as a result of the booking of travel products and services on its websites and mobile APPs and derives its revenue mainly from the commissions earned from transportation ticketing services and intermediating services for facilitating reservations of hotel accommodations. Transportation ticketing services primarily consist of the reservation of air tickets and train tickets, sale of travel insurance and other transportation-related services.

(a) Principal agent consideration

The principal is the entity that has promised to provide goods or services to its customers. An agent arranges for goods or services to be provided by the principal to an end customer. An entity is the principal in a transaction if it obtains control of the specified goods or services before they are transferred to the customer. An entity is an agent if it does not control the specified goods or services before they are transferred to the customer.

Travel-related services

For travel related service including accommodation reservation, transportation ticketing and insurance, etc., Tongcheng Online Business does not believe it controls the above underlying product/service such as the hotel, the ticket or the insurance or the right of control at any point in the transaction. Therefore, the Directors believe it acts in the capacity as a booking service, making the merchants and end users to connect on its platform and thus Tongcheng Online Business presents travel related service revenues on a net basis.

Other services

Tongcheng Online Business provides travel-related advertising and other technical support services. Under the related arrangements, Tongcheng Online Business takes primary responsibilities of development and operation, including designing, development and updating the content, as well as pricing the service items. Therefore, Tongcheng Online Business considers itself the principal in these arrangements. Accordingly, the related revenue is recognized on a gross basis.

(b) Timing of revenue recognition*Travel-related services***(i) Accommodation reservation services**

Tongcheng Online Business generates revenue as a result of the booking of travel products and services on its websites and mobile apps and derives its revenue mainly from the commissions earned from intermediating services for facilitating reservations of hotel accommodations. Commissions from accommodation reservation services are recognized when the accommodation reservations placed by users through Tongcheng Online Business become non-cancellable.

(ii) Transportation ticketing services

Transportation ticketing services primarily consist of the reservation of air tickets and train tickets, sale of travel insurance and other transportation-related services. The commissions from such services are recognized upon the issuance of the tickets or the travel insurance, net of estimated cancellations.

(iii) Other services

Other revenues are primarily derived from travel-related advertising and other technical support services. The revenues are recognized over the service period.

(c) Contract asset and contract liability

When either party to a contract has performed, Tongcheng Online Business presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between Tongcheng Online Business' performance and the customer's payment. A contract asset is Tongcheng Online Business' right to consideration in exchange for services that Tongcheng Online Business has transferred to its customer. A contract liability is Tongcheng Online Business' obligation to transfer services to its customer for which Tongcheng Online Business has received consideration from the customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as contract assets and subsequently amortized when the related revenue is recognized.

Tongcheng Online Business applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(d) User incentive programs

Tongcheng Online Business provides various user incentive programs. Where participating users are awarded incentives on current transactions that can be redeemed for future reservations through Tongcheng Online Business' platforms or redeemed for cash. The estimated fair value of the incentives that are expected to be redeemed is recognized as a reduction of revenues at the time the incentives are granted.

3.18 Service development expenses

Service development expenses represents the expenses incurred to develop and diversify the travel products and services Tongcheng Online Business' sources from its travel service providers as well as the expenses in relation to the research and development of service providers assist system and Tongcheng Online Business' online platforms.

3.19 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, Tongcheng Online Business reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

3.20 Dividend income

Dividend income is recognized when the right to receive payment is established.

3.21 Government grants/subsidies

Grants/subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants/subsidies will be received and Tongcheng Online Business will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognized as income or matched with the associated costs which the grants/subsidies are intended to compensate.

3.22 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statements of comprehensive (loss)/income on a straight-line basis over the period of the lease.

3.23 Provisions

Provisions are recognized when Tongcheng Online Business has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current and deferred Income taxes

Tongcheng Online Business is subject to income taxes in different jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Tongcheng Online Business recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, Tongcheng Online Business assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on Tongcheng Online Business' estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

(b) Impairment of trade and other receivables

Tongcheng Online Business follows the guidance of IFRS 9 to determine when a receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, Tongcheng Online Business evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macro-economic indicators etc.

(c) Useful lives and residual values of property, plant and equipment and intangible assets

The Directors estimate residual value, useful lives and related depreciation or amortization expenses of property, plant and equipment and intangible assets according to the historical experiences of the actual residual value and useful lives of property, plant and equipment and intangible assets which have the same nature and function. The residual value and useful lives may have significant changes due to technical updates and other reasons. If net residual value or estimated useful lives are less than the previous estimates, the Directors will increase the depreciation or amortization expenses accordingly.

(d) Basis of allocation

The nature of carve out financial statements requires the Directors to make estimates of a reasonable allocation key for assets, liabilities and costs shared with the Offline Business within the Old Tongcheng Network. These allocations were performed on a manner deemed reasonable by the Directors and are explained in the Basis of Presentation in Note 2. Different allocation keys could have resulted in different outcomes. The basis of allocation may not be representative of the actual financial position of Tongcheng Online Business in the future when it is operated on a legal entity basis.

5 FINANCIAL RISK MANAGEMENT**5.1 Financial risk factors**

Tongcheng Online Business' activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Tongcheng Online Business' overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Tongcheng Online Business' financial performance. Risk management is carried out by the management of Tongcheng Online Business.

(a) Market risk**(i) Foreign exchange risk**

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not Tongcheng Online Business' functional currency. Tongcheng Online Business manages its foreign exchange risk by performing regular reviews of Tongcheng Online Business' net foreign exchange exposures. Tongcheng Online Business does not hedge against any fluctuation in foreign currency during the Track Record Period.

Tongcheng Online Business operates mainly in the PRC with most of the transactions settled in RMB, the Directors considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of Tongcheng Online Business are denominated in the currencies other than the respective functional currencies of Tongcheng Online Business' entities.

(ii) Interest rate risk

Other than cash and cash equivalents and restricted cash, Tongcheng Online Business has no significant interest-bearing assets or liabilities, Tongcheng Online Business' income and cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

Tongcheng Online Business is exposed to credit risk in relation to its cash and bank deposits, trade and other receivables and short-term investments measured at fair value through profit or loss.

The carrying amounts of each class of the above financial assets represent Tongcheng Online Business' maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and bank deposits and wealth management products issued by commercial banks, Tongcheng Online Business only transacts with reputable commercial banks which are all high-credit-quality financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions.

Trade receivables at each end of Track Record Period are mainly due from the third-party customers including airline companies, hotels, insurance companies or related agents, etc. in cooperation with Tongcheng Online Business and other receivables mainly include deposits and guarantees, amounts due from related parties and others (the "Receivables"). Tongcheng Online Business considers the probability of default upon initial recognition of the Receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, Tongcheng Online Business compares the risk of a default occurring on the Receivables as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors, etc.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on the Receivables when the counterparty fails to make contractual payments within 180 days of when they fall due.

Tongcheng Online Business makes periodic assessment on the credit risk of the Receivables based on the history of cooperation with customers, settlement records and past experience, the Directors believe that the credit risk inherent in the Receivables is not material.

(c) Price risk

Tongcheng Online Business' price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), which mainly include short-term investments measured at fair value through profit or loss.

The above investments are exposed to price risk because of changes in market prices, where changes are caused by factors specific to the individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

(d) Liquidity risk

The treasury function of Tongcheng Online Business is managed by Tongcheng Network's headquarter centrally.

As at December 31, 2015, 2016 and 2017, all of the financial liabilities of Tongcheng Online Business have contractual maturity date within one year.

5.2 Capital risk management

Tongcheng Online Business' objectives when managing capital (including funding from shareholders of the Old Tongcheng Network and related parties) are to safeguard Tongcheng Online Business' ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity value in the long-term.

5.3 Fair value estimation

The table below analyses Tongcheng Online Business' financial instruments carried at fair value as of December 31, 2015, 2016 and 2017, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS

The following table presents Tongcheng Online Business' assets that are measured at fair value as at December 31, 2015, 2016 and 2017:

	As of December 31, 2015			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
– Short-term investments measured at fair value through profit or loss (Note 21)	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	As of December 31, 2016			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
– Short-term investments measured at fair value through profit or loss (Note 21)	–	–	35,000	35,000
	<u>–</u>	<u>–</u>	<u>35,000</u>	<u>35,000</u>
	As of December 31, 2017			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
– Short-term investments measured at fair value through profit or loss (Note 21)	–	–	204,650	204,650
	<u>–</u>	<u>–</u>	<u>204,650</u>	<u>204,650</u>

The changes in level 3 financial instruments for the years ended December 31, 2016 and 2017 are presented in Note 21.

Tongcheng Online Business has a team that manages the valuation exercise of level 3 financial instruments for financial reporting purposes. The team manages the valuation exercise if the investments in a case-by-case basis. At least once a year, the team would use valuation techniques to determine the fair value of Tongcheng Online Business' level 3 financial instruments. External valuation experts will be involved when necessary.

The level 3 financial instruments of Tongcheng Online Business as at December 31, 2016 and 2017 were short-term investments measured at fair value through profit or loss, which was an unlisted wealth management product issued by commercial banks.

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The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values			Significant unobservable inputs	Range of inputs			Relationship of unobservable inputs to fair values
	Year ended December 31,				Year ended December 31,			
	2015	2016	2017		2015	2016	2017	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>					
Short-term investments measured at fair value through profit or loss	–	35,000	204,650	Expected rate of return	–	2.59%	3.85%-4.95%	The higher the expected rate of return, the higher the fair value

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the Track Record Period.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of the year	–	–	35,000
Purchase	–	35,000	4,246,400
Changes in fair value	–	187	42,675
Redemption	–	(187)	(4,119,425)
	<u> </u>	<u> </u>	<u> </u>
At end of the year	–	35,000	204,650
	<u> </u>	<u> </u>	<u> </u>
Maximum exposure to credit risk	–	35,000	204,650
	<u> </u>	<u> </u>	<u> </u>

The carrying amounts of Tongcheng Online Business' financial assets including cash and cash equivalents, restricted cash, trade and other receivables, and the financial liabilities, including trade and other payables, approximate their fair values due to their short maturities.

6 REVENUE AND SEGMENT INFORMATION

The CODM assesses the performance of the operating segment mainly based on the measure of operating profit, excluding items which are not directly related to the segment performance ("combined results"). These include non-operating income/(expenses) such as government subsidies, fair value gains on short-term investments measured at fair value through profit or loss and other non-operating items. The CODM reviews the combined results when making decisions about allocating resources and assessing performance of Tongcheng Online Business as a whole. Therefore, Tongcheng Online Business has only one reportable segment which mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC. As at 31 December 2015, 2016 and 2017, substantially all of the non-current assets of Tongcheng Online Business were located in the PRC. Therefore, no geographical segments are presented. No analysis of segment assets or segment liabilities is presented as they are not used by the CODM when making decisions about allocating resources and assessing performance of Tongcheng Online Business.

