

Horn Patricia D  
 Form 4  
 November 21, 2018

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549**

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 Horn Patricia D

2. Issuer Name and Ticker or Trading Symbol  
 OGE ENERGY CORP. [OGE]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)  
 11/19/2018

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
 Officer (give title below) \_\_\_\_\_ Other (specify below)

VP-Governance & Corp Sec

P.O. BOX 321

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

OKLAHOMA CITY, OK 73101

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V Amount (D) Price			
Common Stock-\$.01 par value per share	11/19/2018		S	10,000 D \$ 39.5	30,483.566 <sup>(1)</sup>	D	
Common Stock-\$.01 par value per share					5,547.07 <sup>(2)</sup>	I	Retirement Savings

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not**

SEC 1474 (9-02)

**required to respond unless the form displays a currently valid OMB control number.**

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 3 and 4)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Horn Patricia D P.O. BOX 321 OKLAHOMA CITY, OK 73101			VP-Governance & Corp Sec	

## Signatures

Patricia D. Horn                      11/21/2018  
 \*\*Signature of                      Date  
 Reporting Person

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) The total includes shares acquired through the reinvestment of dividends that were exempt from reporting pursuant to Rule 16a-11. The information herein is based on a Retirement Savings Plan Statement dated November 19, 2018. The Retirement Savings Plan Statement indicated the number of shares in the Common Stock Fund of the Retirement Savings Plan credited to the participant's account at November 19, 2018 and includes shares credited since reporting person's last table 1 filing that was exempt from reporting pursuant to Rule 16A-3(f)(1)(i)(B).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. In the application of the relevant rules, it is possible that the IRS may challenge our classification of certain income and assets as non-passive or our valuation of our tangible and intangible assets, each of which may result in our being or becoming a PFIC for the current or subsequent taxable years.

If we are classified as a PFIC in any taxable year, a U.S. Holder (as defined in “Item 10.E. Additional Information—Taxation—United States Federal Income Tax Considerations”) may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules, and such U.S. Holders may be subject to burdensome reporting requirements. Further, if we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares. We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs. For more information, see “Item 10.E. Additional Information—Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

*You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.*

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law of the Cayman Islands (2018 Revision) and the common law of the Cayman Islands. The rights of shareholders to take actions against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

The Cayman Islands courts are also unlikely:

to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and

to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States. For a discussion of significant differences between the provisions of the Companies Law of the Cayman Islands (2018 Revision) and the laws applicable to companies incorporated in the United States and their shareholders, see “Item 10.B. Additional Information—Memorandum and Articles of Association—Differences in Corporate Law.”

***Judgments obtained against us by our shareholders may not be enforceable.***

We are a Cayman Islands company and all of our assets are located outside of the United States. Our current operations are based in China. In addition, some of our current directors and executive officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to vote your Class A ordinary shares.***

Holders of our ADSs are only able to exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, holders of our ADSs must vote by giving voting instructions to the depository. Upon receipt of those voting instructions, the depository will vote the underlying Class A ordinary shares in accordance with those instructions. Holders of our ADSs are not able to directly exercise their right to vote with respect to the underlying shares unless they withdraw the shares. Under our amended and restated memorandum and articles of association, the minimum notice period required for convening a general meeting is 14 calendar days. When a general meeting is convened, holders of our ADSs may not receive sufficient advance notice to withdraw the shares underlying their ADSs to allow them to vote with respect to any specific matter. If we ask for instructions from the holders of our ADSs, the depository will notify the holders of our ADSs of the upcoming vote and will arrange to deliver our voting materials to them. We cannot assure holders of our ADSs that they will receive the voting materials in time to ensure that they can instruct the depository to vote their shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out voting instructions. This means that holders of our ADSs may not be able to exercise their right to vote and may have no legal remedy if the shares underlying their ADSs are not voted as requested.

***We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.***

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;

- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;

- the sections of the Exchange Act requiring insiders to file public reports of their share ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and

- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the Nasdaq Global Market. Press releases relating to financial results and material events are also furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC is less extensive and less timely as compared to that required to be filed with the SEC by United States domestic issuers. As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to the Nasdaq Global Market corporate governance listing standards. However, Nasdaq Global Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, our home country, may differ significantly from the Nasdaq Global Market corporate governance listing standards. See “Item 16G. Corporate Governance.” Although we do not currently plan to further utilize the home country exemption for corporate governance matters, to the extent that we choose to do so in the future, our shareholders may be afforded less protection than they otherwise would under the Nasdaq Global Market corporate governance listing standards applicable to U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a United States domestic issuer.

***Because we do not expect to pay dividends in the foreseeable future, ADS holders must rely on price appreciation of our ADSs for return on their investment.***

We do not anticipate that we will pay any cash dividends on our ordinary shares, or indirectly on our ADSs, for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions relating to indebtedness we may incur, restrictions imposed by applicable law and other factors our board of directors deem relevant. Accordingly, for holders of our ADSs, realization of a gain on their investment will depend on the appreciation of the price of our ADSs, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our ADSs.

***Holders of our ADSs may not receive dividends or other distributions on our Class A ordinary shares and may not receive any value for them, if it is illegal or impractical to make them available.***

The depositary of our ADSs has agreed to pay to holders of our ADSs the cash dividends or other distributions it or the custodian receives on Class A ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. Holders of our ADSs will receive these distributions in proportion to the number of Class A ordinary shares their ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that holders of our ADSs may not receive distributions we make on our Class A ordinary shares or any value for them if it is illegal or impractical for us to make them available. These restrictions may cause a material decline in the value of our ADSs.

***Holders of our ADSs may not be able to participate in rights offerings and may experience dilution of your holdings.***

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be



unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

*Holders of our ADSs may be subject to limitations on transfer of our ADSs.*

Our ADSs are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depository may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

*We incur increased costs as a result of being a public company.*

As a public company, we incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and Nasdaq, have detailed requirements concerning corporate governance practices of public companies, including Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. We expect these rules and regulations applicable to public companies to increase our accounting, legal and financial compliance costs and to make certain corporate activities more time-consuming and costly. Our management will be required to devote substantial time and attention to our public company reporting obligations and other compliance matters. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Our reporting and other compliance obligations as a public company may place a strain on our management, operational and financial resources and systems for the foreseeable future.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material and adverse effect on our financial condition and results of operations.

**Item 4. Information on the Company**

**A. History and Development of the Company**

We began our operation in China through Nanjing Tuniu, a PRC company formed in December 2006. Nanjing Tuniu acquired 100% of the equity interests in Shanghai Tuniu International Travel Service Co., Ltd., Nanjing Tuniu International Travel Service Co., Ltd. and Beijing Tuniu International Travel Service Co., Ltd. in August 2008, December 2008 and November 2009, respectively. Nanjing Tuniu established Nanjing Tuzhilv Tickets Sales Co., Ltd. in April 2011.

In June 2008, we incorporated Tuniu Corporation under the laws of the Cayman Islands as our offshore holding company in order to facilitate international financing. In May 2011, we established our wholly owned Hong Kong subsidiary, Tuniu (HK) Limited.

We completed our initial public offering and listed our ADSs on the Nasdaq under the symbol “TOUR” in May 2014. At the time of our initial public offering, we also entered into a concurrent private placement with three investors.

In December 2014, we entered into a share subscription agreement with Unicorn Riches Limited, a special purpose vehicle of Hony Capital, JD.com E-commerce (Investment) Hong Kong Corporation Limited, a special purpose vehicle of JD.com, Inc. (Nasdaq: JD), Ctrip Investment Holding Ltd., a subsidiary of Ctrip.com International, Ltd. (Nasdaq: CTRP) and the respective personal holding companies of Tuniu’s chief executive officer and chief operating officer, pursuant to which we sold a total of 36,812,868 newly issued Class A ordinary shares for US\$148 million.

In May 2015, we entered into a share subscription agreement with each of Fabulous Jade Global Limited, a subsidiary of JD.com, Inc., Unicorn Riches Limited, a special purpose vehicle of Hony Capital, DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P., both affiliates of DCM V, L.P., Ctrip Investment Holding Ltd., a subsidiary of Ctrip.com International, Ltd., Esta Investments Pte Ltd, an affiliate of Temasek Holdings and Sequoia Capital 2010 CV Holdco, Ltd, an affiliate of Sequoia Capital, pursuant to which we sold a total of 93,750,000 newly issued Class A ordinary shares for US\$500 million.

In November 2015, we entered into a share subscription agreement with HNA Tourism Group, or HNA Tourism, pursuant to which an affiliate of HNA Tourism purchased 90,909,091 newly issued Class A ordinary shares from us for US\$500 million in January 2016.

During the year ended December 31, 2015, we acquired 100%, 100%, 75% and 80% of equity interests of four offline travel agencies, respectively. We gained access to the expanding Taiwan tourism market and improved the capability in the direct procurement of products with these acquisitions. The total purchase price was RMB115.5 million, which included cash consideration of RMB100.2 million and RMB15.3 million, the fair value of contingent cash consideration to be made based on the achievement of certain revenue and profit target over the next three to four years.

During the year ended December 31, 2016, we acquired 100% of equity interests of one offline travel agency, to further expand our oversea tourism market and promote our destination service. The total purchase price was RMB28.1 million (US\$4.0 million), which included cash consideration of RMB16.5 million (US\$2.4 million) and RMB11.6 million (US\$1.6 million), the fair value of contingent cash consideration to be made based on the achievement of certain revenue and profit target over the next four years.

Tuniu Corporation established a wholly owned PRC subsidiary, Beijing Tuniu, in September 2008. Tuniu (HK) Limited established another wholly owned PRC subsidiary, Tuniu (Nanjing) Information Technology Co., Ltd., in August 2011, and acquired 100% of the equity interests in Beijing Tuniu in September 2011. Through Beijing Tuniu, we obtained control over Nanjing Tuniu by entering into a series of contractual arrangements, including purchase option agreement, equity interest pledge agreement, shareholders' voting rights agreement, powers of attorney and cooperation agreement, with Nanjing Tuniu and its shareholders. Nanjing Tuniu holds our ICP licenses as an Internet content provider and operates our website. Beijing Tuniu International Travel Service Co., Ltd. and Nanjing Tuniu International Travel Service Co. Ltd., both of which are Nanjing Tuniu's subsidiaries, hold our operation permits for overseas travel business.

These contractual arrangements allow us to:

- exercise effective control over Nanjing Tuniu;
- receive substantially all of the economic benefits of Nanjing Tuniu; and
- have an option to purchase all or part of the equity interests in Nanjing Tuniu when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we are the primary beneficiary of Nanjing Tuniu, and we treat it and its subsidiaries as consolidated affiliated entities under U.S. GAAP. We have consolidated the financial results of Nanjing Tuniu and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

Our principal executive offices are located at Tuniu Building No. 699-32 Xuanwudadao, Xuanwu District, Nanjing, Jiangsu Province 210042, the People's Republic of China. Our telephone number at this address is +86 (25) 8685-3969. Our registered office in the Cayman Islands is located at International Corporation Services Ltd., P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

See "Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Expenditures" for a discussion of our capital expenditures.

## **B. Business Overview**

We offer a large selection of packaged tours, including organized tours and self-guided tours, as well as travel-related services for leisure travellers. Our online platform, which comprises our *tuniu.com* website and mobile platform, provides comprehensive product and travel information through user-friendly interfaces to enable leisure travellers to plan their travels and search for itineraries that best suit their needs. Our online platform contains travel guides featuring photos, information and recommendations for all destinations we cover, as well as user-generated content that serves as valuable references for other travellers.

Our recognized brand in leisure travel and growing customer base enable us to source a broad range of products from high-quality travel suppliers at competitive prices. We rigorously select travel suppliers to ensure quality and reliability. We have developed our proprietary supply chain management system—N-Booking system—to streamline our interactions with travel suppliers, allowing them to receive booking information real-time, through the web or mobile devices to more efficiently manage travel products and better understand customer preferences. In 2016, we upgraded our supplier management system and data analytics system in order to better facilitate the cooperation between the suppliers and us. In addition, to further broaden the range of our products and better serve our customers, we enter into strategic agreements with various industry partners from time to time. For example, in December 2014, we entered into a strategic cooperation agreement with Ctrip.com International, Ltd., a leading travel service provider in China, in order to expand our collaboration on shared travel resources. In November 2015, we formed a strategic partnership with HNA Tourism, under which HNA Tourism undertook to provide us with its premium airline and hotel resources at a preferential rate, under fair competition market rules.

## **Our Products and Services**

We offer a wide array of packaged tours and other travel-related services to meet the diverse travel needs and preferences of leisure travellers in China.

### ***Packaged Tours***

Packaged tours offered on our platform consist of organized tours and self-guided tours. Our core strength is in overseas leisure travel products and services, which contributed over 67.1% of our packaged tour gross bookings in 2017.

*Organized Tours:* Organized tours offer the benefits of pre-arranged itineraries, transportations, accommodations, entertainments, meals and tour guide services. By booking an organized tour on our platform, our customers can achieve cost savings compared to booking each component separately and enjoy a pleasant and hassle-free travel experience.

Organized tours offered on our platform cover over nearly all of the popular tourist destinations among Chinese travellers, such as Europe, Japan, Thailand, Middle East, Africa and the United States, as well as all of the popular tourist attractions in China.

Organized tour product portfolio offered on our platform also includes local tours, which mainly consist of weekend getaways and themed tours, such as waterresort tours, historical town tours, ski tours and hot spring tours, and mainly target customers who want to spend one to three days away from their departing cities. Typically, local tours have lower average gross bookings per trip as compared to other types of organized tours.

In addition, to address the needs of group travellers who cannot be satisfied with off-the-shelf standard packaged travel products, such as companies planning travel retreats and families planning the group tours, we provide customized tours to cater to such specific travel needs. Our group travel tour advisors work closely with travel suppliers and our customers to design travel products and itineraries that meet such customers' unique needs.

*Self-guided Tours:* Self-guided tours offered on our platform consist of combinations of flights and hotel bookings and other optional add-ons, such as airport pick-ups that travellers can choose at their willingness. These products are offered at attractive prices compared to booking each travel product separately. The self-guided tours target leisure travellers who prefer greater flexibility during their vacations and who do not need tour guide services. Due to the breadth of travel suppliers that are available on our platform, we are able to provide a wide selection of self-guided tours, covering a large number of hotels and airlines, and have developed the most comprehensive product offerings for selected popular destinations.

### ***Other Travel-Related Services***

Our other travel-related services comprise mainly sales of tourist attraction tickets, visa application services, financial services, hotel booking services, air ticketing services, train ticketing services, bus ticketing services, car rental services and insurance services. We earn a commission or service fee on these services. In addition, we provide advertising services to domestic and foreign tourism boards and bureaus on our online platform.

### **Our Online Platform and Offline Service Network**

We reach and serve customers through multiple online and offline channels, including our *tuniu.com* website, mobile platform, a primary call center in Nanjing, a regional call center in Suqian and our offline retail stores across China.

Our online platform provides our customers with the tools and information to conveniently plan, book and purchase travel products and services. In addition, our online platform presents comprehensive product information and travel requirements through user-friendly interfaces for leisure travellers to easily search for, compare and place orders for product offerings that best suit their needs. We have well-trained tour advisors and customer service representatives located at our centralized call center to supplement our online transaction infrastructure by providing our customers with professional advice and guidance throughout their travel planning and bookings process as well as timely support before and during their travels. The inclusion of a customer-focused, service network is particularly important to customers of our travel products with high selling prices as these customers usually demand more assistance and attention in their travel planning.

### ***Our Website***

Our website, *tuniu.com*, provides a one-stop travel platform for our customers to do everything from researching travel destinations to booking travel products. In addition to our product information such as tour duration, departure time and destination descriptions, our website features comprehensive travel advice ranging from basic information to professional and user recommendations and travellers' reviews for the destinations we cover. Users can post questions regarding specific products and receive timely responses online from our well-trained tour advisors and customer service representatives, which facilitates their travel planning, product selection, reservations and payments. Our user-friendly interface enables users to quickly and easily evaluate and compare a wide array of travel products. Customers can also raise complaints about our travel products and services through the online-messaging function on our website.



We encourage our customers to share photos, stories and other travel-related information on our website. We have built a large and fast-growing collection of customer reviews and travel stories which we believe are attractive and useful to our current and prospective customers. As of December 31, 2017, we had more than 4 million customer reviews and approximately 70,000 travel stories and destination guides on our website. The Travelogue forum on our website, which is organized based on destinations, provides our customers with an easy and intuitive way to access various topics of interest. Registered members can share their travel experiences and interact with other members by posting questions and receiving answers from fellow forum members. We have a comprehensive collection of descriptions and photos of different destinations. Our website also provides other useful travel-related information, such as weather forecasts, exchange rates, train schedules and subway maps to further enhance user experience.

A transaction on our website generally involves the following steps:

*Browse.* A customer typically enters one of our over 420 city webpages by selecting his location or departing city. The customer can easily browse our product selection by travel destination. In order to allow customers to locate the products they are interested in, our website also arranges our travel product offerings into different categories, such as organized tours, self-guided tours, corporate tours, cruises, tourist attractions tickets, self-drive tours, accommodation reservation, and transportation tickets. The customer can also choose to browse through our best-sellers for each of local tours, domestic tours, overseas tours, self-guided tours and tourist attractions tickets.

*Search and Select.* A customer conducts a search for a particular product on our website by defining desired parameters, such as destinations, departing cities, departure time, product types, tour duration, number of travellers, prices and itineraries. We provide the customer with information regarding each travel product in detail together with photographs of the destinations and hotels as well as customer reviews and ratings. Our website displays various possible selections and provides additional information about the products. The customer can sort, refine or rank search results by further defining certain search parameters such as price range, customer ratings, popularity and keywords. Our online Q&A feature enables the customer to raise inquiries and receive timely responses to facilitate their research. In addition, the comparison tool on our website displays details of different travel products side-by-side, enabling the customer to evaluate different travel products easily.

*Order Placement.* After a customer has selected a particular option, our website will provide the customer with an opportunity to review details of the travel products and services being purchased and the terms and conditions of such purchase. The customer can also request assistance and professional advice from our tour advisors who will promptly follow up and interact with the customer online or by phone.

*Contract Confirmation.* At this stage, a customer is required to confirm that he agrees to the terms and conditions of his purchase. The customer can submit his confirmation online or sign the contract related to his purchase in one of our offline retail stores or send us the signed contract. Contracts are entered between us and the customer directly.

*Payment.* After confirming the terms of a contract, a customer will be directed to the payment webpage. We offer our customers the flexibility to choose a number of payment options, which include bank transfers, credit cards, debit cards and online payment through third-party online payment platforms. In addition, the customer can pay at one of our offline retail stores. If available, the customer can also discount the purchase price of our travel products by using our coupons and travel vouchers. Electronic confirmations are sent to the customer's e-mail address or mobile phone and the customer can use the itinerary management function on our website or APP to check his booking details as well as amend or cancel his bookings.

*Review.* After completing his or her trips, a customer is provided with incentives such as coupons to return to our website to write reviews and travel stories and share his or her experience on our Travelogue forum. This increases transparency regarding our travel product quality and increases customer stickiness. We regard customer reviews and travel stories, which provide valuable information to potential customers, as important criteria in assessing the quality and performance of travel suppliers and travel products.

We offer customized services via a sophisticated account management system accessible on our online platform. After logging on with a unique identification, a customer can track order status, manage itineraries and check membership points, coupons and travel vouchers.

### ***Our Mobile Platform***

Our Android- and Apple iOS-based mobile applications, such as *Tuniu Travel*, and the mobile version of our website, *m.tuniu.com*, allow customers to search for travel products and services and place orders on mobile devices. Our mobile platform also enables customers to track their order status and provides other location-based services to allow users to quickly locate a variety of nearby scenic spots.

Through *Tuniu Travel*, our customers can search for travel products and services and complete a booking within minutes. *Tuniu Travel* also serves as an important and integral part of customers' research on travel-related information. Customers often use our in-house developed and user-generated travel guides and other user generated content, such as customer reviews, travel stories, tips and recommendations, on our *Tuniu Travel* to plan their travels. In addition, we offer discounted travel products that are exclusive to users of *Tuniu Travel* for limited periods to enhance our mobile user engagement and increase monetization.

### ***Our Customer Services***

When selecting a travel company or platform, leisure travellers often look beyond factors such as prices and selection and focus on enjoyable experiences, in which our customer services play a crucial part. We believe that the quality customer services provided by our well-trained tour advisors and customer service representatives attract our customers towards our online platform.

*Offline nationwide service network.* Our primary call center is located in our headquarter in Nanjing, and we have a regional call center in Suqian, Jiangsu province dedicated to customer service as well. Our call centers provide 24-hour-a-day, seven-day-a-week customer services before, during and after travels, from answering customers' initial inquiries on their travel-related needs to assisting them in making and amending their travel bookings. For inquiries on detailed product information and itinerary management, our customer service representatives allocate them according to destinations to our in-house tour advisors, who follow up with our customers within half an hour to address their concerns and needs. We have implemented comprehensive performance measures to monitor our calls to ensure our customers receive quality services. In October 2013 and 2015, we obtained the Best Call Center Award in the CCM Awards that was jointly organized by Customer Care Management (CCM) World Group and CC-CMM Organization, and we were rewarded the Golden Tone Award from 51CallCenter for three consecutive years in October of 2014, 2015 and 2016, a call center and business process outsourcing industry group, for offering outstanding call center and customer service experiences. In 2017, we were awarded the Best Call Center and Full Customer Service by CFIP and CCCS, as well as the Call Center with best user feedback by CAEC.

*Tour Advisors.* Tour advisors are well-trained through in-house training workshops as well as training sessions provided by the travel suppliers to closely assist our customers throughout their travel planning and booking process from pre-sale consultation to final order confirmation. Our tour advisors are equipped with product expertise to guide customers through the details of available packaged tours on our online platform and provide insightful advice on customers' desired travel destinations. Our tour advisors provide professional guidance on product selection, price, travel requirements and payment to ensure an efficient and informed shopping experience.

To create a better travel experience for our customers, we are committed to sharing part of their losses due to certain unexpected events. For example, if our customers cannot travel due to death, pregnancy, serious injury, hospitalization or rejection of visa applications after entering into contracts with us, we will provide them with travel vouchers equivalent to a portion of the amounts paid which are redeemable towards the purchase of our travel products at a later time.

## **Supply Chain Management**

As of December 31, 2017, we had over 16,500 travel suppliers available on our platform, which primarily include tour operators, travel services providers and wholesalers of travel products and services in China. We believe that our ability to enable these travel suppliers to extend their reach to potentially millions of Internet users in China and fulfill their needs for inventory management, attracts new quality travel suppliers and builds stronger ties with the existing travel suppliers. We have a product procurement team who is dedicated to developing and enhancing our relationships with existing and prospective travel suppliers.

We source a broad range of products from travel suppliers who have significant advantages in the destinations we cover and who offer travel products at competitive prices, which enhances our ability to attract more customers to our online platform. Our growing customer base in turn attracts more travel suppliers, creating a virtuous cycle that strengthens our leading market position.

We generally enter into contracts with travel suppliers based on our standard form. Travel suppliers often pay us rebates based on our business volume. In addition, some of the travel suppliers require prepayments for reserving tour availabilities. Typically, we settle payment with travel suppliers on a monthly basis, although travel suppliers can also request for an early settlement on a discounted basis. To date, substantially all of the travel suppliers have sought to pursue continuing cooperation opportunities with us. In order to support and retain suppliers, in November 2014, we entered into framework cooperation agreements with four PRC-based banks under which the banks intend to make available loan facilities to us or our suppliers. See “—Financial Services” and “Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

We conduct a rigorous process in qualifying travel suppliers and in selecting their travel products and services to be offered on our platform. In qualifying a potential travel supplier, we focus on its reputation, product quality, track record, credibility and price competitiveness.

In addition, travel suppliers can participate in biddings for priority listings, prominent placements for biddings and advertising displays on our website for the travel products they supply.

### ***Product Selection***

We adopt an open-source procurement strategy to source quality travel products in the destinations we cover. Our product procurement team works closely with travel suppliers to ensure that customers are provided with high-quality travel products. In addition, we conduct regular price comparisons for travel products to assess the competitiveness of the pricing of travel products offered on our platform.

### ***Supply Management***

We host one major procurement event each year and present major travel suppliers with our estimated volume demand. We also constantly communicate with travel suppliers, mainly through our product procurement team and our proprietary N-Booking system, to keep them informed of any changes to the supply outlook so that they can respond to customer demand in a timely manner. This helps us and the travel suppliers make timely adjustments to procurement plans.

### ***Supplier Quality Control***

We have developed product and service provision protocols for travel suppliers to follow. Given that we have offline retail stores throughout China, which help us to closely track the performance of travel suppliers in each locale through our offline retail stores. We have a dedicated team in charge of monitoring travel suppliers based on customer feedback; which also provides recommendations for travel suppliers to improve their service quality and the products they supply. We impose penalties on travel suppliers or cease listing their travel products on our platform if their products fail to meet our quality standards or if we receive valid complaints from our customers. We also prepare regular assessment reports on travel suppliers based on the popularity, quality and price competitiveness of their travel products. To monitor and further improve the quality of travel suppliers and the products and services we offer, we proactively collect feedback from our customers after their travels.

### ***N-Booking System***

We have developed a proprietary N-Booking system, accessible via web and mobile, that offers travel suppliers the following features:

*Product Management.* Travel suppliers can submit details of their travel products via an easy-to-navigate online interface. After our review and approval, we will post the details provided by the travel suppliers and the prices determined by us on our online platform. In addition, our N-Booking system provides travel suppliers with an option to use descriptions and photos of destinations and tourist attractions in our database.

*Just-In-Time Management.* Our N-Booking system provides travel suppliers with access to real-time inventory data and gives them a wide range of inventory management tools. Our N-Booking system also notifies travel suppliers of any changes in the inventory level of the travel products we source from them, which enables them to timely adjust their procurement and sales plans. As such, we are able to deliver real-time information on product availability and provide our customers with prompt booking and order confirmations.

