

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.....

For the transition period from to

Commission file number: 001-36430

Tuniu Corporation

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

**Tuniu Building No. 699-32
Xuanwudadao, Xuanwu District
Nanjing, Jiangsu Province 210042
The People's Republic of China**

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American depositary shares (one American depositary share representing three Class A ordinary shares, par value US\$0.0001 per share)	The Nasdaq Stock Market LLC (The Nasdaq Global Market)
Class A ordinary shares, par value US\$0.0001 per share*	The Nasdaq Stock Market LLC (The Nasdaq Global Market)

* Not for trading, but only in connection with the listing on The Nasdaq Global Market of American depositary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

371,958,044 Class A ordinary shares (including 19,323,900 Class A ordinary shares, represented by 6,441,300 ADSs, repurchased and reserved for the future exercise of options or the vesting of other awards under the 2008 Plan and the 2014 Plan) **and 17,373,500 Class B ordinary shares, par value US\$0.0001 per share, as of December 31, 2018.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP
☒

International Financial Reporting Standards as issued by the International Accounting Standards Board ☐

Other
☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

☐ Yes ☐ No

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INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “we,” “us,” “our company,” “our,” or “Tuniu” refers to Tuniu Corporation, a Cayman Islands company, its subsidiaries, and, in the context of describing our operations and consolidated financial information, also include the consolidated affiliate entities, Nanjing Tuniu Technology Co., Ltd., or Nanjing Tuniu, and its subsidiaries;
- “gross bookings” refer to the total amount paid by our customers for the travel products that we have delivered and the travel services that we have rendered, including the related taxes, fees and other charges borne by our customers;
- “trips” refers to the number of packaged tours sold by us, including organized tours and self-guided tours;
- “unique visitor” to our online platform refers to a visitor to our website from a specific IP address or a visitor to our mobile platform using a specific mobile device;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan, Hong Kong and Macau;
- “shares” or “ordinary shares” refers to our ordinary shares, which include both Class A ordinary shares and Class B ordinary shares;
- “ADSs” refer to American depositary shares, representing our Class A ordinary shares; each ADS represents three Class A ordinary shares;
- “U.S. GAAP” refers to generally accepted accounting principles in the United States;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “\$,” “dollars,” “US\$” or “U.S. dollars” refers to the legal currency of the United States; and
- all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

Our business is primarily conducted in China and almost all of our revenues are denominated in Renminbi. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current exchange rates, for the convenience of the readers. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.8755 to US\$1.00, the noon buying rate in effect as of December 31, 2018.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to:

- our goals and strategies;
- the expected growth of the online leisure travel market in China;
- our expectations regarding demand for our products and services;
- our expectations regarding our relationships with customers and travel suppliers;
- our ability to offer competitive travel products and services;
- our future business development, results of operations and financial condition;
- competition in our industry in China;
- relevant government policies and regulations relating to our corporate structure, business and industry;
- general economic and business condition in China and elsewhere; and
- assumptions underlying or related to any of the foregoing.

We would like to caution you not to place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3.D. Key Information—Risk Factors.” Those risks are not exhaustive. We operate in a rapidly evolving environment. New risks emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements, statements, whether as a result of new information, future events or otherwise, except as required under applicable law.

This annual report also contains statistical data and estimates that we obtained from industry publications and reports generated by government agencies and third-party providers of market intelligence. These industry publications and reports generally indicate that the information contained therein was obtained from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. Although we believe that the publications and reports are reliable, we have not independently verified the data.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents selected consolidated financial information for our company. The selected consolidated statements of comprehensive loss data for the three years ended December 31, 2016, 2017 and 2018 and the consolidated balance sheets data as of December 31, 2017 and 2018 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive loss data for the years ended December 31, 2014 and 2015 and the selected consolidated balance sheet data as of December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

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, “*Revenue from Contracts with Customers*”. See Note 2(a) “Recently Issued Accounting Pronouncements” to our consolidated financial statements included in this Annual Report on Form 20-F for further information regarding these changes. In addition, 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 in business arrangements, revenues from the organized tours for 2017 and 2018 were generally recognized on a net basis except for those that we take substantive inventory risk and the self-operated local tour operators in which we act as a principal (see Note 2(s) “Revenue Recognition” to our consolidated financial statements included in this Annual Report on Form 20-F for further information). 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. Revenues and cost of revenues for the year ended December 31, 2014 were not recast and were presented in accordance with ASC 605, “*Revenue Recognition*”.