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HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Operating (loss)/profit per Combined Statements of Comprehensive (Loss)/Income	(445,723)	(73,034)	569,517
Less: Other income	(3,574)	(2,097)	(7,583)
Other gains/(losses), net	(710)	975	(37,004)
Operating (loss)/profit presented to the CODM	<u>(450,007)</u>	<u>(74,156)</u>	<u>524,930</u>

Revenue by service type for the Track Record Period are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Transportation ticketing services	509,819	1,348,374	2,468,398
Accommodation reservation services	70,243	82,398	101,379
Others	461	4,185	137,722
Total revenue	<u>580,523</u>	<u>1,434,957</u>	<u>2,707,499</u>

The major customers which contributed more than 10% of the total revenue of Tongcheng Online Business for the years ended December 31, 2015, 2016 and 2017 are listed as below:

	Year ended December 31,		
	2015	2016	2017
	%	%	%
Customer A	27.68	—	—
Customer B	19.37	—	—
Customer C	12.97	—	—
Customer D	—	47.08	22.05
Customer E	—	—	12.13

7 EXPENSES BY NATURE

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Employee benefit expenses (Note 8)	230,232	528,179	767,738
Order processing costs	132,792	343,820	550,192
Advertising and promotion expenses	476,737	320,044	425,074
Depreciation and amortization expenses (Notes 14 & 15 & 16)	104,964	205,052	212,890
Rental and utility fees	18,014	20,526	55,969
Procurement costs	13,172	16,181	48,911
Bandwidth and server fees	4,713	10,039	34,497
Audit fees	1,060	1,647	5,865
Others	48,652	62,736	75,974
	<u>1,030,336</u>	<u>1,508,224</u>	<u>2,177,110</u>

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	185,404	424,708	612,968
Pension costs – defined contribution plan	15,101	40,018	61,651
Other social security costs, housing benefits and other employee benefits	29,727	63,453	93,119
	<u>230,232</u>	<u>528,179</u>	<u>767,738</u>

(a) Pension costs – defined contribution plan

Employees of Tongcheng Online Business in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. Tongcheng Online Business contributes funds which are calculated on a fixed percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees.

(b) Directors' emoluments

With the completion of the Acquisition, the emoluments of individual directors of Tongcheng Network are set out below which accounts for the Directors after the Acquisition:

Emoluments paid or receivable in respect of a person's services as a Director, whether of Tongcheng Network or its subsidiaries undertaking							Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of Tongcheng Network or its subsidiaries undertaking	Total
	Fees RMB'000	Salary RMB'000	Discretionary Bonuses RMB'000	Housing allowance RMB'000	Estimated money value of other benefits RMB'000	Employer's contribution of a retirement benefit scheme RMB'000	RMB'000	RMB'000
Year ended December 31, 2015								
Mr. Wu Zhixiang	–	1,748	500	17	10	32	–	2,307
Mr. Ma Heping	–	1,739	500	17	10	32	–	2,298
	<u>–</u>	<u>3,487</u>	<u>1,000</u>	<u>34</u>	<u>20</u>	<u>64</u>	<u>–</u>	<u>4,605</u>
Year ended December 31, 2016								
Mr. Wu Zhixiang	–	1,952	420	17	10	33	–	2,432
Mr. Ma Heping	–	1,951	570	17	10	33	–	2,581
	<u>–</u>	<u>3,903</u>	<u>990</u>	<u>34</u>	<u>20</u>	<u>66</u>	<u>–</u>	<u>5,013</u>
Year ended December 31, 2017								
Mr. Wu Zhixiang	–	1,809	520	18	10	33	–	2,390
Mr. Ma Heping	–	1,950	653	18	10	33	–	2,664
	<u>–</u>	<u>3,759</u>	<u>1,173</u>	<u>36</u>	<u>20</u>	<u>66</u>	<u>–</u>	<u>5,054</u>

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in Tongcheng Online Business for the Track Record Period include 1, 2 and 2 directors whose emoluments are reflected in the analysis shown in “Directors’ emoluments”. The emoluments payable to the remaining 4, 3 and 3 individuals for the Track Record Period are as follows:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonuses	9,360	7,289	7,462
Pension costs – defined contribution plan	125	96	99
Other social security costs, housing benefits and other employee benefits	108	83	85
	<u>9,593</u>	<u>7,468</u>	<u>7,646</u>

The emoluments fell within the following band:

	Number of individuals		
	2015	2016	2017
	[●]	[●]	[●]
Emolument band			
RMB2 million-RMB3 million	<u>4</u>	<u>3</u>	<u>3</u>

(d) Benefits and interests of the Directors

No benefits and interests of the Directors subsisted at the end of the year or at any time during the Track Record Period.

(e) The Directors’ termination benefits

No Directors’ termination benefit subsisted at the end of the year or at any time during the Track Record Period.

(f) Consideration provided to third parties for making available Directors’ services

No consideration provided to third parties for making available Directors’ services subsisted at the end of the year or at any time during the Track Record Period.

(g) Information about loans, quasi-loans and other dealings in favor of the Directors, controlled bodies corporate by and connected entities with such Directors

No loans, quasi-loans and other dealings in favor of the Directors, controlled bodies corporate by and connected entities with such Directors subsisted at the end of the year or at any time during the Track Record Period.

(h) The Directors’ material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to Tongcheng Online Business to which Tongcheng Network was a party and in which a Director of Tongcheng Network had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Period.

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HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS

9 OTHER INCOME

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Government subsidies (a)	3,574	2,097	7,583

- (a) The government grants are mainly incentives provided by the Suzhou local government and the amount received each year is determined by the Suzhou local government. There were no unfulfilled conditions or other contingencies attached to these grants.

10 OTHER GAINS/(LOSSES), NET

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fair value gains from short-term investments measured at fair value through profit or loss (Note 21)	—	187	42,675
Impairment provision for receivables	(305)	(362)	(1,957)
Net gains/(losses) on disposal of assets	111	(527)	(3,502)
Net foreign exchange (loss)/gain	—	(675)	385
Others	710	(487)	(6,056)
	516	(1,864)	31,545

11 FINANCE INCOME

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Finance income			
– Interest income (Note a)	2,177	2,732	2,955

- (a) Interest income mainly represents interest income from bank deposits.

12 INCOME TAX (CREDIT)/EXPENSE

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current income tax (a)	6	9,590	6,546
Deferred income tax (Note 18)	(108,443)	11,206	74,588
Income tax (credit)/expense	(108,437)	20,796	81,134

- (a) PRC corporate income tax (“CIT”) was made on the estimated assessable profits of entities within Tongcheng Online Business incorporated in the PRC for the years ended 31 December 2015, 2016 and 2017, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances.

Except for Tongcheng Network which was approved as High and New Technology Enterprise and subject to a preferential CIT rate of 15% for the years ended 31 December 2015, 2016 and 2017 according to the applicable CIT law, all other entities incorporated in the PRC are subject to the general PRC CIT rate of 25% for the Track Record Period.

- (b) Tax charges in the Historical Financial Information have been determined based on the tax charges recorded by the subsidiaries comprising Tongcheng Online Business in their statutory accounts as well as certain tax losses attributable to Tongcheng Online Business agreed by local tax bureau upon the Spin-Off.

The income tax on Tongcheng Online Business’ (loss)/profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to (loss)/profit of Tongcheng Online Business as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(Loss)/profit before income tax	(443,546)	(70,302)	572,472
Tax calculated at PRC statutory tax rate of 25%	(110,887)	(17,576)	143,118
The impact of preferential tax rates	–	(7,109)	(57,803)
Income not subject to and expenses not deductible for taxation purposes	2,450	33,712	(20,700)
Tax losses and temporary differences for which no deferred tax assets was recognized	–	11,769	16,519
Income tax (credit)/expense	(108,437)	20,796	81,134

13 (LOSS)/EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to Tongcheng Online Business historically did not constitute a legal entity and the preparation of the results for each of the years ended 31 December 2015, 2016 and 2017 on a combined basis as disclosed in Note 2 above.

APPENDIX III	HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS					
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14 PROPERTY, PLANT AND EQUIPMENT

	IT equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2015						
Cost	73,613	3,020	3,596	–	5,382	85,611
Accumulated depreciation	(21,423)	(705)	(1,414)	–	(1,805)	(25,347)
Net book amount	52,190	2,315	2,182	–	3,577	60,264
Year ended December 31, 2015						
Opening net book amount	52,190	2,315	2,182	–	3,577	60,264
Additions	56,886	1,726	–	–	1,681	60,293
Depreciation charge	(23,631)	(974)	(594)	–	(1,184)	(26,383)
Disposal	(185)	–	–	–	–	(185)
Closing net book amount	85,260	3,067	1,588	–	4,074	93,989
At December 31, 2015						
Cost	129,138	4,746	3,596	–	7,063	144,543
Accumulated depreciation	(43,878)	(1,679)	(2,008)	–	(2,989)	(50,554)
Net book amount	85,260	3,067	1,588	–	4,074	93,989
Year ended December 31, 2016						
Opening net book amount	85,260	3,067	1,588	–	4,074	93,989
Additions	99,121	1,148	1,128	2,225	400	104,022
Depreciation charge	(48,779)	(1,322)	(677)	–	(1,110)	(51,888)
Disposal	(454)	(73)	–	–	–	(527)
Closing net book amount	135,148	2,820	2,039	2,225	3,364	145,596
At December 31, 2016						
Cost	224,890	5,690	4,724	2,225	7,463	244,992
Accumulated depreciation	(89,742)	(2,870)	(2,685)	–	(4,099)	(99,396)
Net book amount	135,148	2,820	2,039	2,225	3,364	145,596

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TONGCHENG ONLINE BUSINESS**

	IT equipment	Motor vehicles	Furniture, fixtures and others	Construction in progress	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended						
December 31, 2017						
Opening net book amount	135,148	2,820	2,039	2,225	3,364	145,596
Additions	49,146	–	451	66,426	6,608	122,631
Depreciation charge	(55,933)	(1,100)	(604)	–	(1,382)	(59,019)
Disposal	(69)	(504)	(858)	–	–	(1,431)
	<u>128,292</u>	<u>1,216</u>	<u>1,028</u>	<u>68,651</u>	<u>8,590</u>	<u>207,777</u>
Closing net book amount	<u>128,292</u>	<u>1,216</u>	<u>1,028</u>	<u>68,651</u>	<u>8,590</u>	<u>207,777</u>
At December 31, 2017						
Cost	259,626	4,962	4,276	68,651	14,071	351,586
Accumulated depreciation	<u>(131,334)</u>	<u>(3,746)</u>	<u>(3,248)</u>	<u>–</u>	<u>(5,481)</u>	<u>(143,809)</u>
Net book amount	<u>128,292</u>	<u>1,216</u>	<u>1,028</u>	<u>68,651</u>	<u>8,590</u>	<u>207,777</u>

Depreciation expenses have been charged to the following categories for the Track Record Period:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	20,848	35,524	42,032
Service development expenses	3,040	9,721	10,027
Administrative expenses	1,344	3,226	3,435
Selling and marketing expenses	<u>1,151</u>	<u>3,417</u>	<u>3,525</u>
	<u>26,383</u>	<u>51,888</u>	<u>59,019</u>

15 LAND USE RIGHTS

RMB'000

At January 1, 2016

Cost	—
Accumulated amortisation	—
Net book value	—

Year ended December 31, 2016

Opening net book value	—
Addition	16,315
Amortization charge	(79)
Closing net book value	16,236

At December 31, 2016

Cost	16,315
Accumulated amortisation	(79)
Net book value	16,236

Year ended December 31, 2017

Opening net book value	16,236
Addition	—
Amortization charge	(329)
Disposals	—
Closing net book value	15,907

At December 31, 2017

Cost	16,315
Accumulated amortisation	(408)
Net book value	15,907

In 2016, Tongcheng Online Business acquired land use rights for new office building at a total consideration of RMB16,315,200. The amortized period of the land use rights were 50 years. Amortization charges were charged in the administrative expenses for the Track Record Period (Note 7).