*Account Management.* Travel suppliers can review transaction history details on our N-Booking system. They can also submit requests for early settlement of their account balance with us on a discount basis.

*Data Analysis.* Supported by our big data platform, travel suppliers can analyze and understand user behavior based on their browsing history. Travel suppliers can keep track of traffic brought to the travel products supplied by them on our online platform and are able to evaluate the competitiveness of different travel products. We believe the user information gathered from our online platform reflects current leisure travel market trends in China and provides excellent market insights to travel suppliers for their procurement planning and product design. By leveraging our data mining and analytics capabilities, travel suppliers are able to develop a more in-depth understanding of customers' behaviors and preferences, potentially unlocking significant value.

## **Financial Services**

We currently offer a range of financial services, which complement our core leisure travel business, to both travellers and travel suppliers. Our financial services are designed to systematically support the overall development of the leisure travel market in China by funding customers' travels and supporting suppliers' growth. For travellers, we provide travel financing products enabling travellers to travel with an initial down payment, which has been particularly popular among the young generation of travellers who are more price-sensitive. In addition, we also offer yield enhancement products and insurance products to our customers. For travel suppliers, we provide various types of loans that optimize working capital for the selected suppliers, allowing them to provide high-quality travel products on a larger scale.

## **Technology**

We have built our technology infrastructure with high levels of performance, reliability, scalability and security to ensure superior customer and supplier experiences. We rely on internally developed proprietary technologies and licensed technologies to manage and improve our website, mobile platform and management systems. We have a team of engineers dedicated to research and development in the areas of website operations, mobile platform, search engine, data analytics and supply chain management system.

We believe that an advanced technology platform is vital to our growth and success. In 2012, we obtained ISO 9001:2008 certification for our quality management system indicating our compliance with internationally recognized standards for quality control.

## ***Product Search***

We strive to present relevant and useful search results in a timely fashion to ensure the accuracy, efficiency and synchronism of our search results. Despite the difficulties in analyzing leisure travel products data, we have developed search technologies that allow us to retrieve, index, filter and rank real-time product information. We are able to prioritize the search results and display information most suited to our customers' requirements in a simple and intuitive interface in real-time. Our core search technologies include the following:

*Real-time Indexing.* Our search infrastructure enables changes in product data to be indexed, processed and reflected in search results on a real-time basis.

Explanation of Responses:



*Smart Caching.* We maintain a database with massive product information on packaged tours, hotels, flights and other travel-related services. We have designed an auto-prioritizing method to update the database by ranking popular products based on different criteria, such as popular cities, most-visited attractions, top-rated products and most-viewed products. Different refreshing frequencies are applied to different products.

*Accuracy Checking.* Our accuracy checking software complements our smart caching system and is implemented to display the latest product information such as prices and product descriptions. When a user clicks on the interested search result, an accuracy checker is triggered to retrieve the updated product information and present it to the user.

*Fuzzy Query Processing.* We maintain a dictionary for travel-related keywords in Chinese, where keywords are classified and linked to each other based on their meanings. We have also developed a query search algorithm based on user inputs to enhance our ability to dissect natural language queries. Such technologies help us better understand the meanings of queries and to produce the most relevant and useful search results. We also provide additional search features such as query spelling correction, query suggestion and search by Chinese phonetics (Pinyin).

### ***Big Data Analysis***

We gather and analyze customer behavior and data for our procurement, inventory management and marketing purposes. We also provide selected data to travel suppliers, enabling them to optimize their product designs and marketing strategies.

*Big Data Platform.* We have developed our big data platform based on a distributed computing system. Such data analytics capabilities help us to gain a deeper understanding of existing and prospective customers and market trends, make customized recommendations to customers and improve our applications and products accordingly.

*Streaming Data Analysis.* We have also built a streaming data processing pipeline based on our big data platform to view the browsing history of the users of our online platform and to allow travel suppliers to review their performance data near real-time.

*Web Content Mining.* Our web content processing system links user generated content which includes customer reviews, travel stories and tips as well as destination guides such as locations, hotels and tourist attractions. This allows users of our online platform to obtain information of different destinations and travel products and services in a user-friendly manner.

### ***N-Booking System***

Our N-Booking system streamlines the interactions between us and travel suppliers. Our N-Booking system also allows travel suppliers to receive booking information real-time through the web or mobile devices to more efficiently manage travel products and better understand customer preferences. See “—Supply Chain Management—N-Booking System.”

### ***CRM System***

Through a customer relationship management system, or CRM system, we gather, analyze and make use of internally-generated customer behavior and transaction data based on customers’ historical purchase and browsing records. We regularly use this information in budgeting and procurement planning as well as in planning our marketing initiatives and promotional campaigns.

### ***Data Security***

Our system servers are housed in Nanjing and Beijing, and have secure and dedicated communication links among them. All data are backed up on an hourly basis. Our system servers utilize digital certificates to help us conduct secure communications and transactions. The performance of our system servers is monitored and maintained by an internal team that operates 24 hours a day, seven days a week. Customer sensitive information, such as password and payment information, is stored with encryption, and our data servers are secured with firewalls.

### ***Dynamic Packaging System***

We have leveraged our data analytics capabilities to develop a dynamic packaging system that enables our users to customize their own travel packages tailored to individual travellers' needs. This system is able to combine trip components from different suppliers to provide truly customized trips, automating and placing in the hands of our customers a function that was previously performed manually. It uses algorithms and past customer data to filter out unnatural choices and provide customers with relevant choices based on their ascertainable behavior. We believe this is one of the first systems of its type in China.

### **Seasonality**

Our business experiences fluctuations, reflecting seasonal variations in demand for leisure travel services. Sales of leisure travel products and services will increase in respect of holiday periods and decrease in respect of off-peak times, while prices of leisure travel products and services are subject to fluctuation between peak seasons and low seasons. For example, the third quarter of each year generally contributes the highest percentage of our annual revenues, because many of our customers tend to travel during summer holidays in July and August.

### **Marketing and Brand Building**

We continue to build and maintain a strong Tuniu brand through both traditional offline marketing media and online marketing channels. We conduct offline advertising primarily via television and outdoor advertisements. For our television marketing, we have placed a number of commercials on various television channels across China. Our outdoor marketing includes advertisements on buses and subways. In addition, we also organize targeted campaigns, make promotional and seasonal offers and cooperate with domestic and foreign tourism boards and bureaus in holding promotional events and marketing campaigns.

While our offline advertising plays an important role in promoting our brand image, we complement our branding campaigns through mobile and online channels. We promote our mobile app through advertisements in the mobile app store and various display advertisements. We have also entered into agreements with a number of search engines, pursuant to which we have purchased travel-related keywords or directory links that direct users to our website. In addition, we have a strong presence in online social media such as Tencent's WeChat and Sina's Weibo. We believe that our presence in online social media helps us maintain engagement with our targeted customers. In May 2015, in connection with the investment that JD.com, Inc. made in our company, we entered into a business cooperation agreement with JD.com, Inc., under which we gain the exclusive rights to operate, for five years without paying any fees, the leisure travel channel on both JD.com, Inc.'s website and mobile application, and become JD.com, Inc.'s preferred partner for hotel booking and air ticketing services. The business cooperation with JD.com, Inc. has contributed to the increased traffic on our website since its implementation.

As part of our cross-marketing effort, we have agreements with financial institutions to recommend our products and services to their debit or credit card holders, and we allow these cardholders to settle their payments for travel products purchased from us using these cards with discounts. For instance, we cooperated with Bank of Jiangsu, China Construction Bank, China Citic Bank, Industrial and Commercial Bank of China, Bank of China, China Everbright Bank and China Merchants Bank and launched co-branded credit cards, through which cardholders may book with us and are entitled to discounts, bonus points and certain other privileges.

Furthermore, our customer loyalty program allows our customers to accumulate membership points and coupons as they purchase travel products and services. Our membership points have a fixed validity term and, before expiry, customers may redeem these points for future purchases. Our customer loyalty program is designed to encourage repeat purchases. Currently, our membership has seven levels. For customers who meet certain spending thresholds, we upgrade their membership status to the next level, entitling them to further discounts and more points for their spending. For all customers who have joined our loyalty program, we provide them with designated customer service representatives to handle their travel needs.

## **Competition**

We compete primarily with all other types of online travel companies. In addition, we compete with traditional travel service providers and tour operators. In the self-guided tour business, as we sell packaged tours which include flights and hotels, we also compete with airlines and hotels, which in recent years have made efforts to improve their direct sales. Large, established Internet search engines have also launched applications offering travel products in various destinations around the world. Factors affecting our competitiveness include, among other things, price, availability and breadth of choice of travel products and services, brand recognition, customer services, and ease of use, accessibility, security and reliability of our transaction and service infrastructure.

Some of our current and potential competitors may have greater financial, marketing and other resources than we do. In addition, some of our competitors may be acquired by, receive investment from or enter into strategic relationships with larger, well-established and well-financed companies or investors. They may be able to devote greater resources to marketing and promotional campaigns and devote substantially more resources to website and system development than us. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business and Industry—We face intense competition and may not be able to compete successfully against existing and new competitors.”

## **Intellectual Property**

Our success and ability to compete depend, in part, upon our ability to establish and adequately protect our intellectual property rights. In this regard, we rely primarily on a combination of copyright, software registration, trademark, trade secret and unfair competition laws and contractual rights, such as confidentiality agreements with our employees and others. As of December 31, 2017, we had 59 registered computer software copyrights, 8 registered patent and 20 registered artwork copyrights in China, and were in the process of applying for 28 patents in China. In addition, as of December 31, 2017, we had 84 registered domain names that were material to our business, including *tuniu.com*, and 366 registered trademarks, including (the Chinese characters of Tuniu), and , in China.

## **Insurance**

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased travel companies' liability insurance covering expenses related to accidents caused by us. We have also maintained property insurance policies for our fixed assets covering losses due to fire, explosion, lightning, storm, landslide, subsidence and aircraft damage.

## **PRC Regulation**

This section sets forth a summary of the significant regulations or requirements that affect our business activities in China or our shareholders' rights to receive dividends and other distributions from us.

### ***Regulations on Value-Added Telecommunication Services***

The PRC government extensively regulates the telecommunications industry, including the Internet sector. The PRC State Council, the MIIT, the MOC, the State Administration for Industry and Commerce, or the SAIC, the State Administration of Press, Publication, Radio, Film and Television (formerly the General Administration of Press and Publication) and other relevant government authorities have promulgated an extensive regulatory scheme governing telecommunications, Internet-related services and e-commerce. However, since China's telecommunications industry and Internet-related industry are at an early stage of development, new laws and regulations may be adopted from time to time that will require us to obtain additional licenses and permits in addition to those that we currently have, and will require us to address new issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future Chinese laws and regulations applicable to the telecommunications, Internet-related services and e-commerce. See "Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."

### ***Licenses for Value-Added Telecommunication Services***

The Telecommunications Regulations issued by the PRC State Council in September 2000 and amended in February 2016 are the primary regulations governing telecommunication services. The Telecommunications Regulations set out the general framework for the provision of telecommunication services by PRC companies. Under the Telecommunications Regulations, it is a requirement that telecommunications service providers procure operating

licenses prior to commencement of their operations. The Telecommunications Regulations draw a distinction between “basic telecommunications services” and “value-added telecommunications services.” Internet content provision services, or ICP services, is a subcategory of value-added telecommunications services.

In March 2009, the MIIT promulgated the Administrative Measures for Telecommunications Business Operating Permit which was repealed in September 2017 by the 2017 Revision of the Administrative Measures for Telecommunications Business Operating Permit. Pursuant to the 2017 Revision of the Administrative Measures for Telecommunications Business Operating Permit, there are two types of telecommunication operating license for operators in China, namely, licenses for basic telecommunications services and licenses for value-added telecommunications services. The operation scope of the license will specify the permitted activities of the enterprise to which it is granted. An approved telecommunication services operator must conduct its business in accordance with such specifications.

Pursuant to the Administrative Measures on Internet Information Services, promulgated by the PRC State Council in September 2000, as amended in January 2011, commercial Internet information services operators must obtain an ICP license, from the relevant government authorities before engaging in any commercial Internet information services operations within the PRC. Nanjing Tuniu, our consolidated affiliated entity, obtained ICP licenses issued by the Jiangsu Administration of Telecommunication which will expire in March 2019.

The Internet Electronic Bulletin Service Administrative Measures promulgated by the MIIT in November 2000 require Internet information services operators to obtain specific approvals before providing BBS services, which include electronic bulletin boards, electronic forums, message boards and chat rooms. In September 2014, the Internet Electronic Bulletin Service Administrative Measures was repealed by Repealing and Revising Certain Rules of MIIT. However, in practice, the relevant authorities still require obtaining such approval for the operation of BBS services. We have applied to the Jiangsu Administration of Telecommunication for and have obtained an approval for the operation of BBS services on our website.

*Foreign Investment in Value-Added Telecommunications Services*

The Catalog for the Guidance of Foreign Investment Industries, or the Catalog, as promulgated and amended from time to time by the MOC and the National Development and Reform Commission, is the principal guide to foreign investors' investment activities in the PRC. The most updated version of the Catalog, which was promulgated in 2015 and was amended in 2017, divides the industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalog are generally open to foreign investment unless specifically restricted by other PRC laws and regulations. A wholly foreign-owned enterprise is generally permitted for encouraged industries, while for restricted industries, such as value-added telecommunications service industry, there are some limitations to the ownership and/or corporate structure of the foreign-invested companies that operate in such industries. Industries in the prohibited category are not open to foreign investors.

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises, promulgated by the PRC State Council in December 2001 and amended in February 2016, the ultimate foreign equity ownership in a value-added telecommunications services provider may not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and the MOC or their authorized local counterparts, which retain considerable discretion in granting approvals. Pursuant to publicly available information, the PRC government has issued telecommunications business operating licenses to only a limited number of foreign-invested companies, all of which are Sino-foreign joint ventures engaging in the value-added telecommunication business.

The MIIT Circular issued in July 2006 reiterated the regulations on foreign investment in telecommunications businesses, which require foreign investors to set up foreign-invested enterprises and obtain a business operating license for Internet content provision to conduct any value-added telecommunications business in China. Pursuant to the MIIT Circular, a domestic company that holds an ICP license is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the domestic ICP license holder or its shareholders. The MIIT Circular further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations.

In light of the aforesaid restrictions, we rely on Nanjing Tuniu, our consolidated affiliated entity, to hold and maintain the licenses necessary to provide online marketing services and other value-added telecommunications services in China. For a detailed discussion of our contractual arrangements, please refer to “—C. Organizational Structure.” To comply with these PRC regulations, we operate our website and value-added telecommunications services through



Nanjing Tuniu. Nanjing Tuniu holds our ICP licenses and owns all domain names used in our value-added telecommunications businesses. Nanjing Tuniu is also the owner of all registered trademarks used in our value-added telecommunications businesses and is the applicant of all registered trademark applications we are currently making.

### ***Regulations on Information Security and Censorship***

The PRC government regulates and restricts Internet content in China to protect state security and ensure the legality of the Internet content. The National People's Congress, China's national legislative body, enacted a Decision on the Safeguarding of Internet Security in December 2000, as subsequently amended in August 2009, among other things, makes it unlawful to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak state secrets; (4) spread false commercial information; or (5) infringe intellectual property rights. Pursuant to the Administrative Measures on Internet Information Services and other applicable laws, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet content which violates PRC laws and regulations, impairs the national dignity of China, or is reactionary, obscene, superstitious, fraudulent or defamatory. Internet service providers are required to monitor their websites, including electronic bulletin boards. They may not post or disseminate any content that falls within these prohibited categories and must remove any such content from their websites. The PRC government may shut down the websites of ICP license holders that violate any of the above-mentioned content restrictions and revoke their ICP licenses. In addition, the MIIT has published regulations that subject ICP operators to potential liability for content displayed on their websites and the actions of users and others using their systems, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local Internet service provider to block any Internet website at its sole discretion. From time to time, the Ministry of Public Security has stopped the dissemination over the Internet of information which it believes to be socially destabilizing.

The Ministry of Public Security has promulgated the Administrative Measures for the Security Protection of International Connections to Computer Information Network in December 1997, as amended in January 2011, that prohibit the use of the Internet in ways which, among other things, result in a leakage of State secrets or the distribution of socially destabilizing content. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. Under PRC law, state secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

In December 2005, the Ministry of Public Security promulgated Provisions on Technological Measures for Internet Security Protection. These measures and the Administrative Measures on Internet Information Services require all ICP operators to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of listings by users) for at least 60 days and submit the above information as required by laws and regulations. The ICP operators must regularly update information security and censorship systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content. If an ICP operator violates these measures, the PRC government may revoke its ICP license and shut down its websites. Pursuant to the Decision on Strengthening Network Information Protection issued by the Standing Committee of the PRC National People's Congress in December 2012, ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep relevant records, and report to relevant government authorities. In July 2013, the MIIT promulgated the Regulation on Protection of Personal Information of Telecommunications and Internet Users to provide for more detailed rules in this respect.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets. As Nanjing Tuniu is an ICP operator, it is subject to the laws and regulations relating to information security. To comply with these laws and regulations, it has completed the mandatory security filing procedures with the local public security authorities, regularly update their information security and content-filtering systems with newly issued content restrictions, and maintains records of users' information as required by the relevant laws and regulations. Nanjing Tuniu has also taken measures to delete or remove links to content that to its knowledge contains information violating PRC laws and regulations. Majority of the content posted on our online platform is first screened by our filtering systems. Content containing prohibited words or images is then manually screened by employees who are dedicated to screening and monitoring content published on our platform and removing prohibited content. We believe that with these measures in place, no prohibited content under PRC information security laws and regulations should have been publicly disseminated through our online platform in the past. However, there is significant amount of content posted on our online platform by our users on a daily basis. If any prohibited content is publicly disseminated in the future and we become aware of it, we will report it to the relevant government authority. We believe these measures taken by us are generally in compliance with the relevant laws and regulations.

If, despite the precautions, we fail to identify and prevent illegal or inappropriate content from being displayed on or through our online platform, we may be subject to liability. In addition, these laws and regulations are subject to interpretation by the relevant authorities, and it may not be possible for us to determine in all cases the types of content that could result in liability. To the extent that PRC regulatory authorities find any content displayed on or through our online platform objectionable, they may require us to limit or eliminate the dissemination or availability of such content or impose penalties, including the revocation of our operating licenses or the suspension or shutdown of our online operations. In addition, the costs of compliance with these regulations may increase as the volume of content and the number of users on our online platform increases.

### ***Regulations on Internet Privacy***

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have promulgated laws and regulations on Internet use to protect personal information from any unauthorized disclosure. The Decision on Strengthening Network Information Protection and the Regulation on Protection of Personal Information of Telecommunication and Internet Users provide that information that identifies a citizen, the time or location for his use of telecommunication and Internet services, or involves privacy of any citizen such as his birth date, ID card number, and address is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are also prohibited from collection and use of personal information after a user has stopped using the services. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss as well as conducting a self-examination of their protection of personal information at least once a year. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. The relevant telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the relevant websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on Internet privacy. Such requirements are reiterated by the Regulation on Protection of Personal Information of Telecommunications and Internet Users. If an ICP operator appoints an agent to undertake any marketing and technical services that involve the collection or use of personal information, the ICP operator is required to supervise and manage the protection of such information. Any violation may subject the ICP operators to warnings, fines, disclosure to the public and, in the most severe cases, criminal liability. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an Internet user posts any prohibited content or engages in illegal activities on the Internet.

### ***Regulations on Air-ticketing***

Air-ticketing business is subject to the supervision of the China Aviation Transportation Association, or CATA, and its regional branches. Currently the principal regulation governing air-ticketing agencies in China is the Rules on Certification of Qualification for Civil Aviation Transport Sales Agencies, or the Air Ticketing Rules, issued by the CATA, which became effective on March 31, 2006. Under the Air Ticketing Rules and relevant foreign investment regulations, any company acting as an air-ticketing sale agency must obtain approval from the CATA, and a foreign investor currently cannot own 100% of an air-ticketing agency in China, except for qualified Hong Kong and Macau aviation marketing agencies. In addition, foreign-invested air-ticketing agencies are not permitted to sell passenger airline tickets for domestic flights in China, except for Hong Kong and Macau aviation marketing agencies. In addition, CATA issued the Supplementary Rules Regarding Sales via the Internet in 2008. These Supplementary Rules provide that, effective as of June 1, 2008, if an air-ticketing sales agency would like to engage in sales via the

Internet, it must obtain an ICP license from the local counterpart of the MIIT and must complete a commercial website registration with the local counterpart of the SAIC. Although we request that travel suppliers provide their licenses or permits to us before entering into agreements with them, we cannot ensure that all of travel suppliers engaged in the air ticketing sales agency service obtained, and maintained, all necessary permits. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business and Industry—We may not be able to adequately control and ensure the quality of travel products and services sourced from travel suppliers. If there is any deterioration in the quality of their performance, our customers may not continue using our online platform.”

### ***Regulations on Hotel Operation***

In November 1987, the Ministry of Public Security issued the Measures for the Control of Security in the Hotel Industry, which has been amended in January 2011, and in June 2004, the PRC State Council promulgated the Decision of the PRC State Council on Establishing Administrative License for the Administrative Examination and Approval Items Really Necessary To Be Retained. Under these two regulations, anyone who applies to operate a hotel is subject to examination and approval by the local public security authority and must obtain a special industry license. The Measures for the Control of Security in the Hotel Industry impose certain security control obligations on the operators. For example, the hotel must examine the identification card of any guest to whom accommodation is provided and make an accurate registration. The hotel must also report to the local public security authority if it discovers anyone violating the law or behaving suspiciously, or an offender wanted by the public security authority.

In April 1987, the PRC State Council promulgated the Public Area Hygiene Administration Regulation, which has been amended in February 2016, requiring hotels to obtain a public area hygiene license before opening for business. In March 2011, the Ministry of Health promulgated the Implementation Rules of the Public Area Hygiene Administration Regulation, which has been amended in February 2016, requiring, starting from May 1, 2011, hotel operators to establish hygiene administration system and keep records of hygiene administration. In February 2009, the Standing Committee of the National People's Congress, or the SCNPC, enacted the PRC Law on Food Safety, which has been amended in February 2016, requiring any hotel that provides food to obtain a food service license.

The Fire Prevention Law, as amended by the SCNPC in October 2008, and the Provisions on Supervision and Inspection on Fire Prevention and Control, as amended by the Ministry of Public Security in July 2012, require that public gathering places such as hotels submit a fire prevention design plan in order to apply for completion acceptance of fire prevention facilities for their construction projects and to pass a fire prevention safety inspection by the local public security fire department, which is a prerequisite for opening business.

In January 2006, the PRC State Council promulgated the Regulations for Administration of Entertainment Places which has been amended in February 2016. In March 2006, the Ministry of Culture issued the Circular on Carrying Out the Regulations for Administration of Entertainment Places. Under these regulations, hotels that provide entertainment facilities, such as discos or ballrooms, are required to obtain a license for entertainment business operations.

We cannot ensure that all of the hotels that we offer to our customers have obtained, and maintained, all necessary permits and licenses. See “Item 3. D. Key Information—Risk Factors—Risks Related to Our Business and Industry—We may not be able to adequately control and ensure the quality of travel products and services sourced from travel suppliers. If there is any deterioration in the quality of their performance, our customers may not continue using our online platform.”

### ***Regulations on Travel Companies***

The travel industry is subject to the supervision of the China National Tourism Administration, or CNTA, and local tourism administrations. The principal regulations governing travel companies in China include: (i) the Regulation on Travel Companies, or the Travel Company Regulations, issued by the PRC State Council in February 2009, and amended in February 2016, July 2016, and March 2017, which replaced the Administration of Travel Companies Regulations (1996), (ii) the Implementation Rules for the Regulation on Travel Companies (the “Travel Company Implementation Rules”), promulgated by the CNTA in April 2009 and amended in December 2016, (iii) the Tourism Law issued by the Standing Committee of the National People's Congress on April 25, 2013, and amended in November 2016, and (iv) Measures for the Administration of the Overseas Tours of Chinese Citizens, issued by the PRC State Council in May 2002, became effective as of July 2002 and was amended in March 2017. Under these

regulations, a travel company must obtain a license from the CNTA to conduct cross-border travel business and a license from the provincial-level tourism administration to conduct domestic travel company business.

The Travel Company Regulations permit foreign investors to establish wholly foreign-owned travel companies, as well as joint ventures and cooperative travel companies. Foreign-owned travel companies are allowed to open branches nationwide, but are restricted from engaging in overseas travel business in China, unless otherwise determined by the PRC State Council, or provided under a bilateral free trade agreement between the country and China, or the closer economic partnership agreements between China, Hong Kong and Macau. On July 1, 2016, the State Council issued the Decision of the State Council on Temporally Adjusting Relevant Provisions of Administrative Regulations, Documents of the State Council and Departmental Rules approved by the State Council in the Pilot Free Trade Zones, or Decision 41, pursuant to which qualified foreign-invested travel companies, registered in the Pilot Free Trade Zones of Shanghai, Guangdong, Tianjin and Fujian, may engage in overseas travel business, excepted in Taiwan area. The Travel Company Implementation Rules define certain terms used in the Travel Company Regulations, for example, the definition of “domestic tourism business,” “inbound travel business” and “overseas travel business”, and set out detailed application requirements to establish a travel company. The Travel Company Implementation Rules also clarify certain aspects of legal liability for travel companies as prescribed in the Travel Company Regulations.