For the Years Ended December 31,

	2014	2015	2016	2017	2018	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except for share, per share and per ADS data)					
Summary Consolidated Statements of Comprehensive Loss Data:						
Revenues:						
Packaged tours	3,525,951	7,578,822	10,147,148	1,589,353	1,830,630	266,254
Others	28,756	127,804	401,100	602,747	409,519	59,562
Total revenues	3,554,707	7,706,626	10,548,248	2,192,100	2,240,149	325,816
Less: Business and related taxes	(19,768)	(35,526)	(17,307)	—	—	—
Net revenues	3,534,939	7,671,100	10,530,941	2,192,100	2,240,149	325,816
Cost of revenues	(3,308,801)	(7,309,062)	(9,891,736)	(1,024,206)	(1,065,022)	(154,901)
Gross profit	226,138	362,038	639,205	1,167,894	1,175,127	170,915
Operating expenses:						
Research and product development	(104,881)	(298,199)	(601,402)	(541,126)	(315,222)	(45,847)
Sales and marketing	(434,191)	(1,149,512)	(1,900,397)	(894,148)	(778,126)	(113,174)
General and administrative	(166,988)	(385,442)	(658,790)	(637,795)	(487,372)	(70,885)
Other operating income	6,902	12,175	22,323	21,749	56,599	8,232
Loss from operations	(473,020)	(1,458,940)	(2,499,061)	(883,426)	(348,994)	(50,759)
Other income/(expenses):						
Interest and investment income, net	31,284	76,516	87,305	130,250	152,929	22,243
Foreign exchange losses, net	(5,334)	(83,118)	(9,734)	(2,394)	(11,729)	(1,706)
Other (loss)/income, net	(788)	(1,334)	(2,553)	(121)	8,576	1,247
Loss before income tax expense	(447,858)	(1,466,876)	(2,424,043)	(755,691)	(199,218)	(28,975)
Income tax benefit/(expense)	—	589	1,711	(15,625)	(153)	(22)
Net loss	(447,858)	(1,466,287)	(2,422,332)	(771,316)	(199,371)	(28,997)
Net loss attributable to noncontrolling interests	—	(3,006)	(15,104)	(4,934)	(14,037)	(2,042)
Net (loss)/income attributable to redeemable noncontrolling interests	—	—	(34)	922	178	26
Net loss attributable to Tuniu Corporation	(447,858)	(1,463,281)	(2,407,194)	(767,304)	(185,512)	(26,981)
Accretion on redeemable noncontrolling interests	—	—	(106)	(5,725)	(2,422)	(352)
Deemed dividends to preferred shareholders	(15,606)	—	—	—	—	—
Net loss attributable to ordinary shareholders	(463,464)	(1,463,281)	(2,407,300)	(773,029)	(187,934)	(27,333)
Net loss per ordinary share attributable to ordinary shareholders						
Basic	(4.38)	(5.89)	(6.45)	(2.04)	(0.50)	(0.07)
Diluted	(4.38)	(5.89)	(6.45)	(2.04)	(0.50)	(0.07)
Net loss per ADS attributable to ordinary shareholders						
Basic	(13.15)	(17.67)	(19.35)	(6.12)	(1.50)	(0.21)
Diluted	(13.15)	(17.67)	(19.35)	(6.12)	(1.50)	(0.21)
Weighted average number of ordinary shares used in computing basic and diluted loss per share	105,746,313	248,362,837	373,347,855	378,230,039	377,744,381	377,744,381