16 INTANGIBLE ASSETS

	Business cooperation arrangement and domain name (a) RMB'000	Trademark right RMB'000	Software RMB'000	Goodwill (Note 31) RMB'000	Others RMB'000	Total RMB'000
At January 1, 2015						
Cost	7,658	19,679	13,390	–	7,045	47,772
Accumulated amortization	(510)	(1,312)	(2,120)	–	(1,750)	(5,692)
Net book value	7,148	18,367	11,270	–	5,295	42,080
Year ended December 31, 2015						
Opening net book value	7,148	18,367	11,270	–	5,295	42,080
Addition	736,294	–	3,893	9,200	–	749,387
Amortization charge	(74,395)	(1,968)	(1,470)	–	(748)	(78,581)
Closing net book value	669,047	16,399	13,693	9,200	4,547	712,886
At December 31, 2015						
Cost	743,952	19,679	17,283	9,200	7,045	797,159
Accumulated amortization	(74,905)	(3,280)	(3,590)	–	(2,498)	(84,273)
Net book value	669,047	16,399	13,693	9,200	4,547	712,886
Year ended December 31, 2016						
Opening net book value	669,047	16,399	13,693	9,200	4,547	712,886
Addition	–	–	10,023	209	–	10,232
Amortization charge	(148,025)	(1,968)	(2,388)	–	(704)	(153,085)
Closing net book value	521,022	14,431	21,328	9,409	3,843	570,033
At December 31, 2016						
Cost	743,952	19,679	27,306	9,409	7,045	807,391
Accumulated amortization	(222,930)	(5,248)	(5,978)	–	(3,202)	(237,358)
Net book value	521,022	14,431	21,328	9,409	3,843	570,033
Year ended December 31, 2017						
Opening net book value	521,022	14,431	21,328	9,409	3,843	570,033
Addition	–	–	6,996	–	377	7,373
Amortization charge	(148,025)	(1,968)	(2,813)	–	(736)	(153,542)
Disposals	–	–	(2,071)	–	–	(2,071)
Closing net book value	372,997	12,463	23,440	9,409	3,484	421,793
At December 31, 2017						
Cost	743,952	19,679	31,163	9,409	7,422	811,625
Accumulated amortization	(370,955)	(7,216)	(7,723)	–	(3,938)	(389,832)
Net book value	372,997	12,463	23,440	9,409	3,484	421,793

- (a) In July 2015, Tongcheng Online Business entered into business cooperation arrangement with one of its shareholders (the “shareholder”), who would deploy certain agreed-upon business resources to Tongcheng Online Business. Tongcheng Online Business assessed and concluded that the business cooperation arrangement was qualified as an intangible asset, which is amortized over the contractual beneficial period under straight line method.

- (b) Amortization charges were charged in the following categories for the Track Record Period:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Selling and marketing expenses	74,395	148,025	148,025
Administrative expense	3,706	3,836	4,002
Service development expenses	480	1,224	1,515
	<u>78,581</u>	<u>153,085</u>	<u>153,542</u>

- (c) Tongcheng Online Business tests annually whether goodwill have suffered any impairment. During the Track Record Period, no goodwill have been impaired.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Assets as per combined statement of financial position			
Financial assets at fair value through profit or loss:			
– Short-term investments measured at fair value through profit or loss (Note 21)	–	35,000	204,650
Financial assets at amortized costs:			
– Trade receivables (Note 20)	129,760	418,257	227,041
– Other receivables (Note 19)	175,951	929,332	295,579
– Restricted cash (Note 22)	5,740	7,394	18,076
– Cash and cash equivalents (Note 22)	243,169	947,340	1,268,206
	<u>554,620</u>	<u>2,337,323</u>	<u>2,013,552</u>
Liabilities as per combined statement of financial position			
Financial liabilities at amortized cost:			
– Trade payables (Note 23)	94,866	323,486	489,562
– Other payables and accruals (Note 24)	214,400	308,081	300,541
	<u>309,266</u>	<u>631,567</u>	<u>790,103</u>

APPENDIX III HISTORICAL FINANCIAL INFORMATION OF TONGCHENG ONLINE BUSINESS

18 DEFERRED INCOME TAX ASSETS

The analysis of deferred tax assets is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
– to be recovered after more than 12 months	136,469	137,718	54,248
– to be recovered within 12 months	15,217	2,762	11,644
	<u>151,686</u>	<u>140,480</u>	<u>65,892</u>

The gross movement on the deferred income tax account is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	43,243	151,686	140,480
Credited/(charged) to the profit or loss (Note 12)	<u>108,443</u>	<u>(11,206)</u>	<u>(74,588)</u>
At the end of the year	<u>151,686</u>	<u>140,480</u>	<u>65,892</u>

The movement in deferred income tax assets during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses	Impairment	Future	Total
	RMB'000	of assets	deductible	RMB'000
		RMB'000	expenses	
			RMB'000	
At January 1, 2015	16,880	158	26,205	43,243
Credited to the profit or loss	<u>56,291</u>	<u>46</u>	<u>52,106</u>	<u>108,443</u>
At December 31, 2015	<u>73,171</u>	<u>204</u>	<u>78,311</u>	<u>151,686</u>
At January 1, 2016	73,171	204	78,311	151,686
Credited/(charged) to the profit or loss	<u>1,795</u>	<u>54</u>	<u>(13,055)</u>	<u>(11,206)</u>
At December 31, 2016	<u>74,966</u>	<u>258</u>	<u>65,256</u>	<u>140,480</u>
At January 1, 2017	74,966	258	65,256	140,480
Credited/(charged) to the profit or loss	<u>(71,239)</u>	<u>333</u>	<u>(3,682)</u>	<u>(74,588)</u>
At December 31, 2017	<u>3,727</u>	<u>591</u>	<u>61,574</u>	<u>65,892</u>

Details of unrecognized deferred tax are as follows:

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. Tongcheng Online Business did not recognize deferred income tax assets of Nil and RMB11,769,000 and RMB28,288,000 as at 31 December 2015, 2016 and 2017, respectively, in respect of tax losses amounting to Nil and RMB47,076,000 and RMB113,152,000 of certain subsidiaries comprising Tongcheng Online Business as at those dates, respectively, that can be carried forward against future taxable income, and will expire between 2021 and 2022 under PRC tax regulations.

19 PREPAYMENT AND OTHER RECEIVABLES

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Included in non-current assets			
Advances to suppliers (non-financial assets)	5,752	1,030	7,949
Included in current assets			
Advances to related parties (Note 32)	98	804	2,297
Advances to suppliers	42,632	82,095	81,299
VAT recoverable	76,947	46,413	8,856
Total non-financial assets	119,677	129,312	92,452
Amounts due from related parties (Note 32)	78,578	785,676	100,900
Deposits and guarantee	56,448	107,068	133,672
Others	40,925	36,588	61,007
Total financial assets	175,951	929,332	295,579
Current, total	295,628	1,058,644	388,031

- (a) Tongcheng Online Business consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Other receivables that are measured at amortised costs mainly included deposits and guarantees, amounts due from related parties and others. Tongcheng Online Business considers the probability of default upon initial recognition of other receivables and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. Based on the assessment and analysis conducted by the Directors, no actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant increase of credit risk, and thus the impairment provisions recognised during the years ended December 31, 2015, 2016 and 2017 were limited to 12 months expected losses.

- (b) Movement in impairment of other receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	1,042	920	877
Reverse for impairment	(122)	(43)	–
Provision for impairment	–	–	653
At the end of the year	920	877	1,530

- (c) In connection with Tongcheng Online Business' air ticket business, Tongcheng Online Business was required by its business partners to pay deposits as guarantee in order for the issuance of air tickets and timely payment. As of December 31, 2015, 2016 and 2017, the amount of the deposit paid to the business partners under these guarantee arrangements was RMB27.3 million, RMB64.5 million and RMB107.0 million, respectively and recorded as prepayment and other receivables.

20 TRADE RECEIVABLES

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Receivables from third parties	100,153	267,824	165,551
Receivables from related parties (<i>Note 32</i>)	30,044	151,275	63,636
	130,197	419,099	229,187
Less: allowance for impairment of trade receivables	(437)	(842)	(2,146)
	129,760	418,257	227,041

- (a) Movements on the Tongcheng Online Business' allowance for impairment of trade receivables are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	10	437	842
Provision for doubtful receivables	427	405	1,304
At the end of the year	437	842	2,146

- (b) As at December 31, 2015, 2016 and 2017, trade receivables of RMB10,500, RMB23,628,000 and Nil, respectively, were past due but not impaired. These receivables due from the related parties for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 6 months	–	23,628	–
Over 6 months	11	–	–
	11	23,628	–

- (c) Tongcheng Online Business normally allows a credit period within 30 days to its customers. Ageing analysis of gross trade receivables based on invoice date at the respective balance sheet dates is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 6 months	129,749	394,629	227,041
Over 6 months	448	24,470	2,146
Trade receivables, gross	130,197	419,099	229,187
Less: Impairment of trade receivables	(437)	(842)	(2,146)
Trade receivables, net	129,760	418,257	227,041

- (d) Tongcheng Online Business applies the simplified approach to estimate expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision is determined as follows:

	Current and up to 90 days past due	90 days to 180 days past due	Over 180 days past due	Total
31 December 2015:				
Expected loss rate	0.11%	2.20%	66.82%	【●】
Gross carrying amount (RMB'000)	129,487	273	437	130,197
Loss allowance provision (RMB'000)	139	6	292	437
31 December 2016:				
Expected loss rate	0.05%	0.28%	64.61%	【●】
Gross carrying amount (RMB'000)	378,881	39,376	842	419,099
Loss allowance provision (RMB'000)	186	112	544	842
31 December 2017:				
Expected loss rate	0.07%	4.30%	86.67%	【●】
Gross carrying amount (RMB'000)	224,274	2,767	2,146	229,187
Loss allowance provision (RMB'000)	167	119	1,860	2,146

21 SHORT-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of the year	—	—	35,000
Purchase	—	35,000	4,246,400
Changes in fair value	—	187	42,675
Redemption	—	(187)	(4,119,425)
At end of the year	—	35,000	204,650

Short-term investments measured at fair value through profit or loss represent the wealth management products issued by commercial banks with a variable interest rate ranging from 2.59%-4.95% per annum for the year ended December 31, 2016 and 2017, respectively. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss.