Pursuant to the Tourism Law, travel companies are prohibited from arranging for compulsory shopping or other activities which charge additional fees on top of the contract prices that tourists have already paid, unless it is agreed upon by both parties through consultation or requested by the tourists and does not affect the itinerary of other tourists. Travel companies are required to pay quality deposits for compensation for damage to tourists' rights and advance payment of expenses for emergency assistance when the tourists' personal safety is in danger. Travel companies are required to engage tour guides, who are required to strictly follow the itineraries and are prohibited from altering arrangement without the consent of customers, suspending to provide services, requesting tips from tourists, and arranging for compulsory shopping or other activities which charge additional fees on top of the contract prices that tourists have already paid by way of induction, deception, coercion or in other illegal forms. The information that travel companies release to attract or organize tourists is required to be authentic and accurate, and no false publicity can be made to mislead tourists. In addition, travel companies conducting business via the Internet are required to present information of their travel company licenses on their websites, and ensure the truthfulness and accuracy of the travel-related information they release on their websites. Generally, travel companies soliciting tourists are required to take primary liabilities for any breach of travel contracts, including personal injury or property loss suffered by the tourists attributable to travel service providers and tour operators at destinations and their suppliers.

In 2010, CNTA released the Measures for Dealing with Tourism Complaints, which took effect as of July 1, 2010. Under these Measures, authorities which are responsible for dealing with tourist complaints are required to render a decision on the complaints within 60 days after the date of receipt thereof.

Although we take measures, such as requesting travel suppliers to provide their relevant permits and/or licenses, we cannot make sure that all of travel suppliers maintained all necessary permits. See "Item 3.D. Key Information—Risk Factors—Risks Related to Our Business and Industry—We may not be able to adequately control and ensure the quality of travel products and services sourced from travel suppliers. If there is any deterioration in the quality of their performance, our customers may not continue using our online platform."

In November 2010, CNTA and China Insurance Regulatory Commission jointly promulgated the Measures for the Administration of the Liability Insurance of Travel Companies, or the Liability Insurance Measures, which became effective as of February 1, 2011. Travel companies are required to procure travel company liability insurance pursuant to the Liability Insurance Measures. The insurance companies are required to, subject to the liability limits provided under the insurance agreement, reimburse the travel companies for the compensations made by the travel companies for the personal injury or death and the loss of properties of tourists and the relevant tour guides or tour leaders. Pursuant to the Liability Insurance Measures, the liability limit for the personal injury or death of each person cannot be less than RMB200,000. Each of our relevant consolidated affiliated entities engaged in travel agent business has procured and is covered by valid travel company liability insurance.

### ***Regulations on Online Transaction Platform Operators***



In May 2014, the SAIC issued the Guidelines for the Performance of Social Responsibilities by Online Transaction Platform Operators, or the Online Transaction Platform Operators Guidelines. The Online Transaction Platform Operators Guidelines stipulate the qualification requirements for operators of online transaction platform, and certain other obligations, such as examination and registration of any business operator using online transaction platform, online transaction operator's contracts with suppliers and customers, data protection for consumers, among others. Pursuant to Online Transaction Platform Operators Guidelines, online transaction platform operators must (i) establish a consumer protection and consumer dispute settlement system, and (ii) ensure that their complaint and customer support channels are smooth.

In addition, online transaction platform operators must also preserve all relevant online transaction data for at least two years from the date of the transaction. Operators of online transaction platform must obey the Consumer Protection Law, the Product Quality Law, the Anti-unfair Competition Law and other relevant laws and regulations. Furthermore, as required by Jiangsu Administration of Telecommunication, Nanjing Tuniu, our consolidated affiliated entity, has obtained a license of online data processing and transaction which will expire in March 2019. Subject to any clarifications or interpretations that may be issued in future as to the Online Transaction Platform Operators Guidelines, we might need to adjust our operational or contracting practices.

### ***Regulations on Consumer Rights Protection***

According to the PRC Consumer Protection Law, as amended on October 25, 2013 and became effective as of March 15, 2014, the rights and interests of consumers that purchase or use commodities or that receive services for consumption purposes in daily life is required to be protected, which includes the right to personal safety and the safety of property, the right to be informed about goods and services offered for sale, the right to free choice when selecting goods or services and the right to enjoy fair dealings, respect for their personal dignity and ethnic customs, and compensation for damages suffered.

Correspondingly, a business operator providing a commodity or service to a consumer is subject to a number of requirements, which includes to ensure that commodities and services meet with certain safety requirements, to disclose serious defects of a commodity or a service and to adopt preventive measures against damage occurring, to provide consumers with accurate information and to refrain from conducting false advertising, and not to set unreasonable or unfair terms for consumers or alleviate or release itself from civil liability for harming the lawful rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means. A business operator may be subject to civil liabilities for failing to fulfill the obligations discussed above. These liabilities include restoring the consumer's reputation, eliminating the adverse effects suffered by the consumer, offering an apology and compensating for any losses incurred. The following penalties may also be imposed upon business operators for any infraction: issuance of a warning, confiscation of any illegal income, imposition of a fine, an order to cease business operation, revocation of its business license or imposition of criminal liabilities under circumstances that are specified in laws and statutory regulations.

The amended Consumer Protection Law further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on the business operators through the internet. The consumers whose interests are harmed due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from sellers or service providers. As to legal liabilities of the online marketplace platform provider, the Consumer Protection Law set forth that, where a consumer purchases products or accepts services via an online trading platform and his or her interests are prejudiced, if the online trading platform provider fails to provide the name, address and valid contact information of the seller, the manufacturer or the service provider, the consumer is entitled to demand compensation from the online trading platform provider. If the online trading platform provider gives an undertaking that is more favorable to consumers, it shall perform such undertaking. Once

the online trading platform provider has paid compensation, it shall have a right of recourse against the seller, the manufacturer or the service provider. If an online trading platform provider is aware or ought to have been aware that a seller, manufacturer or service provider is using the online platform to infringe upon the lawful rights and interests of consumers and it fails to take necessary measures, it shall bear joint and several liabilities with the seller, the manufacturer or service provider for such infringement. The Tort Liability Law of the PRC, which was enacted by the Standing Committee of the National People's Congress on December 26, 2009, also provides that if an online service provider is aware that an online user is committing infringing activities, such as selling counterfeit products, through its internet services and fails to take necessary measures, it shall be jointly and severally liable with the said online user for such infringement. If the online service provider receives any notice from the infringed party on any infringing activities, the online service provider shall take necessary measures, including deleting, blocking and unlinking the infringing content, in a timely manner. Otherwise, it will be jointly and severally liable with the relevant online user for the extended damages.

In December 2003, the Supreme People's Court in China enacted the Interpretation of Some Issues Concerning the Application of Law for the Trial of Cases on Compensation for Personal Injury, which further increases the liabilities of business operators engaged in the operation of hotels, restaurants, or entertainment facilities and subjects such operators to compensatory liabilities for failing to fulfill their statutory obligations to a reasonable extent or to guarantee the personal safety of others.

In October 2010, the Supreme People's Court of China issued the Provisions on Issues Concerning the Application of Law for the Trial of Cases on Tourism-related Disputes, which establish liabilities for tour operators and tourism support service providers in the event of contract disputes, personal injury and property damage involving tourists.

Although we take certain measures to monitor the qualities of the travel products and services provided by travel suppliers and handle customer complaints, we cannot ensure that these measures are sufficient to protect consumer rights, or customer dispute can be handled and resolved in a timely fashion. See “Item 3. D. Key Information—Risk Factors—Risks Related to Our Business and Industry—We may not be able to adequately control and ensure the quality of travel products and services sourced from travel suppliers. If there is any deterioration in the quality of their performance, our customers may seek damages from us and not continue using our online platform.”

### ***Regulations on Advertising Business***

The SAIC is the primary governmental authority regulating advertising activities, including online advertising, in China. Regulations that apply to advertising business primarily include:

· Advertisement Law of the People’s Republic of China, promulgated by the Standing Committee of the National People’s Congress as amended on April 24, 2015 and effective since September 1, 2015;

· Administrative Regulations for Advertising, promulgated by the PRC State Council on October 26, 1987 and effective since December 1, 1987.

According to the above regulations, companies that engage in advertising activities must each obtain, from the SAIC or its local branches, a business license which specifically includes operating an advertising business in its business scope. An enterprise engaging in advertising business within the specifications in its business scope does not need to apply for the registration for advertisement publication, provided that such enterprise is not a radio station, television station, newspaper and periodical publishers.

Under the Rules for Administration of Foreign Invested Advertising Enterprises, which were jointly promulgated by the SAIC and the MOC on March 2, 2004 and amended on August 22, 2008, certain foreign investors are permitted to hold direct equity interests in PRC advertising companies. A foreign investor in a Chinese advertising company is required to have prior direct advertising operations as its main business outside China for two years if the Chinese advertising company is a joint venture, or three years if the Chinese advertising company is a wholly foreign-owned enterprise. Since we have not been involved in the advertising industry outside of China for the required number of years, we are not permitted to hold direct equity interests in PRC companies engaging in the advertising business. Therefore, we conduct our advertising business through Nanjing Tuniu, which holds a business license that covers advertising in its business scope. The Rules for Administration of Foreign Invested Advertising Enterprises has been abolished on June 29, 2015.

PRC advertising laws and regulations set certain content requirements for advertisements in China, including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. Where serious violations occur, the SAIC or its local branches may revoke such offenders' licenses or permits for their advertising business operations.

### ***Regulations on Intellectual Property Rights***

The PRC has adopted legislation governing intellectual property rights, including trademarks, domain names and copyrights.

### ***Trademark***

The PRC Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of the SAIC is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. As of December 31, 2017, we had 366 registered trademarks in different applicable trademark categories and were in the process of applying to register 56 trademarks in China.

In addition, pursuant to the PRC Trademark Law, counterfeit or unauthorized production of the label of another person’s registered trademark, or sale of any label that is counterfeited or produced without authorization will be deemed as an infringement to the exclusive right to use a registered trademark. The infringing party will be ordered to stop the infringement immediately, a fine may be imposed and the counterfeit goods will be confiscated. The infringing party may also be held liable for the right holder’s damages, which will be equal to the gains obtained by the infringing party or the losses suffered by the right holder as a result of the infringement, including reasonable expenses incurred by the right holder for stopping the infringement. If the gains or losses, or royalties are difficult to determine, the court may render a judgment awarding damages of up to RMB3,000,000.

### ***Domain Name***

Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT in November 2004. The MIIT is the major regulatory body responsible for the administration of the PRC Internet domain names, under supervision of which the China Internet Network Information Center, or CNNIC, is responsible for the daily administration of .cn domain names and Chinese domain names. In September 2002, the CNNIC issued the Implementation Rules for Domain Name Registration setting forth rules for registration of domain names, as amended in June 2009 and May 2012. CNNIC adopts the “first to file” principle with respect to the registration of domain names. In November 2017, MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Internet Information Services to further regulate the use of domain names in internet information services. As of December 31, 2017, we had 84 registered domain names, including *www.tuniu.com*.

*Copyright*

Works are protected under the PRC Copyright Law adopted by the National People's Congress in 1990, as amended in 2001 and 2010, as well as its implementation rules adopted by the State Council in 1991, as amended in 2002, 2011 and 2013. Whether such protected works are published or not, copyrights duly obtained and enjoyed by the author or other copyright owner remain unaffected. Copyright owners, however, could register such protected works on a voluntary basis with National Copyright Administration or its local counterparts. We have registered 20 artwork copyrights in China.

Pursuant to the PRC Copyright Law and its implementation rules, creators of protected works enjoy personal and property rights, including, among others, the right of disseminating the works through information network. Pursuant to the relevant PRC regulations, rules and interpretations, Internet service providers will be jointly liable with the infringer if they (i) participate in, assist in or abet infringing activities committed by any other person through the Internet, (ii) are or should be aware of the infringing activities committed by their website users through the Internet, or (iii) fail to remove infringing content or take other action to eliminate infringing consequences after receiving a warning with evidence of such infringing activities from the copyright holder. In addition, where an ICP service operator is clearly aware of the infringement of certain content against another's copyright through the Internet, or fails to take measures to remove relevant contents upon receipt of the copyright owner's notice, and as a result, it damages the public interest, the ICP service operator could be ordered to stop the tortious act and be subject to other administrative penalties such as confiscation of illegal income and fines. To comply with these laws and regulations, we have implemented internal procedures to monitor and review the content we have licensed from content providers before they are released on our website and remove any infringing content promptly after we receive notice of infringement from the legitimate rights holder.

### ***Software Copyrights***

Computer Software Protection Regulations promulgated by the PRC State Council in December 2001, amended in 2011 and 2013, provide that the rights and interests of computer software copyright owners are protected. A Chinese citizen, legal person, or other organization shall be entitled to the copyright in software developed thereby regardless of whether the software has been published or not. A foreigner's or stateless person's software shall enjoy copyright if it is first distributed in China.

In order to further implement the Computer Software Protection Regulations, the State Copyright Bureau issued the Computer Software Copyright Registration Procedures in February 2002, amended in 2004, which apply to software copyright registration, license contract registration and transfer contract registration. As of December 31, 2017, we had 59 registered computer software copyrights in China.

### ***Patents***

Patents are protected under the PRC Patent Law adopted by the National People's Congress in 1984, as amended in 1992, 2000 and 2008, as well as its implementation rules adopted by the State Council in 1985, as amended in 1992, 2001, 2002 and 2010. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent application. A patent is valid for a term of 20 years in the case of an invention and a term of 10 years in the case of utility models and designs. A third-party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of patent rights. As of December 31, 2017, we had 8 registered patent, and were in the process of applying to register 28 patents in China.

### ***Tort Liability Law***

In accordance with the Tort Liability Law promulgated by the Standing Committee of the National People's Congress in December 2009, which became effective as of July 1, 2010, Internet users and Internet service providers bear tortious liabilities in the event they infringe other persons' rights and interests through the Internet. Where an Internet user conducts tortious acts through Internet services, the infringed person has the right to request the Internet service provider to take necessary actions such as deleting contents, screening and delinking. The Internet service provider, failing to take necessary actions after being informed, will be subject to joint and several liabilities with the Internet user with regard to the additional damages incurred. If an Internet service provider knows an Internet user is infringing other persons' rights and interests through its Internet service but fails to take necessary action, it shall be jointly and severally liable with the Internet user. We have internal policies designed to reduce the likelihood that user content may be used without proper licenses or third-party consents. When we are approached and requested to remove



content uploaded by users on the grounds of infringement, we investigate the claims and remove any uploads that appear to infringe the rights of a third party after our reasonable investigation and determination. However, such policy may not be effective in preventing the unauthorized listing of copyrighted materials or materials infringing other rights of third parties. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business and Industry—Claims by third parties that we infringe on their intellectual property rights could lead to government administrative actions and result in significant costs and have a material adverse effect on our business, financial condition and results of operations.”

### ***Regulations on Foreign Currency Exchange***

Pursuant to the Foreign Exchange Administration Regulations, as amended in August 2008, if documents certifying the purpose of the conversion of Renminbi into foreign currency are submitted to the relevant foreign exchange conversion bank, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless SAFE’s prior approval is obtained and prior registration with SAFE is made. In May 2013, SAFE promulgated SAFE Circular 21 which provides for and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including foreign exchange registration, account opening and use, receipt and payment of funds, and settlement and sales of foreign exchange. We generally follow the regulations and apply to obtain the approval of SAFE and other relevant PRC government authorities. However, we may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries and our consolidated affiliated entities may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

In August 2008, SAFE promulgated a SAFE Circular 142 regulating the conversion, by a foreign-invested enterprise, of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The SAFE Circular 142 requires that the registered capital of a foreign-invested enterprise settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested enterprise settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of the SAFE Circular 142 will result in penalties, such as fines. SAFE decided to further reform the foreign exchange administration system in order to satisfy and facilitate the business and capital operations of foreign invested enterprises, and issued the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas on August 4, 2014, or Circular 36. This circular suspends the application of SAFE Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas with a business scope including "investment" to use the Renminbi capital converted from foreign currency registered capital for equity investments within the PRC. On March 30, 2015, SAFE promulgated Circular 19, to expand the reform nationwide. Circular 19 came into force and replaced both Circular 142 and Circular 36 on June 1, 2015. Circular 19 allows foreign-invested enterprises to make equity investments by using Renminbi fund converted from foreign exchange capital. However, Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, providing entrusted loans or repaying loans between non-financial enterprises. In June 2016, SAFE promulgated Notice on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement which further stipulates that foreign-invested enterprises shall not use Renminbi fund converted from foreign exchange capital for disbursing loans to non-affiliated enterprises, except for expressly permitted by its business scope. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. SAFE also promulgated a SAFE Circular 45 in November 2011, which, among other things, restricts a foreign-invested enterprise from using Renminbi converted from its registered capital to provide entrusted loans or repay loans between non-financial enterprises. Circular 45 was abolished on March 19, 2015. These circulars may significantly limit our ability to use Renminbi converted from net proceeds of our initial public offering and the concurrent private placement and our subsequent private placement in December 2014, May 2015 and November 2015 to fund establishment of new PRC subsidiaries, to invest in or acquire any other PRC companies, or establish new consolidated affiliated entities in the PRC.

### ***Regulations on Dividend Distribution***

The principal regulations governing distribution of dividends of wholly foreign-owned enterprises include the PRC Company Law, as amended in December 2013, the Wholly Foreign-Owned Enterprise Law, as amended in October 2000 and 2016, and the Implementation Rules of the Wholly Foreign-Owned Enterprise Law, as amended in February 2014. Pursuant to these laws and regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. In addition, these companies may allocate a portion of their after-tax profits based

on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends.

***Regulations on Offshore Financing***

Pursuant to a SAFE Circular 37 issued by SAFE on July 4, 2014, which replaced the former circular commonly known as “Safe Circular 75” issued by SAFE in October 2005, prior registration with the local SAFE branch is required for PRC residents in connection with their direct establish or indirect control of an offshore entity, for the purposes of overseas investment and financing, with assets or equity interests of onshore companies or offshore assets or interests held by such PRC residents, referred to in SAFE Circular 37 as a “special purpose vehicle.” The PRC residents are also required to amend the registration or filing with the local SAFE branch in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC residents, share transfer or exchange, merger, division or other material event.

Failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entities, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control our company from time to time are required to register with SAFE in connection with their investments in us. We requested PRC residents holding direct or indirect interests in our company to our knowledge to make the necessary applications, filings and amendments as required under SAFE Circular 75 and other related rules prior to our initial public offering. However, we might not be fully informed of the identities of all of our beneficial owners who are PRC citizens or residents, and we cannot compel our beneficial owners to comply with the requirements of SAFE Circular 37. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents have complied with and will in the future make or obtain any applicable registrations or approvals required by SAFE Circular 37 or other related regulations. See “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, limit our ability to inject capital into our PRC subsidiaries, or otherwise expose us to liability and penalties under PRC laws.”

### ***Regulations on Employee Stock Option Plans***

In February 2012, SAFE promulgated the Stock Option Rules, replacing the previous rules issued by SAFE in March 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company, which includes employee stock ownership plans, stock option plans and other incentive plans permitted by relevant laws and regulations, are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan in an overseas publicly listed company who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

We adopted the 2008 Plan, pursuant to which we may issue options or restricted shares to our qualified employees and consultants on a regular basis. We also adopted the 2014 Plan, which permits the granting of options to purchase our ordinary shares, restricted shares and restricted share units. The failure of the share options holders to complete their registration pursuant to the Stock Option Rules and other foreign exchange requirements may subject these PRC

individuals to fines and legal sanctions, and may also limit our ability to contribute additional capital to our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to us or otherwise materially adversely affect our business. See "Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Failure to comply with PRC regulations regarding the registration requirements for share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions."

In addition, the State Administration for Taxation has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.

### ***Regulations on Overseas Listing***

Six PRC regulatory agencies, including the CSRC, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and which were amended on June 22, 2009, with such amendments becoming effective as of the same date. The M&A Rules, among other things, require offshore SPVs formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

While the application of this new regulation remains unclear, we believe, based on the advice of our PRC counsel, Fangda Partners, that CSRC approval was not required in the context of our initial public offering because (1) CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like initial public offerings are subject to this regulation and (2) we established our PRC subsidiaries by means of direct investment other than by merger or acquisition of PRC domestic companies and no explicit provision in the M&A Rules classifies the contractual arrangements between Beijing Tuniu, our PRC subsidiary, Nanjing Tuniu, our consolidated affiliated entity, and its shareholders as a type of acquisition transaction falling under the M&A Rules. See “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—The approval of the China Securities Regulatory Commission may have been required in connection with our earlier initial public offering under a regulation adopted in August 2006, and, if required, we cannot assure you that we will be able to obtain such approval.”

### ***Regulations on Employment***

The PRC Labor Law, the PRC Labor Contract Law and its implementation rules provide requirements concerning employment contracts between an employer and its employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer would be deemed to have entered into a labor contract without a fixed term with such employee. In addition, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee’s salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations. In addition, if an employer intends to enforce a non-compete provision with an employee in an employment contract or non-competition agreement, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or ending of the labor contract. Employers in most cases are also required to provide a severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a

work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located.

***Regulations on Taxation***

For a discussion of applicable PRC tax regulations, see “Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation.”

### **C. Organizational Structure**

The following diagram illustrates our corporate structure, including our principal subsidiaries and consolidated affiliated entities, as of the date of this annual report on Form 20-F:

Messrs. Dunde Yu, Haifeng Yan, Tong Wang, Jiping Wang, Xin Wen, Yongquan Tan and Haifeng Wang hold 28.66%, 19.11%, 7.71%, 4.82%, 0.96%, 0.96% and 37.78% equity interests in Nanjing Tuniu, respectively.

- (1) Among the shareholders of Nanjing Tuniu, Messrs. Dunde Yu is our founder, director and an ultimate shareholder of Tuniu Corporation. Messrs. Haifeng Yan was our co-founder and is our director and an ultimate shareholder of Tuniu Corporation. Messrs. Tong Wang, Jiping Wang, Xin Wen and Yongquan Tan are ultimate shareholders of Tuniu Corporation. Mr. Haifeng Wang is an employee of one of our shareholders.

### **Agreements that Provide us with Effective Control over Nanjing Tuniu**

***Purchase Option Agreement.*** Pursuant to the purchase option agreement entered into on September 17, 2008, restated and amended on January 24, 2014 and further restated and amended on March 19, 2014, each of the shareholders of Nanjing Tuniu irrevocably and exclusively grants Beijing Tuniu an option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of such shareholder's equity interests in Nanjing Tuniu. The aggregate purchase price is RMB2.4 million. The shareholders of Nanjing Tuniu agree, without the prior written consent of Beijing Tuniu, not to transfer or otherwise dispose of their equity interests in Nanjing Tuniu, pledge their equity interests or create any encumbrance on their equity interests. The agreement remains effective until all equity interests held in Nanjing Tuniu by the shareholders of Nanjing Tuniu are transferred or assigned to Beijing Tuniu or its designated person or persons. The purchase price has been prepaid by Beijing Tuniu to the shareholders of Nanjing Tuniu.



***Equity Interest Pledge Agreement.*** Pursuant to the equity interest pledge agreement entered into on September 17, 2008 and supplemented on March 19, 2014, each of the shareholders of Nanjing Tuniu pledges all of such shareholder's equity interests in Nanjing Tuniu to guarantee the performance of the obligations under the purchase option agreement. If the shareholders of Nanjing Tuniu breach their contractual obligations under the purchase option agreement, Beijing Tuniu, as the pledgee, will have the right to either conclude an agreement with the pledgor to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity to any person pursuant to the PRC law. The shareholders of Nanjing Tuniu agree that, during the term of the equity interest pledge agreement, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the equity pledge period, Beijing Tuniu is entitled to all dividends and other distributions made by Nanjing Tuniu. The equity interest pledge became effective on the date when the equity interest pledge was registered with the relevant local administration for industry and commerce, and remains effective until the shareholders of Nanjing Tuniu discharge all their obligations under the purchase option agreement, or Beijing Tuniu enforces the equity interest pledge, whichever is earlier. We have completed the registration of the equity interest pledge with Xuanwu Branch of Nanjing Administration for Industry and Commerce.

***Shareholders' Voting Rights Agreement.*** Pursuant to the shareholders' voting rights agreement entered into on September 17, 2008, the shareholders of Nanjing Tuniu appointed Beijing Tuniu or its designated person as their attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu, including attending shareholders' meetings, voting on all matters of Nanjing Tuniu requiring shareholder approval, nominating and appointing directors, convening extraordinary shareholders' meetings, and other voting rights pursuant to the then-effective articles of association of Nanjing Tuniu. The shareholders' voting rights agreement will remain in force until all the parties to the agreement mutually agree to terminate the agreement in writing or cease to be shareholders of Nanjing Tuniu.

***Irrevocable Powers of Attorney.*** Pursuant to the powers of attorney dated January 24, 2014, the shareholders of Nanjing Tuniu each irrevocably appointed Beijing Tuniu as the attorney-in-fact to exercise all of such shareholder's voting and related rights with respect to such shareholder's equity interests in Nanjing Tuniu, including but not limited to attending shareholders' meetings, voting on all matters of Nanjing Tuniu requiring shareholder approval, nominating and appointing directors, convening extraordinary shareholders' meetings, and other voting rights pursuant to the then-effective articles of association of Nanjing Tuniu. Each power of attorney will remain in force until the shareholders' voting rights agreement expires or is terminated. These powers of attorney replaced the powers of attorney previously granted to a person designated by Beijing Tuniu on September 17, 2008.

#### **Agreement that Allows us to Receive Economic Benefits from Nanjing Tuniu**

***Cooperation Agreement.*** Under the cooperation agreement entered into on September 17, 2008 and restated and amended on January 24, 2014, Beijing Tuniu has the exclusive and irrevocable right to provide to Nanjing Tuniu business consulting, technical consulting and technical services related to the businesses of Nanjing Tuniu and its subsidiaries. Beijing Tuniu owns the exclusive intellectual property rights created by Nanjing Tuniu or its employees

as a result of the performance of this agreement. Beijing Tuniu has the right to receive, or designate a person or persons to receive, a quarterly service fee, which equals the profits of each of Nanjing Tuniu and its subsidiaries, to which it provides such business consulting, technical consulting and technical services, provided that such amount of service fees can be adjusted by Beijing Tuniu at its sole discretion. This agreement will remain effective until expiration of Beijing Tuniu's business term, unless Beijing Tuniu exercises its unilateral right to terminate the agreement, one of the parties is declared bankrupt or Beijing Tuniu is not able to provide consulting and services as agreed for more than three consecutive years because of force majeure. Nanjing Tuniu is not permitted to terminate the agreement in any other event.