As of December 31,

2014	2015	2016	2017	2018	
RMB	RMB	RMB	RMB	RMB	US\$

(in thousands)

Summary Consolidated

Balance Sheet Data:

Cash and cash equivalents	1,457,722	2,101,217	1,085,236	484,101	560,356	81,500
Restricted cash	44,030	338,997	124,561	91,810	270,670	39,367
Short-term investments	468,570	1,226,415	3,603,497	3,084,634	859,211	124,967
Prepayments and other current assets	575,297	1,285,607	1,632,329	939,463	1,673,584	243,413
Long-term investments	—	—	58,764	484,991	1,302,506	189,442
Total assets	2,645,017	7,186,141	9,171,654	6,657,805	6,556,923	953,665
Accounts and notes payable	382,705	855,588	1,022,704	852,500	1,305,610	189,893
Advances from customers	638,828	1,138,009	1,806,493	1,210,615	1,058,946	154,017
Total liabilities	1,236,294	3,851,394	4,581,927	2,963,777	3,143,071	457,141
Redeemable noncontrolling interests	—	—	90,072	96,719	69,319	10,082
Ordinary shares	121	181	242	248	249	36
Total equity	1,408,723	3,334,747	4,499,655	3,597,309	3,344,533	486,442

For the Year Ended December 31,

2014	2015	2016	2017	2018	
RMB	RMB	RMB	RMB	RMB	US\$

(in thousands)

Summary Consolidated Statements of Cash Flow Data:

Net cash (used in)/provided by operating activities	(271,102)	(514,735)	(2,239,444)	(418,649)	268,089	38,992
Net cash (used in)/provided by investing activities	(193,143)	(1,620,201)	(2,728,683)	615,554	153,992	22,398
Net cash provided by/(used in) financing activities	1,540,397	3,005,838	3,627,058	(784,766)	(145,212)	(21,122)

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business and Industry

Declines or disruptions in the leisure travel industry in China may materially and adversely affect our business and results of operations.

We are dependent on the leisure travel industry for substantially all of our revenues. The leisure travel industry is dependent on personal discretionary spending levels, which may be materially and adversely affected by economic downturns and recessions. Although the leisure travel industry in China has experienced rapid growth over the past decade, any severe or prolonged slowdown in the Chinese economy could reduce expenditures for leisure travel, which in turn may adversely affect our financial condition and results of operations. The Chinese economy has slowed down in recent years and such slowdown may continue. According to the National Bureau of Statistics of China, China's gross domestic product (GDP) growth was 6.6% in 2018. We cannot assure you that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on our business. Any severe or prolonged slowdown in the Chinese economy, slowdown in the growth rate of disposable income per capita in China or the recurrence of any financial disruptions may materially and adversely affect the leisure travel industry in China and our business, financial condition and results of operations.

Our business may also be significantly affected by other factors that tend to reduce leisure travel, including increased prices in hotel, air-ticketing, fuel or other travel-related sectors, work stoppages or labor unrest at airlines, increased occurrences of travel-related accidents, outbreaks of contagious diseases, natural disasters and extreme unexpected bad weather, terrorist attacks and political unrest. For example, the travel industry was negatively impacted by the outbreak of Ebola hemorrhagic fever in West Africa beginning in March 2014, the disappearance of a Malaysia Airlines flight in March 2014 as well as the crashes of Malaysia Airlines and AirAsia flights in July and December 2014, respectively, the earthquake in Jiuzhaigou, China in August 2017, the volcanic eruption in Bali, Indonesia in November 2017, as well as the boat capsizing accident in Phuket island, Thailand in July 2018, which all had a negative impact on our target customers. In addition, leisure travel products and services to overseas destinations accounted for over 67% of our packaged tour gross bookings in 2018. In addition, our overseas leisure travel business may be negatively affected by any adverse change in the visa policies of foreign countries that makes it difficult for Chinese nationals to obtain tourist visas. Terrorist attacks or threats of terrorist attacks, political unrests, wars, imposition of taxes or surcharges by regulatory authorities and regional hostilities may also reduce the demand for overseas tours. For example, the Nice terrorist attack in France, the coup in Turkey, the deployment of THAAD by South Korea in 2016, and the political crisis in Maldives in 2018, all of which negatively impacted short-term travel demand for the tours to the affected regions. We have little or no control over the occurrence of such declines or disruptions, which could result in a decrease in demand for our travel products and services. This decrease in demand, depending on the scope and duration, could materially and adversely affect our business and results of operations over the short and long term.