The fair values are based on cash flow discounted using the expected return based on the Directors' judgment and are within level 3 of the fair value hierarchy.

22 RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Restricted cash (a)	5,740	7,394	18,076
Cash and cash equivalents			
– Cash on hand	52	15	–
– Deposits at bank	243,117	947,325	1,268,206
	<u>243,169</u>	<u>947,340</u>	<u>1,268,206</u>
	<u>248,909</u>	<u>954,734</u>	<u>1,286,282</u>

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	244,940	953,804	1,286,190
USD	3,969	930	92
	<u>248,909</u>	<u>954,734</u>	<u>1,286,282</u>

- (a) Restricted cash are mainly deposits held as securities for issuance of bank letter of guarantee to International Air Transport Association ("IATA") and credit cards. These deposits are subject to bank restrictions and are therefore not available for general use by Tongcheng Online Business.

23 TRADE PAYABLES

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Amounts due to related parties (Note 32)	41,067	129,075	73,575
Payables due to third parties	53,799	194,411	415,987
	<u>94,866</u>	<u>323,486</u>	<u>489,562</u>

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Ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 1 year	93,606	323,419	485,303
Over 1 year	1,260	67	4,259
	<u>94,866</u>	<u>323,486</u>	<u>489,562</u>

24 OTHER PAYABLES AND ACCRUALS

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Amounts prepaid by related parties for services (Note 32)	63	1,012	865
Advances from users	11,283	463,262	387,698
Accrued payroll and welfare	45,146	107,210	148,267
Taxes other than income taxes payable (Note (a))	1,915	8,232	13,841
Total non-financial liabilities	<u>58,407</u>	<u>579,716</u>	<u>550,671</u>
Amounts due to related parties (Note 32)	3,467	17,368	100,008
Amounts collected on behalf of third parties	95,048	202,923	83,029
Payable of advertising and promotion expenses	75,688	23,327	22,257
Accrued expense	11,364	12,073	23,356
Others	28,833	52,390	71,891
Total financial liabilities	<u>214,400</u>	<u>308,081</u>	<u>300,541</u>
Total	<u>272,807</u>	<u>887,797</u>	<u>851,212</u>

(a) Taxes other than income taxes payable mainly comprise unpaid value-added tax.

25 CONTRACT LIABILITIES

Tongcheng Online Business has recognized the following revenue-related contract liabilities:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contract liabilities:			
Deferred revenue for online reservation service	<u>5,036</u>	<u>5,697</u>	<u>37,217</u>

Contract liabilities primarily consists of the sales of various Coupon programs, for which an implied obligations are to be provided by Tongcheng Online Business over time. Such liabilities increased as a result of the growth of the business.

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The following table shows the amount of revenue recognized in the Combined Statements of Comprehensive (Loss)/Income for the respective years relating to contract liabilities brought forward:

	As of December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the period	44	5,036	5,697

26 DIVIDENDS

No dividend has been paid or declared by legal entities comprising Tongcheng Online Business during each of the years ended December 31, 2015, 2016 and 2017.

27 NOTE TO THE COMBINED STATEMENTS OF CASH FLOWS

(a) Cash flow from operations

Reconciliation of profit or loss for the Track Record Period to net cash generated from operations:

	Year ended December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
(Loss)/profit before income tax	(443,546)	(70,302)	572,472
Adjustment for:			
Property, plant and equipment			
– Depreciation of property, plant and equipment (<i>Note 14</i>)	26,383	51,888	59,019
– Net (gains)/losses on disposals of property, plant and equipment and intangible assets	(111)	527	3,502
– Amortization of land use rights (<i>Note 15</i>)	–	79	329
– Amortization of intangible assets (<i>Note 16</i>)	78,581	153,085	153,542
– Provision for impairment of assets	305	362	1,957
– Net foreign exchange loss/(gain) (<i>Note 10</i>)	–	675	(385)
– Fair value gains of short-term investments measured at fair value through profit or loss (<i>Note 10</i>)	–	(187)	(42,675)
– Interest income (<i>Note 11</i>)	(2,177)	(2,732)	(2,955)
Changes in working capital:			
– Trade receivables	(118,923)	(288,902)	189,912
– Prepayment and other receivables	1,032,212	(355,609)	213,214
– Trade payables	94,866	228,620	166,076
– Accrued expenses and other current liabilities	235,497	657,323	(4,697)
Cash generated from operations	903,087	374,827	1,309,311

- (b) In the Combined Statement of Cash Flows, proceeds from sale of property, plant and equipment and intangible assets comprise:

	Year ended December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Net book value	185	527	3,502
Net gains/(losses) on disposal of property, plant and equipment and intangible assets	111	(527)	(3,502)
Proceeds from disposal of property, plant and equipment and intangible assets	296	—	—

28 BANKING FACILITIES

As at December 31, 2015, 2016 and 2017, Tongcheng Online Business has banking facilities available in the form of letters of guarantee of approximately RMB640.0 million, RMB633.3 million and RMB1.2 billion, in which Nil, approximately RMB183.4 million and RMB298.5 million are utilized and provided to business partners for financial security.

Tongcheng Online Business is in compliance with all banking covenants as at December 31, 2015, 2016 and 2017.

29 CONTINGENCIES

As at December 31, 2015, 2016 and 2017, Tongcheng Online Business did not have any significant contingent liabilities.

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of each years but not yet incurred is as follows:

	As of December 31,		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Property and equipment	—	9,340	160,997

(b) Operating commitments

Tongcheng Online Business lease offices and VIP lounges under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
No later than 1 year	3,176	16,053	27,393
1~5 years	7,317	8,785	14,215
	<u>10,493</u>	<u>24,838</u>	<u>41,608</u>

31 BUSINESS COMBINATIONS

Tongcheng Online Business acquired 100% shares of Tianyuan Difang (Beijing) Insurance Agency Co., Ltd. ("Tianyuan Difang") and Beijing Tongcheng Huading International Travel Agency Co., Ltd. ("Huading"), collectively (the "Acquirees") with consideration of RMB48,845,000 and RMB410,000 in October 2015 and May 2016, respectively. RMB6,500,000 was paid in 2015 for the acquisition of Tianyuan Difang with the remaining consideration paid in 2016.

As a result of the acquisitions, the combined operation of online business is expected to increase its presence in the markets. It also expects to reduce costs through economies of scale. The goodwill of RMB9,200,000 and RMB209,000 arising from the acquisitions were attributable to the acquired economies of scale expected from combining the operations of Tongcheng Online Business and the Acquirees.

The following table summarizes the considerations paid for the Acquirees and the fair value of net assets acquired at the acquisition date:

	2015	2016
	Tianyuan Difang	Huading
	RMB'000	RMB'000
Total consideration – Cash	48,845	410
Less: fair value of net assets acquired	<u>(39,645)</u>	<u>(201)</u>
Goodwill	<u>9,200</u>	<u>209</u>

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of Tongcheng Online Business are also considered as related parties.

The following significant transactions were carried out between Tongcheng Online Business and its related parties during the periods presented.

(a) Names and relationships with related parties

The following companies are related parties of Tongcheng Online Business and have transactions with Tongcheng Online Business during the Track Record Period:

Company name	Relationship with Tongcheng Online Business
Tongcheng Holdings and its subsidiaries (Also representing the business units and entities originally conducted the Offline Business before the Spin-Off)	Controlled by the same shareholders of Tongcheng Network
Ctrip.com International, Ltd. (“Ctrip”) and its affiliated companies	Shareholder (with significant influence over Tongcheng Network)
Tencent Holdings Limited (“Tencent”) and its affiliated companies	Shareholder (with significant influence over Tongcheng Network)

(b) Transactions with related parties

During the Track Record Period, the following transactions were carried out with related parties:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commission and other service income received from related parties:			
Ctrip and its affiliated companies	75,298	63,087	73,009
Tongcheng Holdings and its affiliated companies	—	1,337	19,868
	<u>75,298</u>	<u>64,424</u>	<u>92,877</u>
Commission, settlement and other service fees paid to related parties:			
Tencent and its affiliated companies	771,541	172,419	387,159
Ctrip and its affiliated companies	—	920	18,995
Tongcheng Holdings and its affiliated companies	—	16,719	50,530
	<u>771,541</u>	<u>190,058</u>	<u>456,684</u>

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Except for the transactions disclosed above, as described in Note 2, prior to the completion of the Spin-Off, marketing expenses were allocated based on the pre-agreed percentage of GMV rendered to respective business units and R&D expenses are allocated based on the actual usage by the respective business units. The allocations of other group common expenses which cannot be directly traced to any business units of the Old Tongcheng Network have been made based on percentage of headcounts of employees. After the Spin-Off, Tongcheng Online Business and Offline Business enter into series of service agreements which clearly define the charge rate of marketing expenses and R&D expenses based on market price. The following shows these transactions between Online Business and Offline Business before and after the Spin-Off:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Allocation of expenses between Tongcheng Online Business and Offline Business (before the completion of the Spin-Off)			
– Market promotion expense	256,809	123,155	8,031
– R&D expense	6,413	12,529	5,384
– Other expenses	10,978	20,157	8,990
	<u>274,200</u>	<u>155,841</u>	<u>22,405</u>
Online platform usage fee, advertisement expense and other service fees charged by Online Business to Offline Business (after the Spin-Off)	<u>–</u>	<u>–</u>	<u>36,930</u>
	<u>274,200</u>	<u>155,841</u>	<u>59,335</u>

(c) Key management personnel compensations

The compensations paid or payable to key management personnel (including Directors, members of the Executive Committee and other senior executives) for employee services are as below:

	Year ended December 31,		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonuses	7,479	8,742	9,150
Pension costs – defined contribution plan	106	127	127
Other social security costs, housing benefits and other employee benefits	92	110	117
	<u>7,677</u>	<u>8,979</u>	<u>9,394</u>

(d) Balances with related parties

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables, prepayments and other receivables from related parties (Note 19 & 20):			
Tongcheng Holdings and its affiliated companies	93,618	917,139	146,732
Ctrip and its affiliated companies	15,095	20,611	20,091
Tencent and its affiliated companies	7	5	10
	<u>108,720</u>	<u>937,755</u>	<u>166,833</u>

The receivables from related parties were arisen from ordinary course of business. The receivables were unsecured in nature, interest-free and with no fixed term. No provisions had been made against receivables from related parties.