In 2015, 2016 and 2017, we received service fees of RMB42.4 million, RMB109.6 million and RMB138.1 million (US\$21.23 million), respectively, from our consolidated affiliated entities, which were eliminated on consolidated financial statements.

#### **D. Property, Plant and Equipment**

Our principal executive offices, consisting of our administrative center, sales and marketing division, technical services department, and call center, are located on leased premises in Nanjing comprising approximately 35,576 square meters. We lease these premises under lease agreements from unrelated third parties, and we plan to renew these leases from time to time as needed. We believe that the facilities we currently lease for our executive offices are adequate to meet our administrative needs for the foreseeable future, and we believe that we will be able to obtain adequate facilities, principally through the leasing of additional properties, to accommodate our strategic regional expansion plans of adding more offline retail stores in different parts of China.

#### **Item 4A. Unresolved Staff Comments**

Not applicable.

#### **Item 5. Operating and Financial Review and Prospects**

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See “Forward-Looking Information.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3.D. Key Information—Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

##### **A. Operating Results**

###### **Overview**

We are a leading online leisure travel company in China. We offer a large selection of packaged tours, including organized tours and self-guided tours, as well as travel-related services for leisure travellers on our platform. Our platform offers product portfolio consists of over 800,000 stock keeping units, or SKUs, of organized tours, over 1 million SKUs of self-guided tours, and tickets for all popular domestic and overseas tourist attractions. Our core strength is in overseas leisure travel products and services, which contributed over 67.1% of packaged tour gross bookings on our platform in 2017. In 2017, the number of orders placed through our mobile platform accounted for over 90% of total orders placed through our online platform and average daily unique visitors to our mobile platform accounted for over 70% of the average daily unique visitors to our online platform.

We generated net revenues of RMB7,671.1 million, RMB10,530.9 million, RMB2,192.1 million (US\$336.9 million) in 2015, 2016 and 2017, respectively. We recognized substantially all revenues from organized tours for 2015 and 2016 on a gross basis and revenues from most of the organized tours for 2017 on a net basis as a result of changes in our role in the organized tour arrangements since the beginning of 2017, which caused the decrease in the revenues amount for 2017. On a comparable net basis whereby revenues for 2015 and 2016 are adjusted by deducting the amount we paid to travel suppliers to reflect revenues from organized tours on a net basis and applying the timing of revenue recognition as in 2017, we have achieved significant growth in recent years as we generated comparable amount of net revenues of RMB720.6 million, RMB1,430.3 million, RMB2,192.1 million (US\$336.9 million) in 2015, 2016 and 2017, respectively. We had a net loss of RMB1,466.3 million, RMB2,422.3 million, and RMB771.3 million (US\$118.6 million) in 2015, 2016 and 2017, respectively. We generally collect payments from our customers

upon contract confirmation before we pay travel suppliers. Our net cash used in operating activities was RMB514.7 million, RMB2,239.4 million and RMB418.6 million (US\$64.3 million) in 2015, 2016 and 2017, respectively.

Our ability to achieve and maintain profitability depends on our ability to effectively reduce our costs and expenses as a percentage of our net revenues. Our cost of revenues was RMB7,309.1 million, RMB9,891.7 million, and RMB1,024.2 million (US\$157.4 million) in 2015, 2016 and 2017 respectively. Our operating expenses were RMB1,821.0 million, RMB3,138.3 million and RMB2,051.3 million (US\$315.3 million) in 2015, 2016 and 2017 respectively. The costs and expenses were affected by the level of spending associated with our business operations, including expenses related to regional expansion, branding and advertising campaigns, mobile related initiatives and expenses related to technology, product development and administrative personnel such as share-based compensation. Our past results of operations should not be taken as indicative of our future performance. Our sales and marketing expenses were RMB1,149.5 million, RMB1,900.4 million, and RMB894.1 million (US\$137.4 million) in 2015, 2016 and 2017, respectively. We aim to maintain these expenses as a percentage of net revenues at a stable or lower level over time by focusing on operational scalability and efficiency improvements. If we fail to effectively reduce our costs and expenses as a percentage of our net revenues, we may not be able to achieve and maintain profitability.

## Selected Income Statement Items

### Revenues

We generate revenues primarily from sales of packaged tours, which consist of organized tours and self-guided tours. The following table sets forth the components of our revenues in absolute amounts and as percentages of our net revenues for the periods presented. We adopted ASC 606, *Revenue from Contracts with Customers*, effective on January 1, 2017 by applying the full retrospective method. For the years ended December 31, 2015 and 2016, we have recast certain of the following financial data as a result of the adoption of ASC 606. See Note 2(ae). “Recently Issued Accounting Pronouncements” to our consolidated financial statements included in this Annual Report on Form 20-F for further information regarding these changes.

	For the Years Ended December 31,						
	2015		2016		2017		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Revenues:							
Packaged tours	7,578,822	98.8 %	10,147,148	96.4 %	1,589,353	244,279	72.5 %
Others	127,804	1.7	401,100	3.8	602,747	92,641	27.5 %
Total revenues	7,706,626	100.5	10,548,248	100.2	2,192,100	336,920	100.0%
Less: Business and related taxes	(35,526 )	(0.5 )	(17,307 )	(0.2 )	—	—	—
Net revenues	7,671,100	100.0%	10,530,941	100.0%	2,192,100	336,920	100.0%

*Packaged tours.* Packaged tours, which consist of organized tours and self-guided tours, have grown rapidly in the past three years. In 2015, 2016 and 2017, revenues from sales of packaged-tours accounted for RMB7,578.8 million, RMB10,147.1 million and RMB1,589.4 million (US\$244.3 million), respectively. Since the beginning of 2017, we have implemented certain changes in our arrangements with the tour operators. Our role in the organized tour arrangements has changed from being a principal into an agent that provides tour booking services to the tour operators and travellers. As a result of the change of our role, revenue from the organized tours for 2017 was mainly recognized on a net basis. Under ASC 606, *Revenue from Contracts with Customers*, substantially all revenues from our organized tours for the years ended December 31, 2015 and 2016 continued to be recognized on a gross basis because of our principal role for these organized tours up to the end of 2016. In addition, under ASC 606, *Revenue from Contracts with Customers*, revenues from organized tours for the years 2015 and 2016 were recognized over the period of the tours, and revenues from organized tours for 2017 were recognized when the tours depart. To increase comparability of operating results and aid investors to better understand our business performance and operating trends from 2016 to 2017, we adjusted the revenues in 2016 to a comparable net basis by deducting the amount we paid to travel suppliers and applying the timing of revenue recognition as in 2017. The comparable amount for revenues from package tours of RMB10,147.1 million in 2016 was RMB1,061.3 million. On the comparable basis,

our packaged tour revenues increased by 49.8% from RMB1,061.3 million in 2016 to RMB1,589.4 million (US\$244.3 million) in 2017. The increase was primarily due to the growth of organized tours and self-guided tours. From 2015 to 2016, our revenues from packaged tours, which were mainly recognized on gross basis, increased by 33.9% from RMB7,578.8 million to RMB10,147.1 million. The increase was primarily due to the growth in travel to Japan, South Korea, Southeast Asia, Middle East, Africa, North America and domestic destinations.

*Others.* Other revenues were RMB127.8 million, RMB401.1 million and RMB602.7 million (US\$92.6 million) in 2015, 2016 and 2017, respectively. Our other revenues primarily comprise revenues generated from (i) service fees received from insurance companies, (ii) commission fees from other travel-related products and services, such as tourist attraction tickets, visa application services, accommodation reservation and transportation ticketing, (iii) fees for advertising services that we provide primarily to domestic and foreign tourism boards and bureaus, and (iv) service fees for financial services and interest income for yield enhancement products. The increase was primarily due to a rise in revenues generated from financial services and commission fees received from certain travel-related products.

***Cost of Revenues***

Our cost of revenues accounted for 95.3%, 93.9% and 46.7% as percentages of our net revenues in 2015, 2016 and 2017, respectively. As revenues from packaged tours are mainly recognized on net basis in 2017, the amounts we pay to travel suppliers for packaged tours are mainly recorded as a reduction to revenues, rather than cost of revenues, and hence have impact on our cost of revenues. Prior to January 2017, a substantial majority of our cost of revenues is amounts paid to travel suppliers for the sale of the relevant organized tour products to customers.

Our cost of revenues mainly consists of salaries and other compensation-related expenses related to our tour advisors, customer services representatives, and other personnel related to tour transactions, and other expenses directly attributable to our principal operations, primarily including payment processing fees, telecommunication expenses, rental expenses, depreciation expenses, interest expenses for yield enhancement products, and other service fee for financial service. For the arrangements where we secure availabilities of tours and bear substantive inventory risks and for the organized tours prior to 2017, from which revenues are recognized on a gross basis, cost of revenues also includes the amount paid to tour operators or suppliers.

Losses arising from the committed tour reservations in abovementioned arrangements where we secure availabilities of tours were recorded in “cost of revenues” in the consolidated statements of comprehensive loss, which were RMB17,780 and RMB45,494 for the years ended December 31, 2015 and 2016. Commencing in 2017, since we changed our role from principal to agent in the organized tour arrangements and revenue were recognized on a net basis, losses arising from the committed tour reservations were recorded as deductions to revenues, which were RMB11,009 for the year ended December 31, 2017.

***Operating Expenses***

Our operating expenses were RMB1,821.0 million, RMB3,138.3 million and RMB2,051.3 million(US\$ 315.3 million) in 2015, 2016 and 2017, respectively. The following table sets forth the components of our operating expenses in absolute amounts and as percentages of our net revenues for the periods presented:

	For the Year Ended December 31,					
	2015	2016	2017		US\$	%
	RMB	%	RMB	%	RMB	
	(in thousands, except percentages)					
Operating expenses:	(298,199 )	(3.9 )%	(601,402 )	(5.7 )%	(541,126 )	(83,170 ) (24.7)%

Explanation of Responses:

Research and product development							
Sales and marketing	(1,149,512)	(15.0)	(1,900,397)	(18.0)	(894,148 )	(137,428)	(40.8)
General and administrative	(385,442 )	(5.0 )	(658,790 )	(6.3 )	(637,795 )	(98,027 )	(29.1)
Other operating income	12,175	0.2	22,323	0.2	21,749	3,343	1.0
Total operating expenses	(1,820,978)	(23.7)%	(3,138,266)	(29.8)%	(2,051,320)	(315,282)	(93.6)%

*Research and product development expenses.* Research and product development expenses primarily comprise salaries and other compensation expenses for our research and product development personnel as well as office rental, depreciation and other expenses related to our research and product development function. Research and product development expenses also include expenses that are incurred in connection with the planning and implementation phases of development and costs that are associated with the maintenance of our online platform or software for internal use. Research and product development expenses were RMB298.2 million, RMB601.4 million and RMB541.1 million (US\$83.2 million) in 2015, 2016 and 2017, respectively. Our research and product development expenses decreased in 2017 compared to 2016 primarily due to the increase in efficiency resulting from economies of scale and implementation of operation systems, and optimization of research and product development personnel.



*Sales and marketing expenses.* Sales and marketing expenses primarily comprise marketing and promotional expenses, salaries and other compensation expenses for our sales and marketing personnel and office rental, depreciation and other expenses related to our sales and marketing function. Our sales and marketing expenses were RMB1,149.5 million, RMB1,900.4 million and RMB894.1 million (US\$137.4 million) in 2015, 2016 and 2017, respectively. Our sales and marketing expenses decreased in 2017 compared to 2016 primarily due to the decline in brand promotions and preference for marketing channels with higher ROI.

*General and administrative expenses.* General and administrative expenses primarily comprise salaries and other compensation expenses for our administrative personnel, professional service fees, office rental, depreciation and other expenses related to our administrative function. General and administrative expenses were RMB385.4 million, RMB658.8 million and RMB637.8 million (US\$98.0 million) in 2015, 2016 and 2017, respectively. Our general and administrative expenses in 2017 decreased as we increased in efficiency resulting from economies of scale and optimization of administrative personnel.

*Other operating income.* Other operating income relates primarily to government subsidies that we receive from provincial and local governments. Government subsidies are granted from time to time at the discretion of the relevant government authorities. These subsidies are granted for general corporate purposes and to support our ongoing operations in the region. Other operating income accounted for 0.2%, 0.2% and 1.0% of our net revenues in 2015, 2016 and 2017, respectively.

## **Taxation**

### *Cayman Islands*

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

### *Hong Kong*

Companies registered in Hong Kong are subject to Hong Kong Profits Tax on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. The applicable tax rate is 16.5% in Hong Kong. Under the Hong Kong tax law, Our Hong Kong subsidiaries are exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

**PRC**

Our PRC subsidiaries and consolidated affiliated entities are subject to PRC enterprise income tax, or EIT, on the taxable income in accordance with the relevant PRC income tax laws.

Under the EIT Law, an enterprise established outside the PRC with a “de facto management body” within the PRC is considered a PRC resident enterprise for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. Under the Implementation Rules, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, SAT Circular 82, which was issued in April 2009 by the SAT and amended in 2013 and in December 2017, specifies that certain offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise groups will be classified as PRC resident enterprises if all of the following conditions are met: (a) senior management personnel and core management departments in charge of the daily operations of the enterprises have their presence mainly in the PRC; (b) their financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) major assets, accounting books and company seals of the enterprises, and minutes and files of their board’s and shareholders’ meetings are located or kept in the PRC; and (d) half or more of the enterprises’ directors or senior management personnel with voting rights habitually reside in the PRC. Further to SAT Circular 82, the SAT issued SAT Bulletin 45, which took effect on September 1, 2011 and was amended in 2015 and 2016, to provide more guidance on the implementation of SAT Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore-incorporated resident enterprises.” SAT Bulletin 45 provides procedures and administrative details for the determination of PRC resident enterprise status and administration on post-determination matters. Although both SAT Circular 82 and SAT Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals like us, the determining criteria set forth in SAT Circular 82 and SAT Bulletin 45 may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the PRC resident enterprise status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, PRC enterprise groups or by PRC or foreign individuals.

Nanjing Tuniu was qualified for an HNTE since 2010 and was able to renew its HNTE certificate upon expiration of the 3-year period. In 2016, Nanjing Tuniu obtained a new HNTE certificate, which will expire in 2018. Therefore, Nanjing Tuniu is eligible to enjoy a preferential tax rate of 15% from 2016 to 2018 to the extent it has taxable income under the EIT Law, as long as it maintains the HNTE qualification and duly conducts relevant EIT filing procedures with the relevant tax authority. Nanjing Tuniu also obtained a software company certificate in 2012. Pursuant to such certificate, Nanjing Tuniu qualifies for a tax holiday during which it is entitled to an exemption from enterprise income tax for two years commencing from its first profit-making year of operation, which occurred in 2014, and a 50% reduction of enterprise income tax for the following three years.

Under the EIT Law and its Implementation Rules, subject to any applicable tax treaty or similar arrangement between the PRC and our investors' jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of American depositary shares or shares by such non-PRC resident enterprise investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a tax treaty or similar arrangement provides otherwise. Under the PRC Individual Income Tax Law and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of American depositary shares or shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws. Although substantially all of our business operations are based in China, it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain realized from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we were considered a PRC resident enterprise, as described above. See "Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC resident enterprise for PRC enterprise income tax purposes. Such classification would likely result in unfavorable tax consequences to us and our non-PRC shareholders and would have a material adverse effect on our results of operations and the value of your investment."

Pursuant to the applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay business taxes at the rate of 5% on the revenues generated from providing such services. Entities engaging in the travel business can deduct certain approved costs from their revenues in calculating business taxes. However, if the services provided are related to technology development and transfer, such entities may be exempted from business and related taxes arising from such services subject to approval by the relevant tax authorities. We are subject to business and related taxes on services provided in the PRC, and the applicable business tax rate is 5%. In our consolidated financial statements included elsewhere in this annual report, business and related taxes are deducted from gross revenues to arrive at net revenues.

In November 2011, the PRC Ministry of Finance released Circular Caishui 2011 No. 111 which has been repealed currently, mandating Shanghai to be the first city to carry out a pilot program of tax reform. Effective January 1, 2012,

any entity that carries out selected modern services in Shanghai is required to pay value-added tax, or VAT instead of business tax. These entities are permitted to offset input VAT incurred with the output VAT. The pilot program has been expanded to other regions, including Beijing from September 1, 2012 and Nanjing from October 1, 2012. Beijing Tuniu, Nanjing Tuniu and Tuniu NJ Information Technology have been subject to VAT at a rate of 6% and have since stopped paying the 5% business tax from the respective effective dates of the tax reform. This change did not have a significant financial statement impact on our consolidated results of operations, and we do not expect it to have any significant impact in the future.

On March 23, 2016, the PRC Ministry of Finance and the SAT jointly issued the Circular on the Nationwide Implementation of Pilot Program for the Collection of Value Added-Tax Instead of Business Tax, or Circular 36, pursuant to which the VAT reforms will be implemented comprehensively across the country and extended to the construction, real estate, financial and consumer services industries. Circular 36 became effective on May 1, 2016 and was amended as of January 1, 2018. As a result, majority of our business will be subject to VAT at a rate of 6%, which is higher than the business tax rate previously applied to us. We would be permitted to offset input VAT by providing valid VAT invoices received from vendors against our output VAT liability. Alternatively, the taxable income of tourism business could be calculated on net basis by deducting relevant expenses (including expenses for accommodation, catering, transportation, visa, ticket and tourism fee paid to other entities/ individuals) if valid invoices could be obtained.

## Results of Operations

The following table sets forth a summary of our consolidated results of operations in absolute amounts and as percentages of our net revenues for the periods indicated. Certain financial data of 2015 and 2016 have been recast as a result of the adoption of ASC 606, *Revenue from Contracts with Customers*. The period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	For the Years Ended December 31,							
	2015		2016		2017	US\$		
	RMB	%	RMB	%	RMB		%	
	(in thousands, except percentages)							
Revenues:								
Packaged tours	7,578,822	98.8 %	10,147,148	96.4 %	1,589,353	244,279	72.5 %	
Others	127,804	1.7	401,100	3.8	602,747	92,641	27.5	
Total revenues	7,706,626	100.5	10,548,248	100.2	2,192,100	336,920	100.0	
Less: Business and related taxes	(35,526 )	(0.5 )	(17,307 )	(0.2 )	—	—	—	
Net revenues	7,671,100	100.0	10,530,941	100.0	2,192,100	336,920	100.0	
Cost of revenues	(7,309,062)	(95.3 )	(9,891,736 )	(93.9 )	(1,024,206)	(157,418)	(46.7 )	
Gross profit	362,038	4.7	639,205	6.1	1,167,894	179,502	53.3	
Operating expenses:								
Research and product development	(298,199 )	(3.9 )	(601,402 )	(5.7 )	(541,126 )	(83,170 )	(24.7 )	
Sales and marketing	(1,149,512)	(15.0 )	(1,900,397 )	(18.0 )	(894,148 )	(137,428)	(40.8 )	
General and administrative	(385,442 )	(5.0 )	(658,790 )	(6.3 )	(637,795 )	(98,027 )	(29.1 )	
Other operating income	12,175	0.2	22,323	0.2	21,749	3,343	1.0	
Loss from operations	(1,458,940)	(19.0 )	(2,499,061 )	(23.8 )	(883,426 )	(135,780)	(40.3 )	

Explanation of Responses:

Other income/(expenses):							
Interest income	76,516	1.0	87,305	0.8	130,250	20,019	5.9
Foreign exchange losses, net	(83,118 )	(1.1 )	(9,734 )	(0.1 )	(2,394 )	(368 )	(0.1 )
Other loss, net	(1,334 )	(0.0 )	(2,553 )	(0.0 )	(121 )	(19 )	0.0
Loss before income tax expense	(1,466,876)	(19.1 )	(2,424,043 )	(23.0 )	(755,691 )	(116,148)	(34.5 )
Income tax benefit/(expense)	589	0.0	1,711	0.0	(15,625 )	(2,402 )	(0.7 )
Net loss	(1,466,287)	(19.1 )%	(2,422,332 )	(23.0 )%	(771,316 )	(118,550)	(35.2 )

### Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

**Net Revenues.** Net revenues were RMB10,530.9 million and RMB2,192.1 million in 2016 and 2017, respectively. The year-over-year decrease was mainly driven by the change of our roles into an agent for organized tours in 2017 and hence the adoption of the net basis revenue recognition for most of the organized tours, while substantially all revenues from organized tours for 2015 and 2016 were recognized on a gross basis as we were primary obligor for the organized tours services up to the end of 2016. On a comparable net basis whereby revenues for 2015 and 2016 are adjusted by deducting the amount we paid to travel suppliers to reflect revenues from organized tours on a net basis and applying the timing of revenue recognition as in 2017, we generated comparable amount of net revenues of RMB1,430.3 million and RMB2,192.1 million (US\$336.9 million) in 2016 and 2017. The growth of our net revenue on comparable net basis was principally driven by the increase in travellers' booking of packaged tours and other revenues.

*Revenues from packaged tours.* Revenues from packaged tours are mainly recognized on a net basis in 2017. Since the beginning of 2017, we have implemented certain changes in our arrangements with the tour operators. Our role in the organized tour arrangements has changed from being a principal into an agent that provides tour booking services to the tour operators and travellers. As a result of the change of our role, revenue from the organized tours for 2017 was mainly recognized on a net basis. Under ASC 606, *Revenue from Contracts with Customers*, substantially all revenues from our organized tours for the year ended December 31, 2016 continued to be recognized on a gross basis because of our principal role for these organized tours up to the end of 2016. In addition, under ASC 606, *Revenue from Contracts with Customers*, revenues from organized tours for the years 2015 and 2016 were recognized over the period of the tours, and revenues from organized tours for 2017 were recognized when the tours depart. The year-over-year decrease in revenues from packaged tours was mainly due to the change from the gross basis to a net basis revenue recognition. To increase comparability of operating results and aid investors to better understand our business performance and operating trends from 2016 to 2017, we adjusted the revenue in 2016 to a comparable net basis by deducting the amount we paid to travel suppliers and applying the timing of revenue recognition as in 2017. The comparable amount for revenues from packaged tours of RMB10,147.1 million in 2016 was RMB1,061.3 million. On the comparable basis, our packaged revenues increased by 49.8% from RMB1,061.3 million in 2016 to RMB1,589.4 million (US\$244.3 million) in 2017. The increase was primarily due to the growth of organized tours and self-guided tours.

*Other revenues.* Other revenues increased by 50.3% from RMB401.1 million in 2016 to RMB602.7 million (US\$92.6 million) in 2017, primarily due to a rise in revenues generated from financial services and commission fees received from certain other travel-related products.

*Cost of Revenues.* Prior to January 2017, a substantial majority of the cost of revenues was the amounts paid to travel suppliers for the sale of the relevant organized tour products to customers. On the net basis of revenue recognition in 2017, the amounts we paid to travel suppliers for packaged tours are mainly recorded as a reduction to revenues, rather than cost of revenues. Such change caused the significant decrease in cost of revenues from 2016 to 2017. To increase comparability of operating results and aid investors to better understand our business performance and operating trends, we adjusted the cost of revenues in 2016 to a comparable net basis by deducting the amount we paid to travel suppliers from RMB9,891.7 million and our adjusted cost of revenues in 2016 was RMB785.1 million. On the comparable basis, our cost of revenues increased by 30.5% from RMB785.1 million in 2016 to RMB1,024.2 million (US\$157.4 million) in 2017. As a percentage of our net revenues on the comparable basis, our cost of revenues was 46.7% in 2017 compared to 54.9% in 2016.

*Operating Expenses.* Operating expenses decreased by 34.6% from RMB3,138.3 million in 2016 to RMB2,051.3 million (US\$315.3 million) in 2017, due to decreases in sales and marketing expenses, research and product development expenses and general and administrative expenses, and partially offset by the decrease in other operating income.

*Research and product development.* Research and product development expenses decreased by 10.0% from RMB601.4 million in 2016 to RMB541.1 million (US\$83.2 million) in 2017, primarily due to the increase in efficiency resulting from economies of scale and implementation of operation systems, and optimization of research

and product development personnel.

*Sales and marketing.* Sales and marketing expenses decreased by 53.0% from RMB1,900.4 million in 2016 to RMB894.1 million (US\$137.4 million) in 2017. The decrease was primarily due to the decline in brand promotions and preference for marketing channels with higher ROI.

*General and administrative.* General and administrative expenses decreased by 3.2% from RMB658.8 million in 2016 to RMB637.8 million (US\$98.0 million) in 2017, primarily due to increase in efficiency resulting from economies of scale and optimization of administrative personnel.

*Other operating income.* Other operating income decreased from RMB22.3 million in 2016 to RMB21.7million (US\$3.3 million) in 2017.

**Net Loss.** As a result of the foregoing, net loss decreased from RMB2,422.3 million in 2016 to RMB771.3 million (US\$118.6 million) in 2017.



**Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

**Revenues.** Total revenues increased by 36.9% from RMB7,706.6 million in 2015 to RMB10,548.2 million in 2016. This increase was primarily due to an increase in our revenues from both organized tours and self-guided tours.

*Revenues from organized tours.* Revenues from organized tours, substantially all of which are recognized on a gross basis, increased by 34.0% from RMB7,385.2 million in 2015 to RMB9,898.0 million in 2016, primarily due to the growth in the number of trips of our organized tours. This was a result of the rapid growth in demand for travel to certain international destinations, such as Japan, South Korea, Middle East, Africa, North America and certain islands.