If we do not continue to provide competitive travel products and services, we may not be able to attract new customers or to retain existing customers, and our business, financial condition and results of operations could suffer.

Our success depends on our ability to attract new customers and retain existing customers, which in turn requires our continual provision of a wide array of competitive travel products and services. In light of the rapidly rising levels of disposable income in China, demand for vacation, recreation and other forms of leisure travel has increased rapidly in recent years. Participants in the online travel industry are continually developing new travel products and services in response to increasing customer demand. We strive to stay abreast of emerging and rapidly changing customer preferences and to continue to anticipate trends that will appeal to existing and potential customers. We will also continue to invest in research and development in order to constantly improve the speed, accuracy and comprehensiveness of our online platform. If we fail to keep on improving our travel products and services and platform at a competitive pace, we may lose customers to our competitors and may not attract new customers. In addition to packaged tours, we provide other travel-related services, such as 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 intend to further broaden our product selection by extending our coverage of departing cities and travel destinations as well as offering more departure time selections. If we fail to continue to source quality travel products and services tailored to accommodate our customers' changing needs and preferences, we may not be able to sell additional products and services to our current customers, retain our current customers or attract new customers, and our business, financial condition and results of operations will be materially and adversely affected.

Failure to maintain the quality of customer services could harm our reputation and our ability to retain existing customers and attract new customers, which may materially and adversely affect our business, financial condition and results of operations.

Our business is significantly affected by the overall size of our customer base, which in turn is determined by, among other factors, their experience with our customer services. As such, the quality of customer services is critical to retaining our existing customers and attracting new customers. If we fail to provide quality customer services, our customers may be less inclined to book travel products and services with us or recommend us to new customers, and may switch to our competitors. Failure to maintain the quality of customer services could harm our reputation and our ability to retain existing customers and attract new customers, which may materially and adversely affect our business, financial condition and results of operations.

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.

Our ability to ensure satisfactory customer experience in a large part depends on travel suppliers to provide high-quality travel products and services. Our reputation and brand will be negatively affected if travel suppliers fail to provide quality travel products and services.

The actions we take to monitor and enhance the performance of travel suppliers may be inadequate in timely discovering quality issues. There have been customer complaints and litigation against us due to travel suppliers' failure to provide satisfactory travel products or services. If our customers are dissatisfied with the travel products and services provided, they may reduce their use of, or completely forgo, our online platform, and may even demand refunds of their payments to us or claim compensation from us for the damages suffered as a result of travel suppliers' performance or misconduct, which could materially and adversely affect our business, financial condition and results of operations.

We have incurred losses in the past and will likely incur losses in the future.

We have incurred net losses historically and will likely continue to incur losses in the future as we grow our business. We had a net loss of RMB2,422.3 million, RMB771.3 million and RMB199.4 million (US\$29.0 million) in 2016, 2017 and 2018, respectively. Our historical net losses were partially attributable to our spending associated with our rapidly expanding 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. We expect that we will continue to incur expenses to further grow our business, which will affect our profitability and cash flow from operations in the future.

In addition, our ability to achieve profitability is affected by various factors that are beyond our control. For example, our revenues and profitability depend on the continual development of the online leisure travel industry in China and consumers' preference to make travel bookings online. We cannot assure you that making travel bookings online will become more widely accepted in China or that consumers will increase their spending on online leisure travel booking. Factors negatively affecting travel suppliers' profitability will in turn adversely affect our financial condition and results of operations.

If we are unsuccessful in addressing any of these risks and uncertainties, our business may be materially and adversely affected and we will likely continue to incur net loss in the near future.