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables, other payables and accruals due to related parties (Note 23 & 24):			
Tongcheng Holdings and its affiliated companies	9,878	52,775	115,807
Ctrip and its affiliated companies	34,719	94,680	58,641
	<u>44,597</u>	<u>147,455</u>	<u>174,448</u>

The payables due to related parties were all unsecured, non-interest bearing and had no fixed repayment terms.

33 SUBSEQUENT EVENT

As disclosed in Note 1.1, on March 9, 2018, Tongcheng Network was acquired by the Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Tongcheng Online Business in respect of any period subsequent to December 31, 2017 and up to the date of this report. Save as disclosed in this report, no dividend or other distribution has been declared, made or paid by Tongcheng Online Business in respect of any period subsequent to December 31, 2017.

The followings are extracted or derived from the text of the Application Proof of the Target Company, enclosing, among others, the management discussion and analysis on the Target Group and Tongcheng Online Business for the three years ended 31 December 2015, 2016 and 2017, which were published on the website of the Stock Exchange.

The Management Discussion and Analysis on the Target Group and Tongcheng Online Business was not prepared for the Company or its shareholders, nor for the purpose of incorporation in this circular. The Target Company shall not take nor assume any responsibility or liability for the contents of the Management Discussion and Analysis on the Target Group and Tongcheng Online Business as reproduced in this circular towards the Company, its Shareholders or any other persons making use of this circular.

The contents of the Management Discussion and Analysis on the Target Group and Tongcheng Online Business has also not been independently verified by the Group or any of its affiliates, advisers, agents, directors, employees, officers or representatives. Neither the Group nor any of its affiliates, advisers, agents, directors, employees, officers or representatives make any representation as to the accuracy, completeness or fairness of the contents of the Management Discussion and Analysis on the Target Group and Tongcheng Online Business, nor shall take or assume any responsibility for the contents of the Management Discussion and Analysis on the Target Group and Tongcheng Online Business.

TARGET GROUP

LIQUIDITY AND FINANCIAL RESOURCES

The Target Group funds its liquidity needs mainly from cash from business operations.

The Target Group had cash and cash equivalents of RMB710.4 million, RMB339.3 million and RMB701.7 million as of December 31, 2015, 2016 and 2017, respectively. It generally deposit its excess cash in time deposits, which are bank deposits maturing within one year, as well as short-term investments, which are mostly wealth management products offered by commercial banks and other financial institutions in China with variable interest rates and terms generally not longer than one year. The primary objective of short-term investments is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation. The Target Group's investment decisions were made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to the market conditions, the anticipated investment conditions, the investment costs, the duration of the investment and expected benefit and potential loss of the investment.

The following table sets forth the Target Group's cash flows for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Net cash (outflow)/inflow from operating activities	(776,192)	(410,161)	719,894
Net cash inflow/(outflow) from investing activities	1,125,147	117,400	(541,955)
Net cash (outflow)/inflow from financing activities	<u>(61,183)</u>	<u>(79,905)</u>	<u>185,875</u>
Net increase/(decrease) in cash and cash equivalents	287,772	(372,666)	363,814
Effect of exchange rate changes on cash and cash equivalents	9,739	1,562	(1,365)
Cash and cash equivalents at the beginning of the year	<u>412,892</u>	<u>710,403</u>	<u>339,299</u>
Cash and cash equivalents at the end of the year	<u><u>710,403</u></u>	<u><u>339,299</u></u>	<u><u>701,748</u></u>

Net Cash (Outflow)/Inflow From Operating Activities

In 2017, net cash inflow from operating activities was RMB719.9 million, which was primarily attributable to the profit before income tax of RMB134.0 million, as adjusted by (i) depreciation of property, plant and equipment of RMB45.1 million, amortization of intangible assets of RMB39.1 million, share-based compensation of RMB56.8 million, and fair value change on redeemable convertible preferred shares measured at fair value through profit or loss of RMB97.6 million and (ii) changes in working capital, which primarily consisted of a decrease in trade receivables of RMB343.5 million, a decrease in prepayment and other receivables of RMB84.9 million, a decrease in accrued expenses and other current liabilities of RMB73.8 million, and an increase in trade payables of RMB199.6 million.

In 2016, net cash outflow from operating activities was RMB410.2 million, which was primarily attributable to loss before income tax of RMB2,159.6 million, as adjusted by (i) selling and marketing expenses of RMB1,044.9 million in the form of redeemable convertible preferred shares issued to a shareholder of the Target Company to compensate its promotion and marketing service rendered; (ii) charges for re-designation of ordinary shares to the preferred shares in connection with the delisting of a wholly-owned subsidiary of the Target Company, eLong Inc. (“**eLong Cayman**”), of RMB742.5 million; (iii) share-based compensation of RMB72.3 million; (iv) depreciation of property, plant and equipment of

RMB52.8 million; (v) fair value change on redeemable convertible preferred shares measured at fair value through profit or loss of RMB36.8 million; and (vi) changes in working capital, which primarily consisted of an increase in trade payables of RMB263.1 million, an increase in trade receivables of RMB452.0 million, an increase in prepayment and other receivables of RMB35.2 million, and a decrease in accrued expenses and other current liabilities of RMB30.8 million.

In 2015, net cash outflow from operating activities was RMB776.2 million, which was primarily attributable to loss before income tax of RMB957.8 million, as adjusted by (i) share-based compensation of RMB211.5 million; (ii) impairment of intangible assets of RMB40.4 million; (iii) gains on disposal in 2015 of the Target Group's equity interest in Nanjing Xici, a then subsidiary of the Target Group, of RMB71.1 million; (iv) depreciation of property, plant and equipment of RMB52.1 million; and (v) changes in working capital, which primarily consisted of an increase in trade receivables of RMB122.7 million, an increase in trade payables of RMB88.6 million, an increase in prepayment and other receivables of RMB21.5 million and an increase in accrued expenses and other payables of RMB16.7 million.

Net Cash Inflow/(Outflow) From Investing Activities

In 2017, net cash outflow from investing activities was RMB542.0 million, which was primarily attributable to (i) purchases of property, plant, and equipment of RMB392.1 million; and (ii) payments for purchases of wealth management products of RMB1,673.4 million. The aforesaid cash outflow was partially offset by proceeds from maturity of such wealth management products of RMB1,520.4 million and proceeds from disposal of available-for-sale financial assets of RMB20.0 million.

In 2016, net cash inflow from investing activities was RMB117.4 million, which was primarily attributable to proceeds from maturity of wealth management products of RMB656.0 million, partially offset by (i) payments for purchases of wealth management products of RMB475.1 million; and (ii) purchases of property, plant and equipment of RMB56.5 million.

In 2015, net cash inflow from investing activities was RMB1,125.1 million, which was primarily attributable to (i) proceeds from maturity of wealth management products of RMB2,103.4 million; (ii) proceeds from disposal of a subsidiary of RMB64.3 million; and (iii) proceeds from disposal of investment in certain affiliated companies of RMB19.4 million. The aforesaid cash inflow was partially offset by (i) payments for purchases of wealth management products of RMB917.3 million; (ii) payments for investments in associates of RMB58.1 million; (iii) purchases of property, plant and equipment of RMB44.0 million; and (iv) increase in restricted cash of RMB22.5 million.

Net Cash (Outflow)/Inflow From Financing Activities

In 2017, net cash inflow from financing activities was RMB185.9 million, which was primarily attributable to proceeds from bank borrowings of RMB196.9 million, as adjusted by repayments of bank borrowings of RMB6.7 million and purchase of RMB4.4 million of vested equity awards granted pursuant to a share incentive plan of eLong Cayman from holders of such equity awards.

In 2016, net cash outflow from financing activities was RMB79.9 million, which was primarily attributable to repurchase of RMB81.6 million of vested equity awards granted pursuant to a share incentive plan of eLong Cayman from holders of such equity awards, as adjusted by exercise of stock options of RMB1.7 million.

In 2015, net cash outflow from financing activities was RMB61.2 million, which was primarily attributable to settlement of share-based awards of RMB86.6 million, as adjusted by exercise price of RMB25.4 million received for stock options exercise.

INDEBTEDNESS

As of April 30, 2018, being the latest practicable date for determining the Target Group's indebtedness, the Target Group's indebtedness included (i) total outstanding borrowings of RMB238.4 million, comprising secured bank borrowings of RMB188.2 million under the Loan Agreement (as defined below) which were secured by the properties as construction in progress with carrying amounts of RMB359.2 million included in its property, plant and equipment and unsecured amount due to a related party of RMB50.2 million; and (ii) cash deposit of RMB89.0 million placed with commercial banks in the PRC to secure the banking facilities offered to it in exchange for letter of guarantees issued by such commercial banks to its business partners.

The following table sets forth details of the Target Group's bank borrowings and amount due to a related party as of December 31, 2015, 2016 and 2017 and April 30, 2018 (being the latest practicable date for determining its indebtedness).

	As of December 31,			As of
	2015	2016	2017	April 30 ⁽¹⁾ , 2018
	<i>(RMB in thousands)</i>			
Bank borrowings	—	—	192,284	188,194
Amount due to a related party	—	—	—	50,190
Total	<u>—</u>	<u>—</u>	<u>192,284</u>	<u>238,384</u>

Note:

- (1) The financial information as of April 30, 2018 presented herein takes into account the financial position of Tongcheng Online Business of Tongcheng Network Technology Limited (“Tongcheng Network”) which merged into the Target Group in March 2018. The relevant financial information as of April 30, 2018 is based on the Target Group’s unaudited management accounts that have not been reviewed, confirmed or audited by its auditors and may differ from the information to be disclosed in the audited or unaudited consolidated financial statements to be published by the Target Group.

The agreement between the Target Group and the lending bank (the “**Loan Agreement**”) with respect to the bank borrowings outstanding as of April 30, 2018 was entered into in October 2017. The Loan Agreement will expire on October 23, 2027. Under the Loan Agreement, the principal loan amount is RMB196.9 million with an annual floating interest rate of China Interbank Offered Rate (CHIBOR) multiplied by 110% per annum. The proceeds from the bank borrowings under the Loan Agreement were primarily used to finance the Target Group’s purchase of office premises. The Target Group’s bank borrowings under the Loan Agreement are secured by properties as construction in progress with carrying amounts of RMB359.2 million.

The Target Group’s amount due to a related party as of April 30, 2018 consisted of outstanding principal and interest under a one-year loan facility provided to Tongcheng Network by one of its related parties of up to RMB50 million with an interest rate of 4.35% per annum. The proceeds of such facility are intended to finance the operation needs of one of Tongcheng Network’s subsidiaries.

As of April 30, 2018, being the latest practicable date for determining the Target Group’s indebtedness, the Target Group had cash deposit of RMB89.0 million placed with commercial banks in the PRC to secure the banking facilities offered to it in exchange for letter of guarantees issued by such commercial banks to its business partners.