*Revenues from self-guided tours.* Revenues from self-guided tours, which are recognized on a net basis, increased by 28.7% from RMB193.6 million in 2015 to RMB249.2 million in 2016. The increase in revenues from self-guided tours generally reflected the growth in travel to Japan, South Korea, Southeast Asia, Middle East, Africa, North America and domestic destinations.

*Other revenues.* Other revenues increased by 213.8% from RMB127.8 million in 2015 to RMB401.1 million in 2016, primarily due to a rise in service fees received from insurance companies, revenues from tourist attraction tickets and other travel-related products, which are recognized on a net basis.

**Net Revenues.** Net revenues increased by 37.3% from RMB7,671.1 million in 2015 to RMB10,530.9 million in 2016, as a result of our increased total revenues, partially offset by the resulting increase in business and related taxes over the same periods.

**Cost of Revenues.** Cost of revenues increased by 35.3% from RMB7,309.1 million in 2015 to RMB9,891.7 million in 2016, primarily due to the increase in the cost to suppliers of our organized tours. Cost to suppliers of our organized tours increased mainly as a result of the increase in the sales of our organized tours in 2016. As a percentage of our net revenues, our cost of revenues was 95.3% in 2015 compared to 93.9% in 2016.

**Operating Expenses.** Operating expenses increased by 72.3% from RMB1,821.0 million in 2015 to RMB3,138.3 million in 2016, due to increases in sales and marketing expenses, research and product development expenses and general and administrative expenses, partially offset by the increase in our other operating income.

*Research and product development.* Research and product development expenses increased by 101.7% from RMB298.2 in 2015 to RMB601.4 million in 2016, primarily due to investments for the implementation of additional product categories such as transportation ticketing, accommodation reservation and financial services, improvement of online technology, and the rise in technology and product development personnel related expenses.

*Sales and marketing.* Sales and marketing expenses increased by 65.3% from RMB1,149.5 million in 2015 to RMB1,900.4 million in 2016. The increase was primarily attributable to advertisements for our mobile channels, expansion of our VIP customer service team, and amortization of acquired intangible assets from the previously announced transaction with JD.com.

*General and administrative.* General and administrative expenses increased by 70.9% from RMB385.4 million in 2015 to RMB658.8 million in 2016, primarily due to an increase in headcount as a result of our product category expansion and expenses associated with our regional centers.

*Other operating income.* Other operating income increased from RMB12.2 million in 2015 to RMB22.3 million in 2016.

**Net Loss.** As a result of the foregoing, net loss increased from RMB1,466.3 million in 2015 to RMB2422.3 million in 2016.

## **Inflation**

Since our inception, inflation in China has not had a material adverse impact on our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2015, 2016 and 2017 were increases of 1.6%, 2.1% and 1.6%, respectively. Although we have not been materially affected by inflation in the past, we may be materially affected if China experiences higher rates of inflation in the future. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consist of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

## **Foreign Currency**

The average exchange rate between U.S. dollar and Renminbi has declined from RMB8.2264 per U.S. dollar in July 2005 to RMB6.5063 per U.S. dollar as of December 31, 2017. As of December 31, 2017, we recorded RMB128.5 million (US\$19.8 million) of net foreign currency translation loss in accumulated other comprehensive income as a component of shareholders' equity. We have not hedged exposures to exchange fluctuations using any hedging instruments. See also "Item 3.D. Key Information—Risk Factors—Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Risk."

## **Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in accordance with U.S. GAAP. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results and margins would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below.

## ***Business combination***

U.S. GAAP requires that all business combinations not involving entities or businesses under common control be accounted for under the purchase method. We have adopted ASC 805 “Business Combinations”, and the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred and equity instruments issued. The transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of the (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive income.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to forecast the future cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although management believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material. We recognized adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined.

A noncontrolling interest is recognized to reflect the portion of a subsidiary’s equity which is not attributable, directly or indirectly, to the Company. Consolidated net loss on the consolidated statements of comprehensive loss includes the net loss attributable to noncontrolling interests when applicable. The cumulative results of operations attributable to noncontrolling interests are also recorded as noncontrolling interests in our consolidated balance sheets. Cash flows related to transactions with noncontrolling interests are presented under financing activities in the consolidated statements of cash flows when applicable.

***Intangible assets***

Intangible assets purchased are recognized and measured at cost upon acquisition and intangible assets arising from acquisitions of subsidiaries are recognized and measured at fair value upon acquisition. Our intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years. The estimated life of intangible assets subject to amortization is reassessed if circumstances occur that indicate the life has changed. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No impairment of intangible assets was recognized for the years ended December 31, 2015, 2016 and 2017.

***Long-term investments***

Long-term investments include cost-method equity investments, equity-method investments and other long-term investments in certain financial products.

We accounts for the investment in a private entity of which we own less than 20% of the voting securities and does not have the ability to exercise significant influence over operating and financial policies of the entity as cost-method investment. Our cost-method investment is carried at historical cost in its consolidated financial statements and measured at fair value on a nonrecurring basis when there are events or changes in circumstances that may have a significant adverse effect. An impairment loss is recognized in the consolidated statements of comprehensive loss equal to the excess of the investment's cost over its fair value when the impairment is deemed other-than-temporary.

We account for the investments in entities with significant influence under equity-method accounting. Under this method, our pro rata share of income (loss) from an investment is recognized in the consolidated statements of comprehensive loss. Dividends received reduce the carrying amount of the investment. Equity-method investment is reviewed for impairment by assessing if the decline in fair value of the investment below the carrying value is other-than-temporary. In making this determination, factors are evaluated in determining whether a loss in value should be recognized. These include consideration of our intent and ability to hold investment and the ability of the investee to sustain an earnings capacity, justifying the carrying amount of the investment. Impairment losses are recognized when a decline in value is deemed to be other-than-temporary.

Other long-term investments include financial products with maturities over one year, which are carried at their fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of operations and comprehensive income.

No event had occurred and indicated that an other-than-temporary impairment existed and therefore we did not record any impairment charges for our investments for the years ended December 31, 2016 and 2017.

### ***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is not amortized, but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

We adopted Accounting Standards Update (“ASU”) 2011-08, “Intangibles—Goodwill and Other (Topic 350)”. This accounting standard gives us an option to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying amount of a reporting unit’s goodwill. The fair value of each reporting unit is determined by us using the expected present value of future cash flows. The key assumptions used in the calculation include the long-term growth rates of revenue and gross margin, working-capital requirements and discount rates. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination, with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

Our management performs its annual goodwill impairment test on October 1. No impairment loss was recognized for the years ended December 31, 2015, 2016 and 2017.

### ***Revenue Recognition***

We generate revenues primarily from sales of packaged tours and other travel-related services.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which amends the existing accounting standards for revenue recognition. Subsequently, the FASB issued several amendments which amends certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as “ASC 606”). According to ASC 606, revenue is recognized when control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. We adopted this new revenue standard effective on January 1, 2017 by applying the full retrospective method.

### ***Packaged tours***

Packaged tours include organized tours which offer pre-arranged itineraries, transportations, accommodations, entertainments, meals and tour guide services; and self-guided tours which consist of combinations of air tickets and hotel bookings and other optional add-ons, such as airport pick-ups that the travellers choose at their discretion.

Prior to January 2017, substantially all of our revenues from organized tours were recognized on a gross basis, which represented amounts charged to and received from travellers (who were our customers). We were the primary obligor in the organized tour arrangements and bore the risks and rewards, including the travellers’ acceptance of products and services delivered. Even though we did not generally assume the substantive inventory risk before travellers placed an order, we were the party retained by and paid by the travellers, and we were responsible for (and solely authorized to) refunding travellers their payments in situations of customer disputes. Further, we independently selected travel service suppliers, and determined the prices charged to customers and paid to its travel suppliers.

Since the beginning of 2017, we have implemented certain changes in our arrangements with the tour operators. Our role in the organized tour arrangements has changed from being a principal into an agent that provides tour booking services to the tour operators and travellers. Under the current organized tour arrangements, the tour operators are primarily responsible for all aspects of providing services relating to the tour and responsible for the resolution of customer disputes and any associated costs. As a result of the change of our role, starting from January 1, 2017, revenues from organized tours (except for those that we take substantive inventory risk) are generally reported on net basis, representing the difference between what we receive from the travellers and the amounts due to the tour operators.

Revenues from self-guided tours are recognized on a net basis, as we have no involvement in determining the service, and provide no additional services to travellers other than the booking services. Suppliers are responsible for all aspects of providing the air transportation and hotel accommodation, and other travel-related services. As such, we are an agent for the travel service providers in these transactions and revenues are reported on a net basis.

Under certain circumstances, we may enter into contractual commitments with suppliers to reserve tours, and are required to pay a deposit to ensure tour availabilities. Some of these contractual commitments are non-cancellable, and to the extent the reserved tours are not sold to customers, we would be liable to pay suppliers a pre-defined or negotiated penalty, thereby assuming inventory risks. For packaged tour arrangements that we undertake inventory risk which is considered to be substantive, revenues are recognized on gross basis. Revenues for such arrangements that we undertake substantive inventory risk were RMB497.9 million (US \$76.5 million) for the year ended December 31, 2017, which were recorded in revenues for packaged tours.

Under ASC 606, revenues from organized tours for which we were a principal for the years 2015 and 2016 were recognized over the period of the tours when control over the tour services was transferred to the customers over such period. Starting from January 1, 2017, under the current arrangements for the organized tours, revenues from organized tours for which we are an agent are recognized when the tours depart, as control over the tour booking services is transferred to the customers when the tour booking is completed and successful.

Under ASC 606, revenues from self-guided tours are recognized when the tours depart.



### ***Other revenues***

Our other revenues primarily comprise revenues generated from (i) service fees received from insurance companies, (ii) commission fees from other travel-related products and services, such as tourist attraction tickets, visa application services, accommodation reservation and transportation ticketing, (iii) fees for advertising services that we provide primarily to domestic and foreign tourism boards and bureaus, (iv) service fees for financial services and interest income for yield enhancement products. Revenue is recognized when the services are rendered or when the tickets are issued.

We commenced our financial business in 2015. Certain domestic financial assets exchanges, or the Exchanges, and trust companies offered the yield enhancement products through our online platform and we charged these companies for the service fees which were recorded as other revenue upon the delivery of service. In addition, in certain cases, we purchased yield enhancement products with maturities ranging from three months to two years from the Exchanges and trust companies and split these products into smaller amount yield enhancement products with lower yield rate and shorter maturities within one year, which were offered to individual investors through our online platform. The split of the products were arranged by the Exchanges. Interest revenues were recorded as other revenues and the relevant interest costs were recorded as cost of revenue.

We also provided online lending services in 2017 and fees charged in connection with this financial service were recorded as other revenue.

### ***Customer incentives***

We offer travellers coupons, travel vouchers, membership points or cash rewards from time to time. We account for these customer incentives in accordance with ASC 606, *Revenue from Contracts with Customers*. For customer incentives offered where prior purchase is not required, we account for them as a reduction of revenue when the coupons and vouchers are utilized to purchase travelling products or as selling and marketing expenses when membership points are redeemed for merchandises. For customer incentives offered from prior purchase, we estimate the amount associated with the future obligation to the customers, and record them as a reduction of revenue when revenue is recognized. Unredeemed customer incentives are recorded in other current liabilities in the consolidated balance sheets. We estimate liabilities under the customer loyalty program based on accumulated customer incentives, and the estimate of probability of redemption in accordance with the historical redemption pattern. The actual expenditure may differ from the estimated liability recorded. Prior to April 2015, we recorded estimated liabilities for all points earned by customers as we did not have sufficient historical information to determine point forfeitures or breakage. We, with accumulated knowledge on membership points and cash rewards redemption and expiration, began to apply historical redemption rates in estimating the costs of points earned from May 2015 onwards.

### ***Research and Product Development Expenses***

Research and product development expenses include salaries and other compensation-related expenses for our research and product development personnel, as well as office rental, depreciation and related expenses and travel-related expenses for our research and product development team. We recognize software development costs in accordance with ASC 350-40 “*Software—internal use software.*” We expense all costs that are incurred in connection with the planning and implementation phases of development, and costs that are associated with maintenance of the existing websites or software for internal use. Certain costs associated with developing internal use software are capitalized when such costs are incurred within the application development stage of software development.

### ***Income Taxes***

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are provided using the liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in the statement of comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

The guidance in ASC 740, *Income Taxes*, prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance also provides for derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. As of December 31, 2016 and 2017, we did not have any significant unrecognized uncertain tax positions or any interest or penalties associated with tax positions.

In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

### ***Share-based Compensation***

We account for share options granted to employees in accordance with ASC 718, "*Stock Compensation*." The 2014 Share Incentive Plan, or the 2014 Plan, allows the plan administrator to grant options, restricted shares and restricted share units. The 2008 Plan allows the plan administrator to grant options and restricted shares to our employees, directors, and consultants. The plan administrator under both plans is our board of directors or a committee appointed and determined by the board. The board may also authorize one or more of our officers to grant awards under the plan. In accordance with the guidance, we determine whether a stock-based award should be classified and accounted for as a liability award or equity award. Under the 2008 Plan and the 2014 Plan, we only granted options to employees and directors, and such stock-based compensation is considered to be equity classified awards, and is recognized in the financial statements based on their grant date fair values which are calculated using the binomial option pricing model. Share-based compensation expense is recorded net of an estimated forfeiture rate at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation expense is recorded net of estimated forfeitures such that expenses are recorded only for those share-based awards that are expected to ultimately vest.

Under the 2008 Plan and the 2014 Plan, options granted to employees vest upon satisfaction of a service condition, which is generally satisfied over four years. Additionally, the 2008 Plan includes an exercisability clause where employees can only exercise vested options upon the occurrence of the following events: (i) after our ordinary shares become listed securities, (ii) in connection with or after a triggering event (defined as a sale, transfer, or disposition of all or substantially all of our assets, or a merger, consolidation, or other business combination transaction), or (iii) if the optionee obtains all necessary governmental approvals and consents required. Options for which the service condition has been satisfied are forfeited should employment terminate three months prior to the occurrence of an exercisable event, which substantially creates a performance condition. Therefore, since the adoption of the 2008 Plan

through the date of the completion of our initial public offering, we did not recognize any stock-based compensation expense for options granted, because an exercisable event as described above did not occur. The satisfaction of the performance condition became probable upon completion of our initial public offering, and we recorded a significant cumulative expense for share-based awards granted for which the service condition has been satisfied as of that date. Accordingly, we recognized a significant share-based compensation expense of RMB65.1 million, RMB92.4 million and RMB98.7 million (US\$15.2 million) in 2015, 2016 and 2017, respectively. The estimates we used to determine the fair value of these options in computing our share-based compensation expense are determined on the respective grant dates, and will not change when the underlying shares begin trading because our options are equity classified awards.

The following table sets forth the options granted under the 2008 Plan and the 2014 Plan in 2015, 2016 and 2017:

	Number of Options	Exercise Price		Fair Value of the Option as of the Grant Date		Fair Value of the Underlying Ordinary Shares as of the Grant Date		Intrinsic Value as of the Grant Date		Type of Valuation
		US\$	RMB <sup>(2)</sup>	US\$	RMB <sup>(2)</sup>	US\$	RMB <sup>(2)</sup>	US\$	RMB <sup>(2)</sup>	
March 6, 2015 <sup>(1)(3)(4)</sup>	2,428,200	4.21	27.27	2.39	15.48	4.21	27.27	—	—	Contemporaneous
March 6, 2015 <sup>(1)(3)(4)</sup>	2,027,800	4.21	27.27	2.14	13.86	4.21	27.27	—	—	Contemporaneous
August 20, 2015 <sup>(1)(3)(4)</sup>	7,743,000	5.02	32.54	2.46	15.94	4.54	29.43	N/A	N/A	Contemporaneous
August 20, 2015 <sup>(1)(3)(4)</sup>	1,350,000	5.02	32.54	2.25	14.58	4.54	29.43	N/A	N/A	Contemporaneous
November 25, 2015 <sup>(3)(4)</sup>	820,000	5.17	33.47	2.74	17.75	5.26	34.07	0.09	0.58	Contemporaneous
May 27, 2016 <sup>(1)</sup>	320,000	0.0001	0.0007	2.97	20.60	2.97	20.62	2.97	20.62	Contemporaneous
May 27, 2016 <sup>(1)</sup>	70,000	2.97	20.62	1.57	10.90	2.97	20.62	—	—	Contemporaneous
December 2, 2016 <sup>(1)</sup>	4,360,000	2.68	18.61	1.59	11.04	2.68	18.61	—	—	Contemporaneous
December 2, 2016 <sup>(1)</sup>	3,453,575	2.68	18.61	1.44	10.00	2.68	18.61	—	—	Contemporaneous
January 1, 2017	403,332	0.0001	0.0007	2.92	19.00	2.92	19.00	2.92	19.00	Contemporaneous
June 12, 2017	168,214	0.0001	0.0007	2.76	17.96	2.72	17.7	2.72	17.7	Contemporaneous
June 12, 2017 <sup>(1)</sup>	25,300	2.72	17.7	1.39	9.04	2.72	17.7	—	—	Contemporaneous
June 12, 2017 <sup>(1)</sup>	80,000	2.72	17.7	1.55	10.08	2.72	17.7	—	—	Contemporaneous

(1) Options granted to officers and non-officer employees result in different fair value on the same grant date.

The translations from U.S. dollars to Renminbi were made at a rate of RMB6.4778 to US\$1.00, the exchange rate in effect as of December 31, 2015 for the options granted before December 31, 2015, a rate of RMB6.9430 to US\$1.00, the exchange rate in effect as of December 30, 2016 for the options granted before December 31, 2016, and at a rate of RMB6.5063 to US\$1.00, the exchange rate in effect as of December 29, 2017 for the options granted after January 1, 2017 (including January 1, 2017) solely for the convenience of the readers.

(3) We modified these exercise prices to US\$3.09 on March 4, 2016.

(4) We modified the exercise price of 7,260,242 share options to US\$0.0001 and the number of share options was reduced to 3,630,121 on May 31, 2016.

*Significant Factors, Assumptions, and Methodologies Used in Determining Fair Value of Options*

We estimated the fair value of share options using the binomial option-pricing model with the assistance from an independent valuation firm before the completion of our initial public offering on May 9, 2014. As part of our valuation process for share-based awards granted in 2012, 2013 and April 2014, we have also taken into consideration the transaction value of independent third parties' private equity investments in us that are closest to the respective valuation dates. Our management is ultimately responsible for all assumptions and valuation methodologies used in such determination. The fair value of each option grant is estimated on the date of grant with the following assumptions:

*Expected volatility.* We estimated expected volatility based on the annualized standard deviation of the daily return embedded in historical share prices of comparable companies with a time horizon close to the expected expiry of the term.

*Risk-free interest rate (per annum).* We estimated risk-free interest rate based on the yield to maturity of US Treasury Bonds with a maturity similar to the expected expiry of the term.

*Exercise multiple.* The exercise multiple is estimated as the ratio of fair value of underlying shares over the exercise price at the time the option is exercised, based on a consideration of empirical studies on the actual exercise behavior of employees.

*Expected dividend yield.* We have never declared or paid any cash dividends on our capital stock, and we do not anticipate any dividend payments on our ordinary shares in the foreseeable future.

*Expected term (in years).* Expected term is the contract life of the option.

· *Expected forfeiture rate (post-vesting)*. Estimated based on historical employee turnover rate after each option grant.

*Changes in the estimates used to determine the fair value of awards*

After the completion of our initial public offering, in addition to the significant estimates and assumptions disclosed above, we take the following factors into consideration, which affect the estimates we use to determine the fair value of awards on their respective grant dates:

· *Expected volatility*. We determine if there is sufficient history for us to calculate volatility using trading prices of our own ADSs. Additionally, we may update the list of comparable companies from time to time.

· *Risk-free interest rate (per annum)*. We update this estimate each time a new stock award is granted.

· *Exercise multiple*. The exercise multiple is estimated based on a consideration of empirical studies on the actual exercise behavior of employees of comparable companies as we currently do not have a sufficiently long history of employee exercise patterns. Based on our employees' exercise behavior and pattern, we continue to update this estimate when stock awards are granted.

· *Expected dividend yield*. This estimate remained unchanged since our initial public offering and is unlikely to change in the foreseeable future, as we do not anticipate any dividend payments on our ordinary shares in the foreseeable future.

· *Expected term (in years)*. This estimate did not change upon completion of our initial public offering.

· *Expected forfeiture rate (post-vesting)*. We update this estimate each time a new stock award is granted based on the turnover rate of our employees.

· *Fair value of our ordinary shares*. The fair value of our ordinary shares on the grant date is determined based on the trading price of our ADSs on such date, as opposed to applying the income approach valuation method.

*Significant Factors, Assumptions, and Methodologies Used in Determining Fair Value of Ordinary Shares before the completion of our initial public offering on May 9, 2014*

As part of our valuation of share-based awards granted before the completion of our initial public offering, determining the fair value of our ordinary shares required us to make complex and subjective judgments, assumptions and estimates, which involved inherent uncertainty. Had our management used different assumptions and estimates, the resulting fair value of our ordinary shares and the resulting share-based compensation expenses could have been different.

In determining the grant date fair value of our ordinary shares for purposes of recording share-based compensation in connection with employee stock options for share-based awards granted before the completion of our initial public offering, we, with the assistance of independent appraisers, performed retrospective valuations instead of contemporaneous valuations because, at the time of the valuation dates, our financial and limited human resources were principally focused on business development efforts. This approach is consistent with the guidance prescribed by the AICPA Audit and Accounting Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation, or the Practice Aid. Specifically, the “Level B” recommendation in paragraph 16 of the Practice Aid sets forth the preferred types of valuation that should be used.

For all share-based awards granted before the completion of our initial public offering, we, with the assistance of an independent valuation firm, evaluated the use of three generally accepted valuation approaches: market, cost and income approaches to estimate our enterprise value. We and our appraisers considered the market and cost approaches as inappropriate for valuing our ordinary shares because no exactly comparable market transaction could be found for the market valuation approach and the cost approach does not directly incorporate information about the economic benefits contributed by our business operations. Consequently, we and our appraisers relied solely on the income approach in determining the fair value of our ordinary shares. This method eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to our company.



The income approach involves applying discounted cash flow analysis based on our projected cash flow using management's best estimate as of the valuation dates. Estimating future cash flow requires us to analyze projected revenue growth, gross margins, operating expense levels, effective tax rates, capital expenditures, working capital requirements, and discount rates. Our projected revenues were based on expected annual growth rates derived from a combination of our historical experience and the general trend in online leisure travel market. The revenue and cost assumptions we used are consistent with our long-term business plan and market conditions in the online leisure travel market. We also have to make complex and subjective judgments regarding our unique business risks, our limited operating history, and future prospects at the time of grant. Other assumptions we used in deriving the fair value of our equity include:

- no material changes will occur in the applicable future periods in the existing political, legal, fiscal or economic conditions in China;
- no material changes will occur in the current taxation law in China and the applicable tax rates will remain consistent;
- we have the ability to retain competent management and key personnel to support our ongoing operations; and
- industry trends and market conditions for the online leisure travel market will not deviate significantly from current forecasts.

The option-pricing method was used to allocate equity value of our company to preferred and ordinary shares, taking into account the guidance prescribed by the Practice Aid. This method involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of our company or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board and management.

The other major assumptions used in calculating the fair value of ordinary shares include:

- *Weighted average cost of capital, or WACC.* Our cash flows were discounted to present value using discount rates that reflect the risks the management perceived as being associated with achieving the forecasts and are based on the estimate of our weighted average cost of capital, or WACC, on the grant date. The WACCs were determined considering the risk-free rate, industry-average correlated relative volatility coefficient, or beta, equity risk premium, country risk premium, size of our company, scale of our business and our ability in achieving forecast projections. WACCs of 25%, 23%, 22% and 22%, were used for dates as of January 7, 2013, August 1, 2013, October 30, 2013 and November 30, 2013, respectively.

*Comparable companies.* In deriving the WACCs, which are used as the discount rates under the income approach, six to eight publicly traded companies in the U.S. (varied by valuation time points), two publicly traded companies in Australia, and one publicly traded company in China online travel industry were selected for reference as our guideline companies.

*Discount for lack of marketability, or DLOM.* At the time of above grants, we were a closely-held company and there was no public market for our equity securities. To determine the discount for lack of marketability, we and the independent appraisers used the Finnerty's average-strike put option model. Pursuant to that model, we used the cost of a put option, which can be used to hedge the price change before a privately held share can be sold, as the basis to determine the discount for lack of marketability. A put option was used because it incorporates certain company-specific factors, including timing of the expected initial public offering and the volatility of the share price of the guideline companies engaged in the same industry. Based on the analysis, DLOM of 16%, 13%, 11% and 11% were used for the valuation of our ordinary shares as of January 7, 2013, August 1, 2013, October 30, 2013 and November 30, 2013, respectively.

*Significant Factors Contributing to the Difference in Fair Value Determined*

The determined fair value of our ordinary shares increased from US\$0.91 per share as of December 16, 2012 to US\$1.20 per share as of August 1, 2013. We believe the increase in the fair value of our ordinary shares was primarily attributable to the following factors:

continued adoption and increased penetration of online leisure travel and the consistent strong growth seen in the overall industry;

improvement of our financial and operating performance in 2013 which was primarily attributable to increased economies of scale, greater bargaining power with travel suppliers, and hence improved gross margin in 2013; and

management's adjustment of our financial forecasts to reflect the anticipated higher revenue growth rate and long-term profitability in the future due to the abovementioned developments.

The determined fair value of our ordinary shares increased from US\$1.20 per share as of August 1, 2013 to US\$1.82 per share as of October 30, 2013 and further to US\$1.98 (RMB11.99) per share as of November 30, 2013. We believe the increase in the fair value of our ordinary shares was primarily attributable to the following factors:

the improvement of our financial and operating performance in 2013, which was primarily attributable to increased economies of scale, including greater pricing power with travel suppliers;

the issuance of Series D convertible preferred shares in August 2013, which provided us with additional capital for our business expansion;

management's adjustment of our financial forecast to reflect the anticipated higher revenue growth rate and better financial performance in the future due to the abovementioned developments; and

the commencement of our initial public offering preparation process in November 2013 and the completion of our initial public offering in 2014, resulting in a decrease in the expected time period leading to a liquidity event. As we progressed towards our initial public offering, the lead time to an expected liquidity event decreased, resulting in a decrease in the DLDM.

The determined fair value of our ordinary shares increased from US\$1.98 per share as of November 30, 2013 to US\$3.33 per share, the mid-point of the estimated price range identified on the front cover of our preliminary prospectus for our initial public offering dated April 28, 2014. We believe the increase in the fair value of our ordinary shares was primarily attributable to the following factors:

the improvement of our financial and operating performance in the first quarter of 2014, which was primarily attributable to increased economies of scale, including greater bargaining power with travel suppliers and increased customer base;

the short-term negative impact resulted from the promulgation of the Tourism Law in October 2013 has been fading, and we saw a steady and sustainable increase in the number of customers purchasing the more expensive organized tours in the first quarter of 2014, which resulted in higher average gross booking per trip; and we confidentially submitted the registration statement relating to our initial public offering to the SEC in the first quarter of 2014 and completed our initial public offering in May 2014, resulting in a decrease in the expected time period leading to a liquidity event. As we progressed towards our initial public offering, the lead time to an expected liquidity event decreased, resulting in a decrease in the DLDM.

## Recent Accounting Pronouncements

See Note 2(ae) to our consolidated financial statements included elsewhere in this annual report for discussion on recent issued accounting pronouncements.

## **B. Liquidity and Capital Resources**

Our primary sources of liquidity have been proceeds from operating activities, private issuances of ordinary and preferred shares, and our initial public offering.

Prior to the completion of our initial public offering in May 2014, we financed our operations primarily through cash generated from our operating activities, private issuances and sales of preferred shares. In May 2014, we completed our initial public offering in which we issued and sold 8,580,000 ADSs representing 25,740,000 Class A ordinary shares. Concurrently with our initial public offering, we issued and sold 5,000,000, 5,000,000 and 1,666,666 Class A ordinary shares to each of DCM Hybrid RMB Fund, L.P., Ctrip Investment Holding Ltd. and Qihoo 360 Technology Co. Ltd., respectively. As a result of our initial public offering and such concurrent private placements, we raised an aggregate of approximately US\$106.3 million (RMB659.5 million) in proceeds, net of underwriting commissions.

In December 2014 we entered into a share subscription agreement with Unicorn Riches Limited, JD.com E-commerce (Investment) Hong Kong Corporation Limited, Ctrip Investment Holding Ltd. and the respective personal holding companies of Tuniu's chief executive officer and chief operating officer, pursuant to which we sold a total of 36,812,868 newly issued class A ordinary shares. As a result of this sale, we raised an aggregate of approximately US\$148.0 million (RMB918.3 million) in proceeds.

In May 2015, we entered into share subscription agreements with each of Fabulous Jade Global Limited, a subsidiary of JD.com, Inc., Unicorn Riches Limited, a special purpose vehicle of Hony Capital, DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P., both affiliates of DCM V, L.P., Ctrip Investment Holding Ltd., a subsidiary of Ctrip.com International, Ltd., Esta Investments Pte Ltd, an affiliate of Temasek Holdings and Sequoia Capital 2010 CV Holdco, Ltd, an affiliate of Sequoia Capital, pursuant to which we sold a total of 93,750,000 newly issued Class A ordinary shares. As a result of this sale, we raised an aggregate of approximately US\$400.0 million in proceeds and JD.com, Inc.'s business resources.

In November 2015, we entered into a strategic partnership with HNA Tourism, as part of which an affiliate of HNA Tourism purchased 90,909,091 newly issued Class A ordinary shares from us for an aggregate of approximately

US\$500 million in January 2016.

Generally, our customers pay us upon contract confirmation, which is usually more than one month before the departure dates, and we pay the travel suppliers at a later date, such as at the end of each month. The timing difference between when the cash is collected from our customers and when payments are made to travel suppliers increases our operating cash inflow and provides us with a source of liquidity to fund our settlement of outstanding accounts payable to travel suppliers and our prepayment to travel suppliers to secure organized tours and self-guided tours during peak seasons.

Advances from customer increased from RMB1,138.0 million as of December 31, 2015 to RMB1,806.5 million as of December 31, 2016 which was primarily due to the increase in the sales of our travel products and services, and decreased to RMB1,210.6 million (US\$186.1 million) as of December 31, 2017 due to the change in customers' prepayment habits. In addition, primarily due to timing differences between when cash is collected from our customers and when payments are made to travel suppliers and the expansion of our business, accounts payable increased from RMB855.6 million as of December 31, 2015 to RMB1,022.7 million as of December 31, 2016. Account payable decreased from RMB1,022.7 million as of December 31, 2016 to RMB852.5 million (US\$131.0 million) as of December 31, 2017. Furthermore, prepayments and other current assets increased from RMB1,285.6 million as of December 31, 2015 to RMB1,632.3 million as of December 31, 2016 primarily due to the increase in our prepayment to travel suppliers as a result of our business expansion, and decreased to RMB939.5 million (US\$144.4 million) as of December 31, 2017. The decrease in the balance of advances from customer, accounts payable and prepayments and other current assets as of December 31, 2017 compared to the same as of December 31, 2016 was primarily due to the technology improvement which affect the payment habits of our customers and suppliers. Moreover, our sales and marketing expenses increased from RMB1,149.5 million in 2015 to RMB1,900.4 million in 2016 which was primarily attributable to advertisements for our mobile channels, expansion of our VIP customer service team, and amortization of acquired intangible assets from the previously announced transaction with JD.com, and decreased to RMB894.1 million (US\$137.4 million) in 2017 which was primarily due to the decline in brand promotions and preferences for marketing channels with higher ROI. As a result, our net cash used in operating activities was RMB514.7 million in 2015 and our net cash used in operating activities was RMB2,239.4 million and RMB418.6 million (US\$64.3 million) in 2016 and 2017, respectively.

Our principal uses of cash for the years ended December 31, 2015, 2016 and 2017 were for operating activities, primarily marketing and brand promotion expenses, salaries and other compensation expenses as well as office rental and professional service fees. Our cash and cash equivalents consist of cash on hand and cash in bank, including demand bank deposits. Our short-term investments comprise financial products issued by banks or other financial institutions. As of December 31, 2015, 2016 and 2017, we had RMB3,666.6 million, RMB4,813.3 million and RMB3,660.5 million (US\$562.6 million) in cash and cash equivalents, restricted cash and short-term investments, respectively. We did not have any short-term or long-term bank borrowings outstanding as of December 31, 2017.

In November 2014, we entered into framework cooperation agreements with four PRC-based banks under which the banks intend to make available loan facilities up to an aggregate of RMB4.0 billion with terms ranging from two to five years to us or our suppliers. The actual borrowings under the framework agreements are subject to execution of definitive agreements and final approvals by the respective banks. In the definitive financing agreements executed among banks, our suppliers and us pursuant to the framework agreements, we did not provide guarantee for our suppliers' borrowings nor bear the banks' credit risks.

We had net losses attributable to Tuniu Corporation of approximately RMB1,463,281, RMB2,407,194 and RMB767,304 (US\$117,934) for the years ended December 31, 2015, 2016 and 2017, respectively. Net cash used in operating activities was approximately RMB514,735 and RMB2,239,444 and RMB418,649 (US\$64,347) for the years ended December 31, 2015, 2016 and 2017, respectively. Accumulated deficit was RMB2,331,399, RMB4,738,593 and RMB5,505,897 (US\$846,241) as of December 31, 2015, 2016 and 2017, respectively. We believe that our current

cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for at least the next 12 months. We may require additional cash due to unanticipated business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or secure debt funding from financial institutions.

The following table sets forth a summary of our cash flows for the periods presented:

	For the Years Ended December 31,			US\$
	2015	2016	2017	
	RMB	RMB	RMB	
	(in thousands, except percentages)			
Net cash used in operating activities	(514,735 )	(2,239,444)	(418,649 )	(64,347 )
Net cash (used in)/ provided by investing activities	(1,915,168)	(2,514,247)	648,306	99,644
Net cash provided by/ (used in) financing activities	3,005,838	3,627,058	(784,766 )	(120,616)
Effect of exchange rate changes on cash and cash equivalents	67,560	110,652	(46,026 )	(7,074 )
Net increase/ (decrease) in cash and cash equivalents	643,495	(1,015,981)	(601,135 )	(92,393 )
Cash and cash equivalents at beginning of the period	1,457,722	2,101,217	1,085,236	166,798
Cash and cash equivalents at the end of the period	2,101,217	1,085,236	484,101	74,405



### *Operating Activities*

Our net cash used in operating activities was RMB418.6 million (US\$64.3 million) in 2017, primarily attributable to cash inflows from sales of our travel products and services of RMB21,593.0 million (US\$3,318.8 million) and cash inflows from other operating activities such as deposits, interest income and government subsidies of RMB165.4 million (US\$25.4million), that were offset by cash outflows due to payments to travel suppliers of RMB19,708.8 million (US\$3,029.2 million), payments relating to other operating activities, which include payments for marketing and promotional activities, office rental and utilities and professional services, of RMB1,101.4 million (US\$169.2 million), payments to employees and for employees' benefits of RMB1,329.6 million (US\$204.4 million) and payments of taxes and levies of RMB37.2 million (US\$5.7 million).

Our net cash used in operating activities was RMB2,239.4 million in 2016, primarily attributable to cash inflows from sales of our travel products and services of RMB20,276.5 million and cash inflows from other operating activities such as deposits, interest income and government subsidies of RMB105.1 million, that were offset by cash outflows due to payments to travel suppliers of RMB19,512.4 million, payments relating to other operating activities, which include payments for marketing and promotional activities, office rental and utilities and professional services, of RMB1,733.2 million, payments to employees and for employees' benefits of RMB1,337.2 million and payments of taxes and levies of RMB38.2 million.

Our net cash used in operating activities was RMB514.7 million in 2015, primarily attributable to cash inflows from sales of our travel products and services of RMB12,468.0 million and cash inflows from other operating activities such as deposits, interest income and government subsidies of RMB715.2 million, that were offset by cash outflows due to payments to travel suppliers of RMB11,948.4 million, payments relating to other operating activities, which include payments for marketing and promotional activities, office rental and utilities and professional services, of RMB1,022.4 million, payments to employees and for employees' benefits of RMB691.0 million and payments of taxes and levies of RMB36.1 million.

### *Investing Activities*

Our net cash provided by investing activities was RMB648.3 million (US\$99.6 million) in 2017, primarily attributable to the proceeds from the maturity of short-term investments of RMB3,271.9 million (US\$502.9 million), the proceeds from maturity of yield enhancement products of RMB435.0 million (US\$66.9 million), the decrease in our balance of restricted cash of RMB32.8 million (US\$5.0 million), partially offset by the purchase of short-term investments of RMB2,488.0 million (US\$382.4 million), the increase in loan receivable of RMB16.4 million (US\$2.5 million), the purchase of property and equipment and intangible assets of RMB160.5 million (US\$24.7 million), and the cash paid for long-term investment of RMB426.2 million (US\$65.5 million).

Our net cash used in investing activities was RMB2,514.2 million in 2016, primarily attributable to the purchase of short-term investments of RMB5,097.3 million, the purchase of financial products of RMB807.2 million, the business acquisition of RMB16.5 million, the purchase of property and equipment and intangible assets of RMB117.9 million, the cash paid for loans of RMB18.0 million and the cash paid for long-term investment of RMB57.5 million, partially offset by the proceeds from the maturity of short-term investments of RMB2,847.3 million, the proceeds from maturity of financial products of RMB538.5 million and the decrease in our balance of restricted cash of RMB214.4 million.

Our net cash used in investing activities was RMB1,915.2 million in 2015, primarily attributable to the purchase of short-term investments of RMB1,139.7 million, the purchase of financial products of RMB718.6 million, the payment for business acquisition of RMB60.1 million, the purchase of property and equipment and intangible assets of RMB155.5 million and the increase in our balance of restricted cash of RMB294.4 million, partially offset by the proceeds from the maturity of short-term investments of RMB442.1 million and the proceeds from maturity of financial products of RMB10.8 million.

### ***Financing Activities***

Our net cash used in financing activities in 2017 was RMB784.8 million (US\$120.6 million) primarily attributable to repayment of RMB682.8 million (US\$104.9 million) collected from the sales of yield-enhancement products to individual investors on our website, payment of share repurchase of RMB166.1 million (US\$25.5 million) and the deferred and contingent consideration paid for prior year business acquisitions of RMB6.8 million (US\$1.0 million), partially offset by RMB67.3million (US\$10.4 million) proceeds from employees exercising stock options and proceeds contribution from noncontrolling interests shareholders of 3.6 million (US\$0.6 million).

Our net cash provided by financing activities in 2016 was RMB3,627.1 million primarily attributable to the net proceeds from our private placement of RMB3,275.9 million (net of issuance cost of RMB3.4 million), funds of RMB274.7 million collected from the sales financial products to individual investors on our website, RMB8.5 million proceeds from employees exercising stock options and proceeds contribution from noncontrolling interests shareholders of RMB90 million, partially offset by payment of share repurchase of RMB19.7 million and the deferred and contingent consideration paid for prior year business acquisitions of RMB2.3 million.

Our net cash provided by financing activities in 2015 was RMB3,005.8 million net proceeds from our private placement of RMB2,430.2 million (net of issuance cost of RMB15.2 million), funds of RMB579.5 million collected from the purchases of financial products by individual investors on our website, RMB12.6 million proceeds from employees exercising stock options, partially offset by repayment of short-term borrowing of RMB15.0 million and the acquisition of the remaining non-controlling interest of a subsidiary of RMB1.5 million.

### **Capital Expenditures**

Cash outflow in connection with capital expenditures amounted to RMB155.5 million, RMB117.9 million and RMB160.5 million (US\$ 24.7 million) in 2015, 2016 and 2017, respectively. Our capital expenditures were primarily used to purchase equipment and intangible assets and prepayment for land use right for our business. As of December 31, 2017, capital commitments relating to leasehold improvement and installation of equipment were approximately RMB5.4 million (US\$0.8 million).

### **Holding Company Structure**

We are a holding company with no material operations of our own. We conduct our operations primarily through our wholly owned subsidiaries and consolidated affiliated entities in China. As a result, our ability to pay dividends to our shareholders depends upon dividends paid by our PRC subsidiaries. If our PRC subsidiaries or any newly formed PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our consolidated affiliated entities in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our subsidiaries and consolidated affiliated entities in China may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds at its discretion. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. As our PRC subsidiaries and consolidated affiliated entities have incurred losses, they have not started to contribute to the reserve funds and staff welfare and bonus funds. Our PRC subsidiaries have never paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

### **C. Research and Development**

We have built our technology infrastructure with high levels of performance, reliability, scalability and security. We rely on internally developed proprietary technologies and licensed technologies to manage and improve our website, mobile platform and management systems. We have a team of engineers dedicated to research and development in the areas of website operations, mobile platform, search engine, data analytics and supply chain management system.

Research and product development expenses primarily comprise salaries and other compensation expenses for our research and product development personnel as well as office rental, depreciation and other expenses related to our research and product development function. Research and product development expenses also include expenses that are incurred in connection with the planning and implementation phases of development and costs that are associated with the maintenance of our online platform or software for internal use. In 2015, 2016 and 2017 our research and product development expenses were RMB 298.2 million, RMB601.4 million and RMB541.1 (US\$83.2) million in 2015, 2016 and 2017, respectively. From 2015 to 2016, our research and product development expenses increased primarily due to investments for the implementation of additional product categories such as transportation ticketing, accommodation reservation and financial services, improvement of online technology, and the rise in technology and product development personnel related expenses. In 2017, our research and product development expenses decreased compare to 2016 primarily due to the increase in efficiency resulting from economies of scale and implementation of operation systems, and optimization of research and product development personnel. We expect no significant increase in research and product development expenses as the results of our continual research and product development efforts and increase in efficiency.

**D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2017 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

**E. Off-Balance Sheet Arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any off-balance sheet derivative instruments. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

**F. Contractual Obligations**

The following table sets forth our contractual obligations by specified categories as of December 31, 2017.

	Payment Due by Period				More Than 5 Years
	Total	Less Than 1 Year	1-3 Years	3-5 Years	
	(In RMB thousands)				
Operating Lease Obligations <sup>(1)</sup>	55,588	28,415	25,488	1,501	184
Purchase Obligations <sup>(2)</sup>	5,449	5,449	—	—	—
Total	61,037	33,864	25,488	1,501	184

(1) Operating lease obligations represent our obligations for the leased premises of our headquarter and offline retail stores.

(2) Purchase obligations consist primarily of contractual commitments in connection with leasehold improvements and the installation of equipment for our headquarter and offline retail stores.

Other than the contractual obligations set forth above, we do not have any contractual obligations that are long-term debt obligations, capital (finance) lease obligations, purchase obligations or other long-term liabilities reflected on our balance sheet.

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

The following table sets forth information regarding our executive officers and directors as of the date of this annual report:

<b>Directors and Executive Officers</b>	<b>Age</b>	<b>Position/Title</b>
Dunde Yu	37	Co-founder, chairman and chief executive officer
Haifeng Yan	36	Director
Tie Li	42	Director
Jie Zhu	37	Director
Cindy Chen	43	Director
Frank Lin	54	Director
Steve Yue Ji	46	Director
Tao Yang	42	Director
Onward Choi	48	Director
Jack Xu	51	Director
Shengli Hu	46	Director
Maria Yi Xin	33	Chief financial officer
Shihong Chen	35	Chief Technology Officer
Wei Zhang	52	Executive Vice President

*Mr. Dunde Yu* is our co-founder and has served as chairman of our board of directors and chief executive officer since our inception. Prior to founding our company, Mr. Yu was the chief technology officer of *ci123.com* in 2006, where he helped *ci123.com* become a leading Chinese childcare website. From 2004 to 2006, Mr. Yu served as the technical director of *Bokee.com*. Mr. Yu received a bachelor's degree in mathematics from Southeast University in China in 2003.

*Mr. Haifeng Yan* has served as our director since our inception. Mr. Yan is the founder and Chief Executive Officer of Black Fish Financial Group Limited. Mr. Yan co-founded Tuniu in 2006 and previously served as our Chief Operating Officer and President until November 2017. Prior to founding Tuniu, Mr. Yan was one of the founding members and Chief Operating Officer of *ci123.com*, a leading childcare website in China, from 2005 to 2006. Prior to that, Mr. Yan served as an analyst of iTech Holdings Limited in 2004.

*Mr. Tie Li* has served as our director since February 2016. Mr. Li currently serves as Chairman of China Civil Aviation Investment Group Limited. Mr. Li joined HNA Group in 2002 and has headed various business divisions of HNA Group since then, serving as financial director, president and vice chairman of HNA Aviation Group and chief investment officer and CEO of HNA Tourism Group, before being named Chairman of China Civil Aviation Investment Group Limited in December 2016. Mr. Li has extensive experience in the fields of investment, finance and legal matters in connection with the travel and tourism industry. Mr. Li holds a bachelor's degree from Anhui University.

*Mr. Jie Zhu* has served as our director since February 2016. Currently, Mr. Zhu serves as a member of the board of directors and chief innovation officer of HNA Tourism Group. Mr. Zhu also serves as the chairman of HNA Tourism Innovation Development Co., Ltd., and HNA Innovation Investment Co., Ltd. which are subsidiaries of HNA Tourism. After joining HNA Tourism Group in 2011, Mr. Zhu headed the investment and securities business divisions of HNA Tourism Group and its subsidiary Beijing Tourism Investment Fund. Mr. Zhu holds an MBA from Glendon-York University.

*Ms. Cindy Chen* has served as our director since May 2015. Ms. Chen is a managing director at Hony Capital specializing in the Internet, high-end manufacturing and new energy sectors. Ms. Chen has a deep understanding of the commercial environment and enterprise management in China. Prior to assuming her role at Hony Capital, Ms. Chen held key finance roles with the Lenovo Group. Ms. Chen holds a bachelor's degree in economics from Beijing Institute of Petrochemical Technology and an EMBA degree from China Europe International Business School.

*Mr. Frank Lin* has served as our director since December 2009. Mr. Lin is a general partner of DCM, a technology venture capital firm. Prior to joining DCM in 2006, Mr. Lin was chief operating officer of Sina Corporation, a Nasdaq-listed company. He co-founded *SINA's predecessor*, SinaNet, in 1995 and later guided SINA through its listing on Nasdaq. Mr. Lin had also held various marketing, engineering and managerial positions at Octel

Communication Inc. and NYNEX. Mr. Lin currently serves on the board of directors of various DCM portfolio companies, including Vipshop Holdings Limited, China Online Education Group (51 Talk.com), and 58.com Inc., which are NYSE-listed companies. Mr. Lin received an MBA degree from Stanford University and a bachelor's degree in engineering from Dartmouth College.



*Mr. Steve Yue Ji* has served as our director since March 2011. Mr. Ji is a partner of Sequoia Capital China. Prior to joining Sequoia Capital in 2005, Mr. Ji worked at Walden International, Vertex Management and CIV Venture Capital, where he contributed to investments in numerous wireless, Internet and semiconductor companies in China. Prior to that, Mr. Ji worked for Seagate Technology China, a Nasdaq-listed company, among the first group of its employees in 1995. Mr. Ji received a master's degree in business administration from China Europe International Business School in 1999 and a bachelor's degree in engineering from Nanjing University of Aeronautics and Astronautics in Nanjing, China in 1995.

*Mr. Tao Yang* has served as our director since May 2017. Mr. Tao Yang currently serves as Senior Vice President of Ctrip.com International, Ltd in charge of its Travel Business Unit. Mr. Yang has held a number of technical and managerial positions after joining in Ctrip.com in 2000. Mr. Yang received an EMBA degree from China Europe International Business School and a bachelor's degree in mechanical engineering from Shanghai Jiaotong University.

*Mr. Onward Choi* has served as our independent director since May 2014. Mr. Choi has been the acting chief financial officer of NetEase Inc., or NetEase, a Nasdaq-listed company, since July 2007. He previously served as NetEase's financial controller from January 2005 to June 2007 and as its corporate finance director from November 2003 to December 2004. Prior to joining NetEase, Mr. Choi worked in the Beijing office of Ernst & Young, the Hong Kong Trade Development Council and the Hong Kong office of KPMG for over ten years. Mr. Choi currently serves as the chairman of the audit committee and an independent non-executive director of Beijing Jingkelong Company Limited and China ITS (Holdings) Co., Ltd., both of which are listed on the Hong Kong Stock Exchange. Mr. Choi is a member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants and a registered practicing certified public accountant in Hong Kong. Mr. Choi received a bachelor's degree in accountancy with honors from the Hong Kong Polytechnic University.

*Mr. Jack Xu* has served as Tuniu's independent director since May 2014. Mr. Xu is the managing partner at Seven Seas Venture Partners. Mr. Xu served as President and Chief Technology Officer of Sina Corporation, a Nasdaq-listed company, from January 2013 to February 2015. Prior to joining Sina Corporation, Mr. Xu worked at Cisco as the Corporate Vice President of the Communications and Collaboration business unit. Previously, Mr. Xu served as Vice President of Engineering and Research at eBay from October 2002 to April 2008 and Chief Technology Officer at NetEase from May 2000 to July 2002. He led Excite's search engine development in 1996, while pursuing a Ph.D. at the University of California at Berkeley. Mr. Xu received a bachelor's degree and a master's degree in information management from Sun Yat-Sen University in China.

*Mr. Shengli Hu* has served as our director since May 2017. Mr. Hu is the Senior Vice President and President for Fashion & Lifestyle Business Unit of JD Group, responsible for the Fashion Division, Home & Lifestyles Division, TOPLIFE, and Second Hand Division of JD Group. Mr. Hu joined JD Group in January 2014, and became the President of 3C and Entertainment Business Unit in January 2016. Mr. Hu was appointed as the President for Fashion & Lifestyle Business Unit of JD Group on January 11, 2018. Mr. Hu received a master's degree in business

administration from Hunan University.

*Ms. Maria Yi Xin* has served as our chief financial officer since November 2017. Ms. Xin joined Tuniu in 2013 and has over 10 years of experience in corporate finance and capital markets with US-listed companies. While at Tuniu, Ms. Xin has held various key roles such as Vice President of investor relations, strategic investments and international media. Prior to joining Tuniu, Ms. Xin worked in equity research at China Renaissance, a leading financial institution in China. Prior to joining China Renaissance, Ms. Xin worked at E-Commerce China Dangdang Inc., a leading business-to-consumer e-commerce company in China, and at New Oriental Education and Technology Group Inc. (NYSE: EDU), the largest provider of private educational services in China. Ms. Xin received bachelor's degrees in economics and law from Nankai University.

*Mr. Shihong Chen* has served as our chief technology officer since January 2018. Mr. Chen is currently in charge of our research and development, website and mobile, and accommodation reservation. Mr. Chen joined us in 2011 and was previously the head of the transportation business unit. Prior to joining us, Mr. Chen was an engineering manager at Trend Micro, a leading provider in enterprise data and cyber security. Mr. Chen received a bachelor's degree in mechanical engineering from Southeast University in China in 2005.

*Mr. Wei Zhang* has served as our executive vice president since May 2017. Mr. Zhang joined us in May 2015 as a senior vice president. Prior to joining us, Mr. Zhang worked in Jiangsu Hiteker High-tech Co., Ltd. from 2000 to 2015 in various roles such as vice president and executive president. Mr. Zhang received a master's degree of business administration from a joint program between Renmin University of China and University of Wales in 2013.

## **B. Compensation**

For the fiscal year ended December 31, 2017, we paid an aggregate of approximately RMB4.6 million (US\$0.7 million) in cash to our executive officers and RMB0.7 million (US\$0.1 million) to our non-executive directors and officers. For share incentive grants to our directors and executive officers and the vesting conditions of such share incentive grants, see “—Share Incentive Plans.”