During the three years ended 31 December 2017 and up to the Latest Practicable Date, the Target Group did not have any material default on debt covenants of its indebtedness.

Except as disclosed above, as of April 30, 2018, being the latest practicable date for determining the Target Group’s indebtedness, it did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

CONTINGENT LIABILITIES

As of 31 December 2015, 2016 and 2017, the Target Group did not have any significant contingent liabilities.

CAPITAL EXPENDITURES

The Target Group's historical capital expenditures primarily included purchase of property and equipment. It funded its capital expenditure requirements during the three years ended 31 December 2017 mainly from cash generated from its operations as well as bank borrowings. The following table sets forth its capital expenditures for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Purchase of property and equipment	44,012	56,530	392,134
Purchase of intangible assets	5,000	—	—
Total capital expenditures	49,012	56,530	392,134

CONTRACTUAL OBLIGATIONS

Operating Lease Commitments

The Target Group lease certain of its offices under non-cancellable operating lease agreements, with lease terms ranging from one to five years. A majority of these lease agreements are renewable at the end of the lease at market rates. The following table sets forth the future aggregate minimum lease payments under such non-cancellable operating leases as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
No later than one year	19,800	19,278	15,131
Between one and two years	15,971	15,083	5,736
Between two and five years	20,146	10,771	7,027
Total	55,917	45,132	27,894

Purchase Commitments

The Target Group's purchase commitments mainly include the minimum payment that it is contractual obligated to pay for the prepurchase of room nights for which it takes inventory risk pursuant to its agreements with accommodation suppliers. As of 31 December 2015, 2016 and 2017, it had purchase commitments of RMB15.7 million, RMB48.9 million and RMB54.4 million, respectively.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**Banking Facilities**

The Target Group provides to certain of its business partners security in the form of letters of guarantee from commercial banks to guarantee the performance of its contractual obligations. As of 31 December 2015, 2016 and 2017, it had banking facilities available in the form of letters of guarantee of RMB40.0 million, RMB63.2 million and RMB39.1 million, respectively, all of which had been utilized and provided to a business partner in connection with its air ticketing business as of the respective dates.

Other than as disclosed above, as of 31 December 2017, the Target Group had no off-balance sheet commitments or arrangements.

DIVIDENDS

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

PROSPECTS OF TARGET GROUP'S BUSINESS

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

Expand product and service offerings

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

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

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

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

Grow user base and enhance user engagement

The growth of the Target Group's user base and user engagement is critical to its success. It will continue to seek the most effective and cost-efficient ways to expand its user base through a diverse range of traffic acquisition channels. Specifically, it plans to adopt the following strategies:

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

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

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

Along with the growth of its user base, the Target Group also aims to enhance users' engagement by fulfilling their social and emotional needs:

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

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

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

Deepen cooperation with TSPs

The Target Group's success relies on its productive and meaningful partnership with TSPs. As a result, it must find ways to deepen its cooperation with its TSPs and strengthen its value proposition to them.

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

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

Strengthen big data and AI innovations

Travel has become increasingly technology driven. Strengthening technology innovations is one of the Target Group's key strategic focuses to enhance user experience.

By further leveraging the Target Group's growing data base and strong data analytics capabilities, it is able to more precisely analyze user behavior and intent, so as to provide personalized matching of services and help users make quick and smart decisions. In addition, it plans to further deepen its collaboration with Tencent to enrich the breadth and depth of its user insights. The Target Group also plans to utilize its users' social graphs which depict their personal profiles and connections to provide more engaging travel experiences and more customized products and services.

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

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

Pursue strategic alliances, acquisitions and investments

Building on the Target Group's strong track record of acquiring and integrating a number of businesses including the most recent integration of Tongcheng Network and eLong Cayman, and as part of its growth strategies, the Target Group plans to selectively pursue acquisitions, investments, joint ventures and partnerships that it believes are highly strategic and complementary to its business and operations.

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

SIGNIFICANT INVESTMENTS

Short-term investments measured at fair value through profit or loss of the Target Group are wealth management products denominated in RMB with expected rates of return ranging from 0.4% to 5.4%, 0.8% to 6.0%, and 1.5% to 6.0% per annum for the years ended December 31, 2015, 2016 and 2017, respectively. The amount of short-term investments measured at fair value through profit or loss was RMB21.0 million, RMB71.0 million and RMB236.1 million as of December 31, 2015, 2016 and 2017, respectively. The continuing increase in short-term investments measured at fair value through profit or loss from 2015 to 2017 was primarily due to increased investment in short-term wealth management products during the same period.

MATERIAL ACQUISITIONS, DISPOSALS AND MERGERS

Delisting of eLong Cayman

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

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

Tongcheng-eLong Merger

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

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

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

DISCUSSION AND ANALYSIS ON TARGET GROUP'S BUSINESS

During the Track Record Period, the Target Group's revenue was generated primarily from accommodation reservation business and transportation ticketing business.

The following table sets forth a breakdown of the Target Group's revenue in absolute amount and as a percentage of the total revenue for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
<i>(in thousands, except percentages)</i>						
Accommodation reservation services	907,649	88.5	2,094,050	95.0	2,361,625	93.8
Transportation ticketing services	89,378	8.7	86,650	3.9	61,295	2.4
Others	29,097	2.8	23,865	1.1	95,671	3.8
Total	<u>1,026,124</u>	<u>100.0</u>	<u>2,204,565</u>	<u>100.0</u>	<u>2,518,591</u>	<u>100.0</u>

Accommodation reservation services. The Target Group present accommodation reservation revenue on a net basis in circumstances where the Target Group do not assume inventory risk, and on a gross basis in circumstances where the Target Group prepurchase accommodation room nights for which the Target Group 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 the Target Group prepurchase the room nights from the accommodation suppliers are recorded as cost of revenue.

The following table sets forth details of (i) net commissions earned from accommodation reservation, and (ii) the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation, for the periods indicated. The Target Group believe these two measures are useful financial metrics to assess the performance of accommodation reservation business and allow the Target Group to present important information as to the financial impact of the room nights the Target Group prepurchase for which the Target Group take inventory risk.

Net commissions earned from accommodation reservation represent the sum of (i) accommodation reservation revenue recorded on a net basis, and (ii) accommodation reservation revenue generated from prepurchased room nights for which the Target Group take inventory risk, should such revenue have been recorded on a net basis. The excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation represents the excess of (i) the revenue generated from prepurchased room nights for which the Target Group take inventory risk, over (ii) the revenue generated from prepurchased room nights for which

the Target Group take inventory risk, should such revenue have been recorded on a net basis. With respect to any given period, the amount of the excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation equals to the cost of prepurchased inventory-risk-taking room nights for the same period.

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
<i>(in thousands, except percentages)</i>						
Net commissions earned from accommodation reservation	667,963	73.6	1,416,691	67.7	1,828,755	77.4
The excess of gross-up revenue over commissions for inventory-risk-taking accommodation reservation	239,686	26.4	677,359	32.3	532,870	22.6
Total	907,649	100.0	2,094,050	100.0	2,361,625	100.0

Transportation ticketing services. Transportation ticketing represents the second largest component of the Target Group's revenue. During the Track Record Period, the Target Group 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, the Target Group act as an agent, assume no inventory risk and no obligations for cancelled ticket reservations, and therefore record the revenue on a net basis.

Others. Other revenue mainly includes revenue from advertising services. Other revenue in 2017 also included revenue generated from a one-off technical support services the Target Group provided to an affiliate of Ctrip in 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Target Group intends to carry out the following investments:

- (i) to (a) expand its products and services offerings by building and enhancing its relationships with emerging and existing TSPs and by developing and introducing innovative travel products and services in partnership with TSPs; (b) expand its user base by strengthening its user acquisition channels, particularly its proprietary mobile apps; (c) enhance user stickiness by improving membership loyalty programs; and (d) increase its brand awareness through advertising and promotional activities.

- (ii) to carry out potential acquisition, investment, joint venture and partnership opportunities that it believes are in line with its overall business strategies, including, in particular, (a) acquisition of other online platforms that complement its existing products and services offerings; (b) minority investment in TSPs across different travel verticals; and (c) strategic investment in or partnership with technology companies to further improve its user and TSP services; and
- (iii) to enhance its overall technology capabilities by building its big data and AI strengths, improving its IT infrastructure, and providing competitive compensation to recruit and retain IT talents.

GEARING RATIO

Target Group

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Total current assets	1,799,734	1,721,516	1,843,511
Total non-current assets	457,063	584,293	924,459
Total assets	2,256,797	2,305,809	2,768,010
Total current liabilities	1,201,722	1,432,640	1,577,952
Total non-current liabilities	6,688	6,405,289	6,521,992
Total liabilities	1,208,410	7,837,929	8,099,944

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Target Group's functional currency. The Target Group manage its foreign exchange risk by performing regular reviews of its net foreign exchange exposures. It did not hedge against any fluctuation in foreign currency during the Track Record Period.

The Target Group's subsidiaries and consolidated affiliated entities in the PRC operate mainly in the PRC with most of the transactions settled in RMB. The Target Group consider its business not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Target Group denominated in the currencies other than the respective functional currencies of the Target Group's subsidiaries and consolidated affiliated entities operating in the PRC.

TONGCHENG ONLINE BUSINESS

LIQUIDITY AND FINANCIAL RESOURCES

Cash requirements arising from Tongcheng Online Business have principally been satisfied with cash generated from business activities and equity contributions from shareholders.

The cash and cash equivalents of Tongcheng Online Business were RMB243.2 million, RMB947.3 million and RMB1,268.2 million as of December 31, 2015, 2016 and 2017, respectively. Tongcheng Online Business generally deposits its excess cash in short-term investments, which are mostly wealth management products offered by commercial banks in China with variable interest rate and terms generally not longer than one year. The primary objective of short-term investments is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation. The investment decisions of Tongcheng Online Business were made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to market conditions, anticipated investment conditions, investment costs, duration of the investment, and expected benefit and potential loss of the investment.

The following table sets forth cash flows of Tongcheng Online Business for the periods indicated:

	For the Year Ended 31 December		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Net cash inflow from operating activities	905,264	372,107	1,303,940
Net cash (outflow)/inflow from investing activities	(669,953)	(612,024)	182,182
Net cash (outflow)/inflow from financing activities	<u>(111,440)</u>	<u>944,088</u>	<u>(1,165,256)</u>
Net increase in cash and cash equivalents	123,871	704,171	320,866
Cash and cash equivalents at the beginning of the year	<u>119,298</u>	<u>243,169</u>	<u>947,340</u>
Cash and cash equivalents at the end of the year	<u><u>243,169</u></u>	<u><u>947,340</u></u>	<u><u>1,268,206</u></u>

Net Cash Inflow from Operating Activities

In 2017, net cash inflow from operating activities was RMB1,303.9 million, which was primarily attributable to profit for the year before income tax of RMB572.5 million, as adjusted by (i) amortization charge of intangible assets of RMB153.5 million; (ii) property, plant and equipment depreciation charge of RMB59.0 million; (iii) fair value gains of investments (which mainly included wealth management products) of RMB42.7 million; and (iv) changes in working capital, which primarily consisted of decrease in prepayment and other receivables of RMB213.2 million, decrease in trade receivable of RMB189.9 million, and increase in trade payables of RMB166.1 million.