### **Share Incentive Plans**

#### ***2008 Incentive Compensation Plan***

We adopted an incentive compensation plan, or the 2008 Plan, in 2008. The purposes of the 2008 Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees and consultants, and to promote the success of our business by offering these individuals an opportunity to acquire a proprietary interest in our company. In 2012, we increased the maximum aggregate number of shares which may be issued under the 2008 Plan from 11,500,000 to 18,375,140. As of March 31, 2018, options to purchase 4,041,659 ordinary shares were outstanding, and there were 963,684 ordinary shares available for future issuance upon the exercise of future grants under the 2008 Plan.

The following paragraphs summarize the terms of the 2008 Plan.

***Types of Awards.*** The 2008 Plan permits the awards of options and restricted shares.

***Plan Administration.*** Our board of directors or a committee appointed by our board will administer the 2008 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant, among other things. Our board of directors may authorize one or more officers of us to grant awards under the 2008 Plan, subject to parameters specified by the board of directors.

***Award Agreement.*** Awards granted under the 2008 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee’s employment or service terminates, and our authority to unilaterally or bilaterally amend,

modify, suspend, cancel or rescind the award, among other things. Pursuant to the form award agreement under the 2008 Plan, 1/4 of the ordinary shares underlying the option shall vest on the first anniversary of the date of grant, and 1/48 of the remaining ordinary shares underlying the option shall vest on a monthly basis in the following three years. However, the option may be exercised, to the extent vested, only (a) in connection with or after certain triggering events if the option is assumed by a company whose shares are listed on a securities exchange, or (b) unless otherwise allowed by the plan administrator in its sole discretion, if the option holder obtains all the necessary governmental approvals and consents required for the issuance of such shares.

**Eligibility.** We may grant awards to our employees and consultants of our company. However, we may grant options that are intended to qualify as incentive options only to our employees.

**Vesting Schedule.** In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

**Exercise of Options.** The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is the tenth anniversary after the date of a grant.

**Transfer Restrictions.** Options may not be transferred in any manner by the recipient other than by will or by the laws of descent or distribution, except as otherwise provided by the plan administrator.

**Termination of the 2008 Plan.** Unless terminated earlier, the 2008 Plan will terminate automatically in 2018. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval if required by applicable law.

### **2014 Share Incentive Plan**

We adopted the 2014 Share Incentive Plan, or the 2014 Plan, in 2014. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan is initially 5,500,000 ordinary shares as of the date of its approval. The number of shares reserved for future issuances under the 2014 Plan will be increased automatically if and whenever the ordinary shares reserved under the 2014 Plan account for less than 1% of the total then-issued and outstanding ordinary shares on an as-converted basis. The ordinary shares reserved under the 2014 Plan immediately after each such increase shall equal to 5% of the then-issued and outstanding ordinary shares on an as-converted basis. As of March 31, 2018, there were options to purchase 12,854,567 ordinary shares and 81,946 restricted shares outstanding under the 2014 Plan.

The following paragraphs summarize the terms of the 2014 Plan.

**Types of Awards.** The 2014 Plan permits the awards of options, restricted shares and restricted share units.

**Plan Administration.** Our board of directors or a committee designated by our board administers the 2014 Plan. The committee or the full board of directors, as applicable, determines the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

**Award Agreement.** Awards granted under the 2014 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

**Eligibility.** We may grant awards to our employees, directors and consultants of our company. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of our

parent companies and subsidiaries.

***Acceleration of Awards upon Change in Control.*** If a change in control of our company occurs, the plan administrator may, in its sole discretion, provide for (i) all awards outstanding to terminate at a specific time in the future and give each participant the right to exercise the vested portion of such awards during a specific period of time, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion, or (iv) payment of award in cash based on the value of ordinary shares on the date of the change-in-control transaction plus reasonable interest.

***Vesting Schedule.*** In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

***Exercise of Options.*** The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is the tenth anniversary after the date of a grant.

***Transfer Restrictions.*** Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

***Termination of the 2014 Plan.*** Unless terminated earlier, the 2014 Plan will terminate automatically in 2024. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval or home country practice.

The following table summarizes, as of March 31, 2018, the outstanding options and restricted shares granted to our directors and executive officers under the 2008 Plan and 2014 Plan.

Name	Ordinary Shares Underlying Options Awarded/ Restricted Shares	Exercise Price		Date of Grant	Vesting Schedule	Date of Expiration
		(US\$/ Share)	(RMB/ Share) <sup>(3)</sup>			
Dunde Yu	630,814	0.100	0.651	November 5, 2009	4 years <sup>(1)</sup>	November 4, 2019
	1,100,000	0.226	1.470	March 11, 2011	4 years <sup>(1)</sup>	March 10, 2017
	1,269,995	0.0001	0.001	August 1, 2013	4 years <sup>(1)</sup>	July 31, 2019
	900,000	3.000	19.519	June 13, 2014	4 years <sup>(1)</sup>	June 12, 2024
	760,000	3.090	21.104	March 6, 2015	4 years <sup>(1)</sup>	March 5, 2025
	1,981,000	3.090	21.104	August 20, 2015	4 years <sup>(1)</sup>	August 19, 2025
	1,420,000	2.683	17.456	December 2, 2016	4 years <sup>(1)</sup>	December 1, 2026
	25,902	0.0001	0.001	January 1, 2017	1 years <sup>(2)</sup>	December 31, 2026
Maria Yi Xin	*	2.000	13.013	November 30, 2013	4 years <sup>(1)</sup>	November 29, 2026
	*	0.0001	0.001	August 15, 2014	4 years <sup>(1)</sup>	August 14, 2024
	*	0.0001	0.001	March 6, 2015	4 years <sup>(1)</sup>	March 5, 2025
	*	0.0001	0.001	August 20, 2015	4 years <sup>(1)</sup>	August 19, 2025
	*	2.683	17.456	December 2, 2016	4 years <sup>(1)</sup>	December 1, 2026
	*	0.0001	0.001	January 1, 2017	1 years <sup>(2)</sup>	December 31, 2026
Shihong Chen	*	0.226	1.470	July 6, 2011	4 years <sup>(1)</sup>	July 5, 2021
	*	1.135	7.385	March 19, 2012	4 years <sup>(1)</sup>	March 18, 2022
	*	1.790	11.646	August 15, 2013	4 years <sup>(1)</sup>	August 14, 2019
	*	0.0001	0.001	August 15, 2014	4 years <sup>(1)</sup>	August 14, 2024
	*	3.000	19.519	August 15, 2014	4 years <sup>(1)</sup>	August 14, 2024
	*	0.0001	0.001	March 6, 2015	4 years <sup>(1)</sup>	March 5, 2025
	*	3.090	20.104	March 6, 2015	4 years <sup>(1)</sup>	March 5, 2025
	*	0.0001	0.001	August 20, 2015	4 years <sup>(1)</sup>	August 19, 2025
	*	3.090	20.104	August 20, 2015	4 years <sup>(1)</sup>	August 19, 2025
	*	2.683	17.456	December 2, 2016	4 years <sup>(1)</sup>	December 1, 2026
	*	0.0001	0.001	January 1, 2017	1 years <sup>(2)</sup>	December 31, 2026
	Wei Zhang	*	3.090	21.104	August 20, 2015	4 years <sup>(1)</sup>
*		0.0001	0.001	August 20, 2015	4 years <sup>(1)</sup>	August 19, 2025
*		2.683	17.456	December 2, 2016	4 years <sup>(1)</sup>	December 1, 2026
*		0.0001	0.001	January 1, 2017	1 years <sup>(2)</sup>	December 31, 2026
Jack Xu	*†	N/A		May 9, 2014	4 years <sup>(1)</sup>	May 8, 2024
Onward Choi	*†	N/A		May 9, 2014	4 years <sup>(1)</sup>	May 8, 2024
Directors and officers as a group	9,066,745	—	—	—	—	—

Explanation of Responses:

\*Shares underlying vested options less than 1% of our total outstanding shares.

Denotes restricted share award; all other awards in this table are option awards.

Pursuant to the relevant award agreement, 1/4 of the ordinary shares underlying the option or restricted shares shall vest on the first anniversary of the date of grant, and 1/48 of the remaining ordinary shares underlying the option or restricted shares shall vest on a monthly basis in the following three years. However, the option or restricted shares (1) may be exercised, to the extent vested, only (a) in connection with or after certain triggering events if the option is assumed by a company whose shares are listed on a securities exchange, or (b) unless otherwise allowed by the plan administrator in its sole discretion, if the option holder or holder of restricted shares obtains all the necessary governmental approvals and consents required for the issuance of such shares.



Pursuant to the relevant award agreement, 1/12 of the ordinary shares underlying the option shall vest on a monthly basis in the year 2017. However, the option may be exercised, to the extent vested, only (a) in connection with or (2) after certain triggering events if the option is assumed by a company whose shares are listed on a securities exchange, or (b) unless otherwise allowed by the plan administrator in its sole discretion, if the option holder obtains all the necessary governmental approvals and consents required for the issuance of such shares.

(3) The prices in Renminbi were translated using the rate of US\$1.00 = RMB6.5063, the exchange rate in effect as of December 29, 2017, solely for the convenience of the readers.

### **C. Board Practices**

#### **Board of Directors**

Our board of directors currently consists of eleven directors. A director is not required to hold any shares in our company. A director may vote with respect to any contract, proposed contract, or arrangement in which he or she is interested provided (a) such director has declared the nature of his or her interest, whether material or not, at the earliest meeting of the board at which it is practicable to do so, either specifically or by way of a general notice, (b) such director has not been disqualified by the chairman of the relevant board meeting, and (c) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee in accordance with the Nasdaq rules. The directors may exercise all the powers of the company to borrow money, mortgage its business, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party.

#### **Committees of the Board of Directors**

We have three committees of the board of directors: the audit committee, the compensation committee and the nominating and corporate governance committee under the board of directors. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

***Audit Committee.*** Our audit committee consists of Mr. Onward Choi, Mr. Jack Xu and Ms. Cindy Chen and is chaired by Mr. Choi. Each of Mr. Choi, Mr. Xu and Ms. Chen satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules and meet the independence standards under Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Our board of directors has determined that each of Mr. Choi and Mr. Xu qualifies as an "audit committee financial expert" within the meaning of Item 407(d) of Regulation S-K under the Securities Act of 1933, as amended. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

· selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;

· reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;

· reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;

· discussing the annual audited financial statements with management and the independent registered public accounting firm;

· reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;

· reviewing and reassessing annually the adequacy of our audit committee charter;

· meeting separately and periodically with management and the independent registered public accounting firm; and

· monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

**Compensation Committee.** Our compensation committee consists of Mr. Onward Choi, Mr. Shengli Hu and Mr. Jack Xu, and is chaired by Mr. Choi. Each of Mr. Choi, Mr. Hu and Mr. Xu, satisfies the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated upon. The compensation committee is responsible for, among other things:

· reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;

· reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;

· reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and

· selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

**Nominating and Corporate Governance Committee.** Our nominating and corporate governance committee consists of Mr. Jack Xu, Mr. Onward Choi and Mr. Frank Lin, and is chaired by Mr. Xu. Each of Mr. Xu, Mr. Choi and Mr. Lin satisfies the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. The nominating and corporate governance committee assists the board in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

· recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;

· reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;

· selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as of the nominating and corporate governance committee itself;

· developing and reviewing the corporate governance principles adopted by the board and advising the board with respect to significant developments in the law and practice of corporate governance and our compliance with such laws and practices; and

· evaluating the performance and effectiveness of the board as a whole.

### **Terms of Directors and Executive Officers**

All directors hold office until they are removed by ordinary resolution of the shareholders or become disqualified from being a director in accordance with the terms of our articles of association. In addition, the service agreements between us, our subsidiaries, if applicable, and the directors do not provide benefits upon termination of their service. Director nominations by the board of directors are subject to the approval of our corporate governance and nominating committee. Our shareholders may remove any director by ordinary resolution and may in like manner appoint another person in his stead. A valid ordinary resolution requires a majority of the votes cast at a shareholder meeting that is duly constituted and meets the quorum requirement. Officers are elected by and serve at the discretion of the board of directors. For the periods of service of our directors as of December 31, 2017, see “—A. Directors and Senior Management.”

## Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder may have the right to seek damages in our name if a duty owed by our directors is breached. You should refer to “Item 10.B. Additional Information—Memorandum and Articles of Association—Differences in Corporate Law—Directors’ Fiduciary Duties.”

## D. Employees

We had a total of 7,028, 8,277, and 6,841 employees as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the numbers of our employees, categorized by function, as of December 31, 2017:

Function	Number of Employees
Management and administration	894
Customer service center	2,250
Sales and marketing	638
Research and product development	1,766
Offline retail stores	1,293
Total	6,841

We enter into standard employment agreements with all our employees. We also enter into confidentiality agreements with certain directors and executive officers that impose confidentiality obligations until the relevant information becomes public or is no longer considered confidential by us. In addition to salaries and benefits, we provide stock-based compensation and performance-based bonuses for our employees and commission-based compensation for our sales personnel.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including pension insurance, medical insurance, unemployment insurance, maternity insurance, job-related injury insurance and a housing provident fund. We are required by PRC laws to make contributions to employee social security plans at specified percentages of the salaries, bonuses and certain allowances of our employees.

Our success depends on our ability to attract, retain and motivate qualified personnel. We believe that we maintain a good working relationship with our employees, and we have not experienced any significant labor disputes.

### **E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership of our shares as of March 31, 2018 by:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5% of our shares.

See “—B. Compensation—Share Incentive Plans” for more details on options and restricted shares granted to our directors and executive officers.

The calculations in the table below are based on (i) 389,123,410 ordinary shares outstanding as of March 31, 2018, including 17,373,500 Class B ordinary shares outstanding and 371,749,910 Class A ordinary shares outstanding (excluding 208,134 Class A ordinary shares, represented by 69,378 American depositary shares, issued and reserved for the future exercise of options or the vesting of other awards under the 2008 Plan and the 2014 Plan).

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	%†	Voting Power††
Directors and Executive Officers:*					
Dunde Yu <sup>(1)</sup>	10,469,843	10,423,503	20,893,346	5.3	20.8
Haifeng Yan <sup>(2)</sup>	8,965,580	6,949,997	15,915,577	4.1	14.4
Tie Li <sup>(3)</sup>	100,786,465	—	100,786,465	25.9	18.5
Jie Zhu <sup>(4)</sup>	100,786,465	—	100,786,465	25.9	18.5
Shengli Hu <sup>(5)</sup>	78,061,780	—	78,061,780	20.1	14.3
Cindy Chen <sup>(6)</sup>	27,436,780	—	27,436,780	7.1	5.0
Frank Lin <sup>(7)</sup>	34,829,512	—	34,829,512	9.0	6.4
Steve Yue Ji <sup>(8)</sup>	16,198,364	—	16,198,364	4.2	3.0
Tao Yang <sup>(9)</sup>	12,481,034	—	12,481,034	3.2	2.3
Onward Choi <sup>(10)</sup>	**	—	**	**	**
Jack Xu <sup>(11)</sup>	**	—	**	**	**
Maria Yi Xin	**	—	**	**	**
Wei Zhang	**	—	**	**	**
Shihong Chen	**	—	**	**	**
All directors and executive officers as a group	290,046,939	17,373,500	307,420,439	77.6	83.9
Principal Shareholders:					
BHR Winwood Investment Management Limited <sup>(12)</sup>	100,786,465	—	100,786,465	25.9	18.5
Affiliates of JD.com, Inc. <sup>(13)</sup>	78,061,780	—	78,061,780	20.1	14.3
DCM V, L.P. and Affiliates <sup>(14)</sup>	34,829,512	—	34,829,512	9.0	6.4
Unicorn Riches Limited <sup>(15)</sup>	27,436,780	—	27,436,780	7.1	5.0
Dragon Rabbit Capital Limited <sup>(16)</sup>	4,104,137	10,423,503	14,527,640	3.7	19.9
Verne Capital Limited <sup>(17)</sup>	4,104,137	6,949,997	11,054,134	2.8	13.5

Except for Haifeng Yan, Tie Li, Jie Zhu, Shengli Hu, Cindy Chen, Frank Lin, Steve Yue Ji, Tao Yang, Onward Choi \*and Jack Xu, the business address of our directors and executive officers is Tuniu Building, No. 699-32, Xuanwudadao, Xuanwu District, Nanjing, Jiangsu Province 210042, PRC.

\*\* Shares underlying vested options of less than 1% of our total outstanding shares on an as-converted basis.

†

Explanation of Responses:

## Edgar Filing: Horn Patricia D - Form 4

For each person and group included in this column, percentage ownership is calculated by dividing the number of ordinary shares beneficially owned by such person or group by the sum of the total number of ordinary shares outstanding as of March 31, 2018, which is 389,123,410 ordinary shares outstanding, including 17,373,500 Class B ordinary shares outstanding and 371,749,910 Class A ordinary shares (excluding 208,134 Class A ordinary shares, represented by 69,378 American depositary shares, issued and reserved for the future exercise of options or the vesting of other awards under the 2008 Plan and the 2014 Plan), plus the number of ordinary shares such person or group has the right to acquire, including upon exercise of options and vesting of restricted shares and restricted share units, within 60 days after March 31, 2018.

For each person and group included in this column, percentage ownership percentage of total voting power represents voting power based on both Class A and Class B ordinary shares held by such person or group, and the ordinary shares such person or group has the right to acquire upon exercise of the stock options or warrants within 60 days after March 31, 2018, with respect to all outstanding shares of our Class A and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per Class A ordinary share. Each holder of our Class B ordinary shares is entitled to ten votes per Class B ordinary share. Our Class B ordinary shares are convertible at any time by the holder into Class A ordinary shares on a share-for-share basis.



Represents (i) 6,365,706 Class A ordinary shares underlying the options or restricted shares that have become fully vested as of March 31, 2018 or will become fully vested within 60 days after March 31, 2018, and (ii) 4,104,137 (1) Class A ordinary shares and 10,423,503 Class B ordinary shares held by Dragon Rabbit Capital Limited, a British Virgin Islands company. Dragon Rabbit Capital Limited is wholly owned by Longtu Holdings Limited, a British Virgin Islands company which is wholly owned by a trust, of which Mr. Yu's family is the beneficiary.

Represents 8,965,580 Class A ordinary shares and 6,949,997 Class B ordinary shares held by Verne Capital Limited, a British Virgin Islands company. Verne Capital Limited is wholly owned by Magic Worldwide Limited, a British Virgin Islands company which is wholly owned by a trust, of which Mr. Yan's family is the beneficiary. (2) On August 24, 2017, Magic Worldwide Limited have entered into a STOCK PURCHASE AGREEMENT with a third party, pursuant to which, such third party will purchase 100% stock interests of Verne Capital Limited from Magic Worldwide Limited. The transaction has not been closed as of the date of this annual report. The business address of Mr. Yan is No. 39, High-tech 6th Road, Binhai High-tech Industrial Park, Binhai High-Tech District, Tianjin, PRC.

Represents 100,786,465 Class A ordinary shares held by BHR Winwood Investment Management Limited and (3) Hong Kong Praise Tourism Investment Limited. The business address of Mr. Li is 20F, Tower A, Hainan Airlines Plaza, B-2, East 3<sup>rd</sup> Ring North Road, Chaoyang District, Beijing, PRC.

Represents 100,786,465 Class A ordinary shares held by BHR Winwood Investment Management Limited and (4) Hong Kong Praise Tourism Investment Limited. The business address of Mr. Zhu is 20F, Tower A, Hainan Airlines Plaza, B-2, East 3<sup>rd</sup> Ring North Road, Chaoyang District, Beijing, PRC.

Represents (i) 65,625,000 Class A ordinary shares held by Fabulous Jade Global Limited and (ii) 12,436,780 Class (5) A ordinary shares held by JD.com E-Commerce (Investment) Hong Kong Corporation Limited. The business address of Mr. Shen is 15F, Building C, No. 18 Kechuang 11 Street, BDA, Beijing, PRC

(6) Represents 27,436,780 Class A ordinary shares held by Unicorn Riches Limited. The business address of Ms. Chen is 6F, South Tower C, Raycom Info Tech Park, No. 2 Kexueyuan Nanlu, Haidian District, Beijing, 100190, PRC.

Represents (i) 22,881,096 Class A ordinary shares held by DCM V, L.P., (ii) 558,324 Class A ordinary shares held by DCM Affiliates Fund V, L.P., (iii) 7,640,092 Class A ordinary shares held by DCM Hybrid RMB Fund, L.P., (7) (iv) 3,541,670 Class A ordinary shares held by DCM Ventures China Turbo Fund, L.P., and (v) 208,330 Class A ordinary shares held by DCM Ventures China Turbo Affiliates Fund, L.P. The business address of Mr. Lin is Unit 1, Level 10, Tower W2, Oriental Plaza, Dong Cheng District, Beijing, PRC.

(8) Represents 16,198,364 Class A ordinary shares held by Sequoia Capital 2010 CV Holdco, Ltd. The business address of Mr. Ji is 2805, Plaza 66 Tower 2, 1366 Nanjing West Road, Shanghai, PRC.

- (9) Represents 12,481,034 Class A ordinary shares held by Ctrip Investment Holding Ltd. The business address of Mr. Liang is Building 16, Sky SOHO, No. 968 Jinzhong Road, Shanghai, PRC.
- (10) The business address of Mr. Choi is Building No. 7, West Zone, Zhongguancun Software Park (Phase II), No. 10 Xibeiwang East Road, Haidian District, Beijing 100193, PRC.
- (11) The business address of Mr. Xu is 3000 Sand Hill Road, Building 4, Suite 100; Menlo Park, CA 94025.

- Represents (i) 90,909,091 class A ordinary shares held by BHR Winwood Investment Management Limited and (ii) 9,877,374 class A ordinary shares held by Hong Kong Praise Tourism Investment Limited (HK Praise Tourism) . BHR Winwood Investment Management Limited is a company incorporated in Hong Kong and wholly owned by an affiliated fund of HNA Tourism. The business address of BHR Winwood Investment Management Limited is Unit 3101, 31/F, tower 2, China Central Place, 79 Jianguo Road, Chaoyang District, Beijing 100025, PRC. HK Praise Tourism is a company organized under the laws of Hong Kong, and is a nominee of Beijing Capital Airlines Co. Limited, a controlled subsidiary of HNA Tourism. The business address of HK Praise Tourism is Unit 402, 4th Floor, Fairmont House No. 8 Cotton Tree Drive, Admiralty, Hong Kong.
- (12)

- Represents (i) 65,625,000 Class A ordinary shares held by Fabulous Jade Global Limited, and (ii) 12,436,780 Class A ordinary shares held by JD.com E-commerce (Investment) Hong Kong Corporation Limited. The business address of Fabulous Jade Global Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. Fabulous Jade is a wholly-owned subsidiary of JD.com Investment Limited, which in turn is a wholly-owned subsidiary of JD.com, Inc., a Nasdaq listed company. The business address of JD.com E-Commerce (Investment) Hong Kong Corporation Limited is Suite 1203, 12th Floor, Ruttonjee House, 11 Duddell Street Central, Hong Kong. JD.com E-Commerce (Investment) Hong Kong Corporation Limited is a wholly-owned subsidiary of JD.com E-Commerce (Technology) Hong Kong Corporation Limited, which in turn is a wholly-owned subsidiary of JD.com, Inc. We refer to Fabulous Jade Global Limited and JD.com E-Commerce (Investment) Hong Kong Corporation Limited as “Affiliates of JD.com, Inc.”
- (13)

Represents (i) 22,881,096 Class A ordinary shares held by DCM V, L.P., (ii) 558,324 Class A ordinary shares held by DCM Affiliates Fund V, L.P., (iii) 7,640,092 Class A ordinary shares held by DCM Hybrid RMB Fund, L.P., (iv) 3,541,670 Class A ordinary shares held by DCM Ventures China Turbo Fund, L.P., and (v) 208,330 Class A ordinary shares held by DCM Ventures China Turbo Affiliates Fund, L.P. The general partner of DCM V, L.P. and DCM Affiliates Fund V, L.P. is DCM Investment Management V, L.P., whose general partner is DCM International V, Ltd. DCM International V, Ltd., through DCM Investment Management V, L.P., has the sole voting and investment power over these shares, and such voting and investment power is exercised by K. David Chao, Thomas Blaisdell and Peter W. Moran, the directors of DCM International V, Ltd. The general partner of DCM Hybrid RMB Fund, L.P. is DCM Hybrid RMB Fund Investment Management, L.P., whose general partner is DCM Hybrid RMB Fund International Ltd. DCM Hybrid RMB Fund International Ltd., (14) through DCM Hybrid RMB Fund Investment Management, L.P., has the sole voting and investment power over these shares, and such voting and investment power is exercised by K. David Chao, Thomas Blaisdell, Jason Krikorian, and Peter W. Moran, the directors of DCM Hybrid RMB Fund International Ltd. The general partner of DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P. is DCM Turbo Fund Investment Management, L.P., whose general partner is DCM Turbo Fund International, Ltd. DCM Turbo Fund International, Ltd., through DCM Turbo Fund Investment Management, L.P., has the sole voting and investment power over these shares, and such voting and investment power is exercised by K. David Chao and Jason Krikorian, the directors of DCM Turbo Fund International, Ltd. The business address of DCM V, L.P., DCM Affiliates Fund V, L.P., DCM Hybrid RMB Fund, L.P., DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P. is 2420 Sand Hill Road, Suite 200, Menlo Park, CA 94025, the United States.

The business address of Unicorn Riches Limited is c/o Hony Capital Limited, Suite 2701, One Exchange Square, Central, Hong Kong. Unicorn Riches Limited is a wholly-owned subsidiary of Hony Capital Fund V, L.P. Hony (15) Capital Fund V, L.P.'s general partner is Hony Capital Fund V GP, L.P. Hony Capital Fund V GP, L.P.'s general partner is Hony Capital Fund V GP Limited. John Huan Zhao and Legend Holdings Corporation, have 80% and 20%, respectively, equity ownership of Hony Capital Fund V GP Limited.