In 2016, net cash inflow from operating activities was RMB372.1 million, which was primarily attributable to loss for the year before income tax of RMB70.3 million, as adjusted by (i) amortization charge of intangible assets of RMB153.1 million; (ii) depreciation in property, plant and equipment of RMB51.9 million; and (iii) changes in working capital, which primarily consisted of an increase in accrued expenses and other current liabilities of RMB657.3 million, increase in prepayment and other receivables of RMB355.6 million, increase in trade receivables of RMB288.9 million, and increase in trade payables of RMB228.6 million.

In 2015, net cash inflow from operating activities was RMB905.3 million, which was primarily attributable to loss for the year before income tax of RMB443.5 million, as adjusted by (i) amortization charge of intangible assets of RMB78.6 million; (ii) property, plant and equipment depreciation charge of RMB26.4 million; and (iii) changes in working capital, which primarily consisted of decrease in prepayment and other receivables of RMB1,032.2 million, increase in accrued expenses and other current liabilities of RMB235.5 million, increase in trade receivable of RMB118.9 million, and increase in trade payables of RMB94.9 million.

Net Cash (Outflow)/Inflow from Investing Activities

In 2017, net cash inflow from investing activities was RMB182.2 million, which was primarily attributable to (i) redemption of short-term investments measured at fair value through profit or loss of RMB4,119.4 million; and (ii) temporary funding received from related parties, net of RMB449.8 million, which was primarily due to expedited settlement of the historical indebtedness of the entities and business units operating Tongcheng Offline Business due to Tongcheng Network following the Tongcheng Spin-off which was substantially completed in 2017. The aforesaid cash inflow was partially offset by (i) purchase of short-term investments measured at fair value through profit or loss of RMB4,246.4 million; and (ii) purchases of property, plant and equipment of RMB122.6 million.

In 2016, net cash outflow from investing activities was RMB612.0 million, which was primarily attributable to (i) temporary funding provided to related parties, net of RMB402.4 million, which was associated with funding from Tongcheng Online Business to Tongcheng Offline Business to finance its short-term operational needs; (ii) purchases of property, plant

and equipment of RMB104.0 million; (iii) payments for acquisition of subsidiaries of RMB42.8 million; (iv) purchase of short-term investments measured at fair value through profit or loss of RMB35.0 million; (v) purchase of land use rights of RMB16.3 million which was used for the office building of Tongcheng Online Business; and (vi) purchase of intangible assets of RMB10.0 million.

In 2015, net cash outflow from investing activities was RMB670.0 million, which was primarily attributable to (i) purchase of intangible assets of RMB740.2 million; and (ii) purchases of property, plant and equipment of RMB60.3 million. The aforesaid cash outflow was partially offset by temporary funding received from related parties of RMB131.0 million.

Net Cash (Outflow)/Inflow from Financing Activities

In 2017, net cash outflow from financing activities was RMB1,165.3 million, as a result of the reduced shareholders' equity as a result of the Tongcheng Spin-off.

In 2016, net cash inflow from financing activities was RMB944.1 million, which was primarily attributable to capital injection by a shareholder of Tongcheng Network in 2016.

In 2015, net cash outflow from financing activities was RMB111.4 million, mainly due to cash outflows from Tongcheng Online Business to Tongcheng Offline Business, which reflects the effect of the Tongcheng Spin-off.

CONTINGENT LIABILITIES

As of 31 December, 2015, 2016 and 2017, Tongcheng Online Business did not have any contingent liabilities.

CAPITAL EXPENDITURES

The following table sets forth the capital expenditures of Tongcheng Online Business for the periods indicated:

	For the Year Ended 31 December		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Property and equipment	58,612	103,622	116,023
Purchase of land use right	–	16,315	–
Acquisition of subsidiaries	6,500	42,755	–
Purchase of intangible assets ⁽¹⁾	740,187	10,023	7,373
Leasehold improvements	1,681	400	6,608
Total capital expenditures	806,980	173,115	130,004

Note:

- (1) Primarily include (i) business cooperation arrangement and domain name; (ii) trademark right; and (iii) software.

CONTRACTUAL OBLIGATIONS**Capital Commitments**

The table below sets forth the capital commitments of Tongcheng Online Business related to investments at the balance sheet date but not yet provided for in the balance sheets at of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
Property and equipment	–	9,340	160,997

Operating Lease Commitments

Tongcheng Online Business leases office space and lounge (which is used to provide VIP lounge services to its users) under non-cancellable operating lease agreements with terms ranging from one to five years. A majority of these lease agreements are renewable at the end of the lease at market rates. The following table sets forth the operating lease commitments of Tongcheng Online Business by lease term as of the dates indicated:

	As of 31 December		
	2015	2016	2017
	<i>(RMB in thousands)</i>		
No later than one year	3,176	16,053	27,393
Between one year to five years	7,317	8,785	14,215
Total	<u>10,493</u>	<u>24,838</u>	<u>41,608</u>

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**Banking Facilities**

Tongcheng Online Business provided to certain of its business partners security in the form of letters of guarantee from commercial banks to guarantee the performance of its contractual obligations. As of 31 December 2015, 2016 and 2017, Tongcheng Online Business had banking facilities available in the form of letters of guarantee of RMB640.0 million, RMB633.0 million and RMB1,183 million, respectively, in which nil, RMB183.4 million and RMB298.5 million, respectively, were utilized and provided to overseas hotels (in connection with the accommodation reservation business) and a business partner (in connection with the air ticketing business).

Except as disclosed above, as of 31 December 2017, Tongcheng Online Business had not entered into any off-balance sheet arrangements.

Related Party Transactions

During the three years ended 31 December 2017, Tongcheng Online Business entered into transactions with its related parties from time to time.

The directors of the Target Company consider that these related party transactions were conducted in the ordinary course of business on an arm's length basis and with reference to normal commercial terms of each party. The directors of the Target Company also believe that such related party transactions during the Track Record Period do not distort Tongcheng Online Business, track record results or make Tongcheng Online Business historical results not reflective of its future performance.

DISCUSSION AND ANALYSIS ON TONGCHENG ONLINE BUSINESS

During the three years ended 31 December 2017, the revenue of Tongcheng Online Business was generated primarily from the transportation ticketing business and, to a lesser extent, accommodation reservation business. Transportation ticketing revenue of Tongcheng Online Business also included revenue generated from ancillary value-added travel products and services provided in conjunction with the transportation tickets.

The following table sets forth a breakdown of the revenue of Tongcheng Online Business in absolute amount and as a percentage of its total revenue for the periods indicated:

	For the Year Ended 31 December					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
<i>(in thousands, except percentages)</i>						
Transportation						
ticketing services	509,819	87.8	1,348,374	94.0	2,468,398	91.2
Accommodation						
reservation services	70,243	12.1	82,398	5.7	101,379	3.7
Others	461	0.1	4,185	0.3	137,722	5.1
Total revenue	580,523	100.0	1,434,957	100.0	2,707,499	100.0

Transportation ticketing services. Transportation ticketing represents the largest component of the revenue of Tongcheng Online Business. During the three years ended 31 December 2017, Tongcheng Online Business generated transportation ticketing revenue primarily by (i) charging commissions from transportation ticket suppliers and suppliers of travel insurance; and (ii) charging users service fees for certain ancillary value-added travel products and services (such as VIP lounge services).

Accommodation reservation services. Tongcheng Online Business generates accommodation reservation revenue primarily from commissions received from accommodation suppliers. Tongcheng Online Business primarily acts as an agent and receives commissions from accommodation suppliers for facilitating sale of room nights to users through its online platforms.

Others. Other revenue of Tongcheng Online Business primarily consist of (i) fees collected from Tongcheng Holdings for selling its travel products and services through Tongcheng Online Business' online platforms; (ii) revenues generated from ancillary value-added user services, such as online e-commerce marketplace and sales of premium membership; and (iii) travel-related advertising services. Tongcheng Online Business began to collect fees from Tongcheng Holdings for providing online sales channel following the Tongcheng Spin-off which was substantially completed in 2017.

GEARING RATIO

Tongcheng Online Business

	As of December 31,		
	2015	2016	2017
	(RMB in thousands)		
Total current assets	674,297	2,466,635	2,106,004
Total non-current assets	964,313	873,375	719,318
Total assets	1,638,610	3,340,010	2,825,322
Total current liabilities	372,715	1,221,125	1,380,355
Total non-current liabilities	—	—	—
Total liabilities	372,715	1,221,125	1,380,355

Since Tongcheng Online Business was merged into the Target Company in March 2018, the information of Tongcheng Online Business in relation to its significant investments, material acquisitions and disposals, charge on assets, future plans for material investments or capital assets and expected sources of funding, and exposure to foreign exchange risk (if any), has already been included in the discussion and analysis in the relevant sections of the Target Group above.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

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

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

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

As required by PRC laws, the Target Group participates 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. It is required under PRC laws to contribute to employee benefit plans at specified percentages of salaries, bonuses and certain allowances of its employees up to a maximum amount specified by the local governments from time to time.

**(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP
FOLLOWING THE ACQUISITION OF 5.11% EQUITY INTEREST IN
TONGCHENG-ELONG HOLDINGS LIMITED (THE “TARGET COMPANY”)**

1. Introduction

The following is a summary of illustrative unaudited pro forma financial information of the Group in connection with the acquisition of 5.11% equity interest in Target Company (“the Acquisition”) as described in the Section headed “Letter from the Board” in this circular. The unaudited pro forma financial information presented below is prepared to illustrate the effect of the Acquisition on the Group’s financial position as at 31 December 2017 as if the Acquisition had been completed on 31 December 2017.

The unaudited pro forma financial information is prepared by the directors of the Company in accordance with Paragraph 4.29 of the Listing Rules and has been prepared by the Directors of the Company for the purpose of illustrating the effect of the Acquisition.

Narrative descriptions of the unaudited pro forma adjustments that are directly attributable to the Acquisition and factually supportable are summarised in the accompanying notes to the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Acquisition been completed as of the specified dates or any other dates.

The unaudited pro forma financial information of the Group is based upon the consolidated statement of financial position of the Group for the year ended 31 December 2017, which has been extracted from the Company’s annual report for the year then ended and adjusted on a pro forma basis to reflect the effect of the Acquisition. These pro forma adjustments are directly attributable to the Acquisition and not relating to other future events and decisions.

The unaudited pro forma financial information of the Group should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Company for the year ended 31 December 2017 and other financial information included elsewhere in this circular.

**2. Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Group
as at 31 December 2017***(Expressed in Renminbi)*

	The Group as at 31 December 2017 RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma consolidated statement of assets and liabilities of the Group RMB'000
Non-current assets				
Investment property	2,744,745			2,744,745
Other property, plant and equipment	1,232,586			1,232,586
Interests in leasehold land held for own use	579,654			579,654
	<u>4,556,985</u>			<u>4,556,985</u>
Intangible assets	1,597			1,597
Goodwill	570			570
Interests in associates	2,638,854			2,638,854
Interests in a joint venture	11,222			11,222
Other financial assets	599,711	1,176,471	(a)	1,776,182
Deferred tax assets	164,096			164,096
	<u>7,973,035</u>			<u>9,149,506</u>
Current assets				
Inventories	8,237,853			8,237,853
Trade and other receivables	365,154			365,154
Cash and cash equivalents	6,927,464	(1,176,471)	(b)	5,750,993
	<u>15,530,471</u>			<u>14,354,000</u>
Assets of disposal groups classified as held for sale	242,010			242,010
	<u>15,772,481</u>			<u>14,596,010</u>
Current liabilities				
Trade and other payables	3,074,121			3,074,121
Bank and other loans	3,989,954			3,989,954
Related party loans	1,385,700			1,385,700
Current taxation	722,847			722,847
	<u>9,172,622</u>			<u>9,172,622</u>

	The Group as at 31 December 2017 RMB'000	Pro forma adjustments RMB'000	Notes	Unaudited pro forma consolidated statement of assets and liabilities of the Group RMB'000
Liabilities directly associated with assets of disposal groups classified as held for sale	43,878			43,878
	9,216,500			9,216,500
Net current assets	6,555,981			5,379,510
Total assets less current liabilities	14,529,016			14,529,016
Non-current liabilities				
Bank and other loans	1,019,751			1,019,751
Deferred tax liabilities	196,324			196,324
	1,216,075			1,216,075
NET ASSETS	13,312,941			13,312,941

3. Notes to the Unaudited Pro Forma Financial Information of the Group

- (a) The adjustments represent the fair value of 5.11% equity interest of the Target Company as if the Acquisition had taken place on 31 December 2017 for the unaudited pro forma consolidated statement of assets and liabilities. Upon the completion of the Acquisition, the 5.11% equity interest of the Target Company would be accounted for as other financial assets.
- (b) The adjustments represent the consideration of RMB1,176,470,588 paid by the Group for the Acquisition pursuant to the Equity Transfer Agreements.
- (c) No adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****To the Directors of Overseas Chinese Town (Asia) Holdings Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Overseas Chinese Town (Asia) Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2017 and related notes as set out in Part A of Appendix V to the circular dated 30 August 2018 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix V to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the acquisition of 5.11% equity interest in Tongcheng-Elong Holdings Limited ("the Acquisition") on the Group's financial position as at 31 December 2017 as if the Acquisition had taken place at 31 December 2017. As part of this process, information about the Group's financial position as at 31 December 2017 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

30 August 2018

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions in securities of the Company and its associated corporations

As at the Latest Practicable Date, no interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) were held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”).

Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholder	Capacity/Nature	Number of Shares held	Approximate % of issued share capital of the Company
Pacific Climax Limited (<i>Note 1</i>)	Beneficial owner	530,894,000 (long position)	70.94%
Overseas Chinese Town (HK) Company Limited (“OCT (HK)”)	Interest of a controlled corporation (<i>Note 2</i>)	530,894,000 (long position)	70.94%

Name of Substantial Shareholder	Capacity/Nature	Number of Shares held	Approximate % of issued share capital of the Company
Shenzhen Overseas Chinese Town Holding Company Limited (“OCT Ltd.”)	Interest of a controlled corporation (<i>Note 3</i>)	530,894,000 (long position)	70.94%
Overseas Chinese Town Enterprises Company (“OCT Group”)	Interest of a controlled corporation (<i>Note 4</i>)	530,894,000 (long position)	70.94%

Notes:

- (1) Ms. Xie Mei and Mr. Lin Kaihua, both being executive Directors, and Mr. Zhang Jing, being a non-executive Director, are also directors of Pacific Climax.
- (2) OCT (HK) is the beneficial owner of all the issued share capital in Pacific Climax. Therefore, OCT (HK) is deemed, or taken to be interested in all the Shares beneficially held by Pacific Climax for the purpose of the SFO. Mr. He Haibin and Ms. Xie Mei, both being executive Directors, and Mr. Zhang Jing, being a non-executive Director, are also directors of OCT (HK).
- (3) OCT Ltd. is the beneficial owner of all the issued share capital of OCT (HK), which is in turn the beneficial owner of all the issued share capital of Pacific Climax. Therefore, OCT Ltd. is deemed, or taken to be interested in all the Shares which are beneficially owned by OCT (HK) and Pacific Climax for the purpose of the SFO. OCT Ltd. is a company incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange. OCT Ltd. is a subsidiary of OCT Group.
- (4) OCT Group is the beneficial owner of 46.99% of the issued shares of OCT Ltd., which is the beneficial owner of all the issued shares of OCT (HK) and in turn, the beneficial owner of all the issued share capital of Pacific Climax. Therefore, OCT Group is deemed, or taken to be interested in all the Shares which are beneficially owned by OCT Ltd., OCT (HK) and Pacific Climax for the purpose of the SFO.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company as at the Latest Practicable Date.

3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective close associates has any interest in any business which competes or is likely to compete with the businesses of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has a service contract with any member of the Group which was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. INTEREST IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2017 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the businesses of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017 (being the date to which the latest published audited accounts of the Company were made up).

7. EXPERTS AND CONSENTS

- (a) The following is the qualification of the expert which has given its opinions which are contained in this circular:

Name	Qualification
KPMG	Certified Public Accountants

- (b) As at the Latest Practicable Date, KPMG did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) KPMG has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, opinion, report and references to its name in the form and context in which they are included.
- (d) The letter, opinion and report given by KPMG is given as of the date of this circular for incorporation in this circular.

As at the Latest Practicable Date, KPMG is not beneficially interested in the share capital of any member of the Group nor had any interest, direct or indirect, in any assets which have been, since 31 December 2017 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the Shenzhen Capital Fortune Investment New Industries Investment Enterprise (LLP)* (深圳遠致富海新興產業投資企業(有限合夥)) (“Limited Partnership”) agreement entered into among Shenzhen Huayou Investment Co., Ltd.* (深圳市華友投資有限公司), Shenzhen Tongbao Haina Investment Enterprise (LLP)* (深圳通寶海納投資企業(有限合夥)) and the other partners on 30 September 2016 in relation to the establishment of the Limited Partnership;
- (b) the limited partnership agreement dated 19 December 2016 entered into among Shenzhen Huayou Investment Co., Ltd.* (深圳市華友投資有限公司), an indirectly wholly-owned subsidiary of the Company, Shenzhen Capital Fortune Investment Investment Management Co., Ltd.* (深圳市遠致富海投資管理有限公司), Shenzhen Jiahe Investment Management Enterprise (LLP)* (深圳佳合投資管理企業(有限合夥)) and Shenzhen Capital Fortune Investment Merger and Acquisition Investment Fund Enterprise (LLP)* (深圳遠致富海併購投資基金合夥企業(有限合夥)) in relation to the establishment of Shenzhen Capital Fortune Investment No. 10 Investment Enterprise (LLP)* (深圳遠致富海十號投資企業(有限合夥)) with an aggregate capital of RMB206 million;
- (c) the investment agreement entered by City Legend on 28 December 2016 with the NCI Fund, pursuant to which City Legend agreed to invest US\$50,000,000 into the NCI Funds for 500,000 fund units of US\$100 each;
- (d) the cornerstone investment agreement dated 6 March 2017 entered into among City Legend, Minsheng Education Group Company Limited (民生教育集團有限公司), Citigroup Global Markets Asia Limited and Macquarie Capital Limited, pursuant to which City Legend agreed to subscribe for 332,000,000 shares of Minsheng Education Group Company Limited at the offer price as part of the international offering of Minsheng Education Group Company Limited;
- (e) the equity transfer agreement dated 20 September 2017 entered into between Barwin Development Company Limited, a wholly-owned subsidiary of the Company, and Shanghai Huiyang Industry Co., Ltd.* (上海匯陽實業有限公司) in relation to the disposal of 100% equity interest in Shanghai Huali Packaging Co., Ltd.* (上海華勵包裝有限公司) by Barwin Development Company Limited;

- (f) the sale and purchase agreement (the “Sale and Purchase Agreement”) dated 9 November 2017 entered into among the Company, Capital Converge Holdings Limited and New China Fund (on behalf of New China Fund SP 1) in relation to the disposal of 51 shares and 51% of the shareholder’s loan in Capital Converge Holdings Limited by the Company to New China Fund (on behalf of New China Fund SP 1);
- (g) the supplemental agreement to the Sale and Purchase Agreement dated 15 November 2017 entered into among the Company, Capital Converge Holdings Limited and New China Fund (on behalf of New China Fund SP 1);
- (h) the Equity Transfer Agreements;
- (i) the cornerstone investment agreement dated 26 June 2018 entered into among City Legend, Tianli Education International Holdings Limited and China International Capital Corporation Hong Kong Securities Limited, pursuant to which City Legend agreed to subscribe for 5% of the total issued shares of Tianli Education International Holdings Limited upon its listing on the Stock Exchange at the offer price as part of the international offering of Tianli Education International Holdings Limited; and
- (j) the cornerstone investment agreement dated 5 July 2018 entered into among City Legend, E-House (China) Enterprise Holdings Limited and China International Capital Corporation Hong Kong Securities Limited, pursuant to which City Legend agreed to subscribe for 73,371,900 shares of E-House (China) Enterprise Holdings Limited at the offer price as part of the international offering of E-House (China) Enterprise Holdings Limited.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of the Group.

10. GENERAL

- (a) The company secretary and the qualified accountant of the Company is Mr. Fong Fuk Wai, who is a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (b) The Company’s registered office is at Clifton House, PO Box 1350 75 Fort Street, Grand Cayman, Cayman Islands. The head office and principal place of business is at Suites 3203-3204, Tower 6, The Gateway, Harbour City, Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents are available for inspection during normal business hours except on Saturday, Sunday and public holidays at the office of the Company in Hong Kong at Suites 3203-3204, Tower 6, The Gateway, Harbour City, Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong from the date of this circular up to and including a date which in any event is not less than 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2015, 2016 and 2017;
- (c) the historical financial information of the Target Group and Tongcheng Online Business as extracted from the Application Proof, the text of which are set out in Appendices II and III of this circular;
- (d) the report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix V of this circular;
- (e) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (f) the written consent referred to in the paragraph headed "Experts and Consents" in this appendix;
- (g) this circular.