Dragon Rabbit Capital Limited is wholly owned by Longtu Holdings Limited is a British Virgin Islands company (16) which is wholly owned by a trust, of which Mr. Yu's family is the beneficiary. The business address of Dragon Rabbit Capital Limited is Quastisky Building, P.O. Box 4389, Road Town, Tortola, British Virgin Islands.

Verne Capital Limited is a British Virgin Islands company. Verne Capital Limited is wholly owned by Magic Worldwide Limited, a British Virgin Islands company which is wholly owned by a trust, of which Mr. Yan's family is the beneficiary. The business address of Verne Capital Limited is Quastisky Building, P.O. Box 4389, (17) Road Town, Tortola, British Virgin Islands. On August 24, 2017, Magic Worldwide Limited have entered into a STOCK PURCHASE AGREEMENT with a third party, pursuant to which, such third party will purchase 100% stock interests of Verne Capital Limited from Magic Worldwide Limited. The transaction has not been closed as of the date of this annual report.

To our knowledge, as of March 31, 2018, 130,814,493 of our outstanding ordinary shares are held by five record holders in the United States. The total number of shares held by the five record holders in the United States represents 33.62% of our total outstanding shares. This includes 103,625,073 ordinary shares (excluding 208,134 Class A

ordinary shares, represented by 69,378 American depositary shares, issued and reserved for the future exercise of options or the vesting of other awards under the 2008 Plan and the 2014 Plan) held of record by JPMorgan Chase Bank, N.A., the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

Please refer to “Item 6.E Directors, Senior Management and Employees—Share Ownership.”

## **B. Related Party Transactions**

### **Contractual Arrangements**

For a description of the contractual arrangements among Beijing Tuniu, Nanjing Tuniu and the shareholders of Nanjing Tuniu, see “Item 4.C. Information on the Company—Organizational Structure.” See also “Item 3.D. Key Information—Risk Factors—Risks Related to Our Corporate Structure.”

### **Private Placements, Repurchase and Redesignation**

See “Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

### **Relationship with Ctrip**

Ctrip purchased 5,000,000 Class A ordinary shares in a private placement concurrent with our initial public offering, an additional 3,731,034 Class A ordinary shares for a total of US\$15,000,000 through a private placement transaction in December 2014 as well as an additional 3,750,000 Class A ordinary shares for a total of US\$20,000,000 through a private placement transaction in May 2015. We conduct transactions in the ordinary course of business with Ctrip on the terms of arm-length transactions. We sell our packaged tours through Ctrip’s online platform and the commission fees to Ctrip were immaterial. Revenue from Ctrip consist of, commission fees for selling the hotel rooms and air tickets products through our online platform and packaged tours sold to Ctrip, amounted of RMB 3.5 million, RMB54.8 million and RMB61.5 million (US\$9.5 million) for the years ended December 31, 2015, 2016 and 2017, respectively.

### **Relationship with JD.com, Inc.**

On May 8, 2015, we issued 65,625,000 Class A ordinary shares to Fabulous Jade Global Limited, a subsidiary of JD.com, Inc., for a consideration of RMB1,528.2 million in cash and RMB660.2 million in the business resource contributed by JD.com, Inc., which included the exclusive right to operate the leisure travel channel for both JD.com, Inc.’s website and mobile application, preferred partnership with JD.com, Inc. for hotel and air ticket reservation service, its internet traffic support and marketing support for the leisure travel channel for a period of five years starting from August 2015.

### **Relationship with HNA Tourism Group**

In November 2015, we entered into a strategic partnership with HNA Tourism through a share subscription agreement, pursuant to which (i) HNA Tourism invested US\$500 million in our company in January 2016 through the acquisition of 90,909,091 newly issued Class A ordinary shares of our company by one of its affiliates, and (ii) HNA Tourism agreed to provide us with access to its premium airlines and hotels resources at a preferential rate, in compliance with applicable fair competition market rules, and we undertook to acquire no less than US\$100 million products and services sourced from HNA Tourism until June 30, 2018. The transaction contemplated by the share subscription agreement was completed on in January 2016. In connection with the strategic partnership with HNA Tourism, we entered into an investor rights agreement with HNA Tourism in November 2015, which was subsequently amended in December 2015 and February 2016, to govern certain rights and obligations of us and HNA Tourism. We have purchased RMB250.5 million and RMB394.7 million (US\$60.7 million) air tickets from HNA Tourism for the years ended December 31, 2016 and 2017, respectively.

### **Relationship with Black Fish Financial Group Limited**

Haifeng Yan, our director, founded Black Fish Financial Group Limited (“Black Fish”). In 2017, we disposed several subsidiaries to Black Fish with nominal consideration. As of the disposal date, these subsidiaries were in deficit positions and disposal gain was insignificant in our consolidated statement of comprehensive income.

In 2017, Black Fish entered into cooperation agreements with us for provision of services in relation to our online lending services. The amount of service fees charged by Black Fish was RMB155.9 million (US\$24.0 million) for the year ended December 31, 2017. Black Fish also purchased loan receivable assets related to the lending business from us at the consideration of RMB140.0 million as we terminated these cooperation agreements and stopped granting loans to individuals in 2017.

### **Employment Agreements and Indemnification Agreements**

See “Item 6.B. Directors, Senior Management and Employees—Compensation.”

### **Share Incentive Plans**

See “Item 6.B. Directors, Senior Management and Employees—Compensation.”

Explanation of Responses:

**C. Interests of Experts and Counsel**

Not applicable.

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## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See “Item 18. Financial Statements.”

### **Legal Proceedings**

From time to time, we may be involved in legal proceedings in the ordinary course of our business. We are not currently a party to any material legal or administrative proceedings.

### **Dividend Policy**

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12.D. Description of Securities Other than Equity Securities—American Depositary Shares.” Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

We have not previously declared or paid cash dividends and we have no plan to declare or pay any dividends in the near future on our shares or ADSs. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely principally on dividends from our PRC subsidiaries for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4.B. Information on the Company—Business Overview—PRC Regulation—Regulations on Dividend Distribution” and “Item 12.D. Description of Securities Other than Equity Securities— American Depositary Shares.” Cash dividends on our common shares, if any, will be paid in U.S. dollars.



**B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Item 9. The Offer and Listing****A. Offering and Listing Details**

Our ADSs, each representing three of our Class A ordinary shares, have been listed on Nasdaq since May 9, 2014. Our ADSs trade under the symbol “TOUR.” The following table provides the high and low closing trading prices for our ADSs on Nasdaq since the date of our initial public offering:

	Trading Price Per ADS in US\$	
	High	Low
Annual Highs and Lows		
2014 (since May 9, 2014)	24.00	10.07
2015	20.74	11.40
2016	16.00	7.80
2017	9.47	6.83
Quarterly Highs and Lows		
First Quarter 2016	16.00	8.99
Second Quarter 2016	12.10	7.80
Third Quarter 2016	10.62	8.38
Fourth Quarter 2016	10.31	8.05
First Quarter 2017	9.40	7.79
Second Quarter 2017	8.69	8.00
Third Quarter 2017	8.16	6.83
Fourth Quarter 2017	9.47	6.84
First Quarter 2018	8.65	5.87
Monthly Highs and Lows		
October 2017	7.97	6.84
November 2017	9.47	6.86
December 2017	8.50	7.52
January 2018	8.65	7.61
February 2018	8.07	7.32
March 2018	7.89	5.87
April 2018 (through April 23, 2018)	6.42	5.92

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ADSs have been listed on Nasdaq since May 9, 2014 under the symbol “TOUR.”

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

Explanation of Responses:

We are a Cayman Islands company and our affairs are governed by our memorandum and articles of association and the Companies Law (2018 Revision) of the Cayman Islands, which we refer to as the Companies Law below. The following are summaries of material provisions of our fifth amended and restated memorandum and articles of association that became effective immediately prior to the completion of our initial public offering in May 2014, insofar as they relate to the material terms of our ordinary shares.

### **Registered Office and Objects**

Our registered office in the Cayman Islands is located at International Corporation Services Ltd., P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands, or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law, as amended from time to time, or any other law of the Cayman Islands.

## Board of Directors

See “Item 6.C. Directors, Senior Management and Employees—Board Practices.”

## Ordinary Shares

**General.** Our authorized share capital is US\$100,000 divided into 1,000,000,000 shares, with a par value of US\$0.0001 each, which will be divided into 780,000,000 Class A ordinary shares with a par value of US\$0.0001 each, 120,000,000 Class B ordinary shares with a par value of US\$0.0001 each, and 100,000,000 shares of a par value of US\$0.0001 each of such class or classes (however designated) as our board of directors may determine. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their ordinary shares.

**Dividends.** The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. Our current articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law. Holders of Class A ordinary shares and Class B ordinary shares are entitled to the same amount of dividends, if declared.

**Voting Rights.** In respect of all matters subject to a shareholders’ vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes, voting together as one class. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy. Each holder of our ordinary shares are entitled to vote such ordinary shares as are registered in his or her name on our register of members.

A quorum required for a meeting of shareholders consists of at least two shareholders who hold at least one third in nominal value of our share capital in issue at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders’ meetings may be held annually. Each general meeting, other than an annual general meeting, shall be an extraordinary general meeting. Extraordinary general meetings may be called by a majority of our board of directors or our chairman or upon a requisition of shareholders holding at the date of deposit of the requisition not less than one-third of the aggregate voting power of our company. Advance notice of at least 14 calendar days is required for the convening of our annual general meeting and other

general meetings. All holders of ordinary shares are permitted to attend general and extraordinary meetings.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding ordinary shares at a meeting. A special resolution is required for important matters such as a change of name or making changes to our current memorandum and articles of association.

**Conversion.** Each Class B ordinary share can be convertible into one Class A ordinary share at any time by the holder. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equivalent number of Class A ordinary shares.

**Transfer of Ordinary Shares.** Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four;
- the shares transferred are free of any lien in favor of the Company; and
- a fee of such maximum sum as the Nasdaq Global Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the Nasdaq Global Market, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 calendar days in a year.

**Liquidation.** On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately. Any distribution of assets or capital to a holder of a Class A ordinary share and a holder of a Class B ordinary share will be the same in any liquidation event.

***Calls on Ordinary Shares and Forfeiture of Ordinary Shares.*** Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 calendar days prior to the specified time of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

***Redemption of Ordinary Shares.*** The Companies Law and our current articles of association permit us to purchase our own shares. In accordance with our current articles of association and provided the necessary shareholders or board approval have been obtained, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner, including out of capital, as may be determined by our board of directors.

***Variations of Rights of Shares.*** All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be materially adversely varied with the written consent of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares, or by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

***Inspection of Books and Records.*** Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See “—H. Documents on Display.”

**Issuance of Additional Shares.** Our current memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our current memorandum of association also authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

**Anti-Takeover Provisions.** Some provisions of our current memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

**Exempted Company.** We are an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;



- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company.

**Register of Members.** Under the Companies Law, we must keep a register of members and there should be entered therein:

- the names and addresses of our members, a statement of the shares held by each member, and of the amount paid or agreed to be considered as paid, on the shares of each member;
- the date on which the name of any person was entered on the register as a member; and

· the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e. the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a member registered in the register of members is deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Grand Court of the Cayman Islands for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

### **Differences in Corporate Law**

The Companies Law is modeled after that of English law but does not follow many recent English law statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

***Mergers and Similar Arrangements.*** A merger of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by (a) a special resolution of the shareholders and (b) such other authorization, if any, as may be specified in such constituent company's articles of association.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a subsidiary is a company of which at least ninety percent (90%) of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissentient shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

· the statutory provisions as to the required majority vote have been met;

· the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;

· the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and

the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a takeover offer is made and accepted by holders of 90.0% of the shares within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

**Shareholders' Suits.** In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or ultra vires;

- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and

- those who control the company are perpetrating a "fraud on the minority."

**Indemnification of Directors and Executive Officers and Limitation of Liability.** Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our current memorandum and articles of association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty, willful default, or fraud of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our current memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

***Directors' Fiduciary Duties.*** Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he or she owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him or her to do so) and a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

**Shareholder Action by Written Consent.** Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our current articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

**Shareholder Proposals.** Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law does not provide shareholders any right to put proposals before a meeting or requisition a general meeting. However, these rights may be provided in articles of association. Our current articles of association allow our shareholders holding not less than one-third of all voting power of our share capital in issue to requisition a shareholder's meeting. Other than this right to requisition a shareholders' meeting, our current articles of association do not provide our shareholders other right to put proposal before a meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

**Cumulative Voting.** Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but our current articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

**Removal of Directors.** Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our current articles of association, directors may be removed with or without cause, by an ordinary resolution of our shareholders.

**Transactions with Interested Shareholders.** The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

***Dissolution; Winding up.*** Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and our current articles of association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

***Variation of Rights of Shares.*** Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our current articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the written consent of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

***Amendment of Governing Documents.*** Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our current memorandum and articles of association may only be amended with a special resolution of our shareholders.

***Rights of Non-resident or Foreign Shareholders.*** There are no limitations imposed by our post-offering amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our current memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

### **C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company" or elsewhere in this annual report on Form 20-F.

### **D. Exchange Controls**



See “Item 4.B. Information on the Company—Business Overview—PRC Regulation—Regulations on Foreign Currency Exchange.”

## **E. Taxation**

### **Cayman Islands Taxation**

Travers Thorp Alberga, our Cayman Islands counsel, has advised us that the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes levied by the Government of the Cayman Islands that are likely to be material to holders of ADSs or ordinary shares. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

## People's Republic of China Taxation

Under the EIT Law, an enterprise established outside the PRC with a “de facto management body” within the PRC is considered a PRC resident enterprise for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income as well as tax reporting obligations. Under the Implementation Rules, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, SAT Circular 82 issued in April 2009 and amended in 2013 and 2017, specifies that certain offshore-incorporated enterprises controlled by PRC enterprises or PRC enterprise groups will be classified as PRC resident enterprises if all of the following conditions are met: (a) senior management personnel and core management departments in charge of the daily operations of the enterprises have their presence mainly in the PRC; (b) their financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) major assets, accounting books and company seals of the enterprises, and minutes and files of their board’s and shareholders’ meetings are located or kept in the PRC; and (d) half or more of the enterprises’ directors or senior management personnel with voting rights habitually reside in the PRC. Further to SAT Circular 82, the SAT issued SAT Bulletin 45, which took effect in September 2011 and was amended in 2015 and 2016, respectively, to provide more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 provides for procedures and administration details of determination on PRC resident enterprise status and administration on post-determination matters. If the PRC tax authorities determine that Tuniu Corporation is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. For example, Tuniu Corporation may be subject to enterprise income tax at a rate of 25% with respect to its worldwide taxable income. Also, a 10% withholding tax would be imposed on dividends we pay to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC enterprise shareholders from transferring our shares or ADSs and potentially a 20% of withholding tax would be imposed on dividends we pay to our non-PRC individual shareholders and with respect to gains derived by our non-PRC individual shareholders from transferring our shares or ADSs.

It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. See “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC resident enterprise for PRC enterprise income tax purposes. Such classification would likely result in unfavorable tax consequences to us and our non-PRC shareholders and would have a material adverse effect on our results of operations and the value of your investment.”

The SAT issued SAT Circular 59 together with the Ministry of Finance in April 2009 and SAT Circular 698 in December 2009 which has been amended in 2013 and 2015. Both SAT Circular 59 and SAT Circular 698 became effective retroactively as of January 1, 2008. By promulgating and implementing these two circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-PRC resident enterprise. The SAT further released its Bulletin on Several Issues Concerning Enterprise Income Taxation on Income Arising from the Indirect Transfer of Property by Non-resident Enterprises (“Bulletin 7”) which became effective on February 3, 2015. Bulletin 7 repealed the relevant Indirect Transfer provisions contained in Circular 698 and set forth more detailed rules for the tax treatment of Indirect Transfers of equity

interests in PRC resident enterprises and other assets situated in China. Applying a “substance over form” principle, when a non-resident enterprise structures an Indirect Transfer of an equity interest in a PRC resident enterprise or other assets situated in China to avoid taxation under the EIT through arrangements lacking reasonable commercial purposes, the Indirect Transfer will be re-characterized as a direct transfer. As a result, any gains derived from the Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. Bulletin 7 provides de facto safe harbor treatment for situations in which a non-resident enterprise buys and then sells shares, in the public securities markets, of a foreign listed company that holds an equity interest in a PRC resident enterprise, and thereby realizes a capital gain. However, in order for the safe harbor treatment to apply, both the purchase and sale must be conducted on the public securities markets so as to preclude market manipulation, and the equity interests purchased and sold must be those in the same enterprise. When shares sold in the public securities markets were obtained before such shares were listed on a public securities market or were not purchased through a public securities market, or when shares were purchased on a public market but are to be sold through non-public markets, the safe harbor treatment would not be applicable. In 2017, the SAT released its Bulletin on Matters concerning Withholding of Income Tax of Non-resident Enterprises at Source (“Bulletin 37”) which became effective on December 1, 2017. Bulletin 37 abolished SAT Circular 698, and updated the calculation method for the taxable income for the share transfer as well as stipulated the withholding obligation of the withholding agent. There is uncertainty as to the interpretation and application of Bulletin 7 and Bulletin 37. We and our non-PRC resident investors may be at risk of being taxed under Bulletin 7 and Bulletin 37 and we may be required to expend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we should not be taxed under Bulletin 7 and Bulletin 37. See “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—We face uncertainty regarding the PRC tax reporting obligations and consequences for certain indirect transfers of our operating company’s equity interests. Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.”

## **United States Federal Income Tax Considerations**

The following discussion is a summary of United States federal income tax considerations relating to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder, as defined below, that holds our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules that differ significantly from those summarized below (such as, for example, certain financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships and their partners, tax-exempt organizations (including private foundations), investors who are not U.S. Holders, investors that own (directly, indirectly, or constructively) 10% or more of our stock, investors that hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction), or investors that have a functional currency other than the U.S. dollar). In addition, this discussion does not address United States federal estate, gift, Medicare, and alternative minimum tax considerations, or state, local, and non-United States tax considerations. Each U.S. Holder is urged to consult its tax advisor regarding the United States federal, state, local, and non-United States tax considerations of an investment in our ADSs or ordinary shares.

### ***General***

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships and partners of a partnership holding our ADSs or ordinary shares are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

It is generally expected that a U.S. Holder of ADSs will be treated as the beneficial owner, for United States federal income tax purposes, of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of our ordinary shares for our ADSs will not be subject to United States federal income tax.

***Passive Foreign Investment Company Considerations***

A non-United States corporation, such as our company, will be classified as a “passive foreign investment company,” or PFIC, for United States federal income tax purposes, if, in the case of any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (as determined on the basis of a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). For this purpose, cash is categorized as a passive asset and the company’s goodwill and unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Although the law in this regard is unclear, we treat Nanjing Tuniu and its subsidiaries (our “consolidated affiliated entities”) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their operating results in our consolidated financial statements.

No assurance can be given with respect to our PFIC status for the taxable year ended December 31, 2017 or any future taxable year. The determination of whether we are or will become a PFIC is uncertain. Because it is a factual determination made annually that will depend upon the composition of our income and assets. Furthermore, the composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income increase relative to our revenue from activities that produce non-passive income, or where we determine not to deploy cash for active purposes, our risk of becoming classified as a PFIC will substantially increase. In addition, because there are uncertainties in the application of the relevant rules, it is possible that the IRS may challenge our classification of certain income and assets as non-passive or our valuation of our tangible and intangible assets, each of which may result in our being or becoming a PFIC for the current or subsequent taxable years.

Furthermore, fluctuations in the market price of our ADSs may cause us to be classified as a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our current market capitalization. If our market capitalization subsequently declines, we may be or become classified as a PFIC for the current taxable year or future taxable years.

If we were classified as a PFIC for any year during which a U.S. Holder held our ADSs or ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the basis that we will not be classified as a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are classified as a PFIC for the current taxable year or any subsequent taxable year are discussed below under “Passive Foreign Investment Company Rules.”

### *Dividends*

Subject to the PFIC rules described below, any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depositary bank, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, a U.S. Holder should expect that any distribution paid on our ADSs or ordinary shares will be treated as a “dividend” for United States federal income tax purposes. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a “qualified foreign corporation” at a lower applicable capital gains rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period and other requirements are met.

A non-United States corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will be considered to be a qualified foreign corporation (a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (b) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs are listed on the Nasdaq Global Market, which is an established securities market in the United States, and will be considered readily tradable on an established securities market for as long as the ADSs continue to be listed on the Nasdaq Global Market. Thus, we believe that we will be a qualified foreign corporation with respect to dividends we pay on our ADSs, but there can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. Since we do not expect that our ordinary shares will be listed on established securities markets, it is unclear whether dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. However, in the event we are deemed to be a PRC resident enterprise under the EIT Law (see “People’s Republic of China Taxation”), we may be eligible for the benefits of the United States-PRC income tax treaty (which the Secretary of the Treasury of the United States has determined is satisfactory for this purpose) and be treated as a qualified foreign corporation with respect to dividends paid on our ADSs or ordinary shares. Furthermore, as mentioned above, no assurance can be given with respect to our PFIC status for the taxable year ended December 31, 2017 or any future taxable year. U.S. Holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends with respect to our ADSs or ordinary shares in their particular circumstances. Dividends received on our ADSs or ordinary shares will not be eligible for the dividends-received deduction allowed to corporations.

For United States foreign tax credit purposes, dividends paid on our ADSs or ordinary shares will be treated as income from foreign sources and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the EIT Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid, if any, on our ADSs or ordinary shares. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for United States federal income tax purposes in respect of such withholding, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

#### ***Sale or Other Disposition of ADSs or Ordinary Shares***

Subject to the PFIC rules discussed below, a U.S. Holder will generally recognize capital gain or loss, if any, upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. Holder’s adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term gain or loss if the ADSs or ordinary shares have been held for more than one year and will generally be United States-source gain or loss for United States foreign tax credit purposes. In the event that we are treated as a PRC resident enterprise under the EIT Law, and gain from the disposition of the ADSs or ordinary shares is subject to



tax in the PRC, such gain may be treated as PRC-source gain for foreign tax credit purposes under the United States-PRC income tax treaty. The deductibility of a capital loss may be subject to limitations. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

***Passive Foreign Investment Company Rules***

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, unless the U.S. Holder makes a mark-to-market election (as described below) with respect to the ADSs, the U.S. Holder will, except as discussed below, be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or ordinary shares. Under the PFIC rules:

the excess distribution and/or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;

the amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC (each, a pre-PFIC year) will be taxable as ordinary income;

the amount allocated to each prior taxable year, other than the current taxable year or a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the individuals or corporations, as appropriate, for that year; and

will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" in a PFIC may make a mark-to-market election with respect to our ADSs, provided that the ADSs are regularly traded on the Nasdaq Global Market. We anticipate that the ADSs should qualify as being regularly traded, but no assurances may be given in this regard. If a mark-to-market election is made, the U.S. Holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes an effective mark-to-market election, in each year that we are a PFIC, any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

If a U.S. Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the U.S. Holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not classified as a PFIC.

Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder who makes a mark-to-market election with respect to our ADSs may continue to be subject to the general PFIC rules with respect to such U.S. Holder's indirect interest in any of our non-United States subsidiaries that is classified as a PFIC.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

As discussed above under “Dividends,” dividends that we pay on our ADSs or ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. In addition, if a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, such U.S. Holder must file an annual report with the IRS, subject to certain limited exceptions. Each U.S. Holder is urged to consult its tax advisor concerning the United States federal income tax consequences of owning and disposing our ADSs or ordinary shares if we are or become a PFIC, including the possibility of making a mark-to-market election and the unavailability of the qualified electing fund election.

### ***Information Reporting***

Certain U.S. Holders are required to report information to the Internal Revenue Service relating to an interest in “specified foreign financial assets,” including shares issued by a non-United States corporation, for any year in which the aggregate value of all specified foreign financial assets exceeds \$50,000 (or a higher dollar amount prescribed by the Internal Revenue Service), subject to certain exceptions. These rules also impose penalties if a U.S. Holder is required to submit such information to the Internal Revenue Service and fails to do so.

In addition, U.S. Holders may be subject to information reporting to the IRS with respect to dividends on and proceeds from the sale or other disposition of our ADSs or ordinary shares. Each U.S. Holder is advised to consult with its tax advisor regarding the application of the United States information reporting rules to their particular circumstances.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-195075), as amended, including the prospectus contained therein, to register the issuance and sale of our ordinary shares represented by ADSs in relation to our initial public offering. We have also filed with the SEC registration statements on Form F-6 (Registration No. 333-195515) to register our ADSs.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers, and are required to file reports and other information with the SEC. Specifically, we are required to file annually an annual report on Form 20-F within four months after the end of each fiscal year, which is December 31. All information filed with the SEC can be obtained over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov) or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, upon payment of a duplicating fee, by writing to the SEC. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish JPMorgan Chase Bank, N.A., the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs

and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at <http://ir.tuniu.com>. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

### **I. Subsidiary Information**

Not applicable.

### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

## Foreign Exchange Risk

All of our revenues and substantially all of our expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our ADSs will be traded in U.S. dollars.

The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. In particular, the Renminbi has been depreciating against the U.S. dollar since August 2015, and it is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

As of December 31, 2017, we had Renminbi-denominated cash and cash equivalents, restricted cash and short-term investments of RMB3,660.5 million, and U.S. dollar-denominated cash, cash equivalents and short-term investments of US\$562.6 million. Assuming we had converted RMB1.0 million into U.S. dollars at the exchange rate of RMB6.5063 for US\$1.00 as of December 29, 2017, our U.S. dollar cash balance would have been US\$153,697. If the Renminbi had depreciated by 10% against the U.S. dollar, our U.