We face intense competition and may not be able to compete successfully against existing and new competitors.

We operate in China's highly competitive travel industry. We compete with not only other online travel companies, but also traditional travel service providers and tour operators, airlines and hotels and large, established Internet search engines. See "Item 4.B. Information on the Company—Business Overview—Competition." 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 investments from or enter into strategic relationships with larger, well-established and well-financed companies or investors. Furthermore, our business model causes us to maintain a cooperative-competitive relationship with some of our competitors, especially tour operators, who also supplies travel products to customers directly or through our competitors' platforms.

Many of our competitors have launched, and may continue to launch, aggressive advertising campaigns, special promotions and other marketing activities to promote their brands, attract new customers or increase their market shares. In response, we started to take and may continue to take similar measures and as a result will incur significant expenses, which in turn could negatively affect our operating margin in the quarters or years when such promotional activities are carried out. We cannot assure you that we will be able to successfully compete against existing or new competitors. If we are not able to compete successfully, we may lose our market share and our business, financial condition and results of operations may be materially and adversely affected.

If we fail to enhance our brand recognition, we may face difficulty in retaining existing and attracting new customers and travel suppliers and our business may be harmed.

Recognition and reputation of our “Tuniu” brand among our targeted customers and travel suppliers have contributed significantly to our growth. We have made continual investments in enhancing awareness of our brand among customers and travel suppliers since our inception. Our brand recognition and reputation also depend on our ability to provide high-quality customer services, address customer needs and handle customer complaints properly, maintain our relationships with travel suppliers and provide a user-friendly online platform. See “—Risks Related to Our Business and Industry—Failure to maintain the quality of customer services could harm our reputation and our ability to retain existing customers and attract new customers, which may materially and adversely affect our business, financial condition and results of operations”, “—Risks Related to Our Business and Industry—If we are unable to maintain existing relationships with travel suppliers, or develop relationships with new travel suppliers on favorable terms or terms similar to those we currently have, our business and results of operations may suffer” and “—Risks Related to Our Business and Industry—The proper functioning of our online platform, including our web and mobile platforms, and management systems is essential to our business. Any failure to maintain their satisfactory performance will materially and adversely affect our business, reputation, financial condition and results of operations.” Failure to maintain the strength of our brand could reduce the number of customers and deteriorate our relationships with travel suppliers.

In addition, some of our competitors have well-established brands in the travel industry, and may have more financial and other resources to advertise and promote their brands. Therefore, we expect to continue incurring advertising and marketing expenditures and use other resources to maintain and increase our brand recognition. Our marketing costs may also increase as a result of inflation in media pricing in China, including costs for purchasing search engine keywords and placing online and offline advertisements. If we fail to cost-effectively maintain and increase our brand recognition, our financial condition and results of operations may be materially and adversely affected.

We are exposed to proceedings or claims arising from travel-related accidents or customer misconduct during their travels, the occurrence of which may be beyond our control.

Accidents are a leading cause of mortality and morbidity among tourists. We are exposed to risks of our customers’ claims arising from or relating to travel-related accidents. As we enter into contracts with our customers directly, our customers typically take actions against us for the damages they suffer during their travels. However, such accidents may result from the negligence or misconduct of travel suppliers or other service providers, over which we have no or limited control. See also “—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.” We maintain insurance coverage for our liabilities as a travel company, and are indemnified by the liable travel suppliers for the damages claimed by our customers. However, there is no assurance that such insurance or indemnification will be sufficient to cover all of our losses. In addition, some of the travel-related accidents result from adventure activities undertaken by our customers during their travels, such as scuba diving, white water rafting, wind surfing and skiing. Furthermore, we may be affected by our customers’ misconduct during their travels, over which we have no or limited control. Such accidents and misconduct, even if not resulting from our or travel suppliers’ negligence or misconduct, could create a public perception that we are less reliable than our competitors, which would harm our reputation, and could adversely affect our business and results of operations.

The proper functioning of our online platform, including our web and mobile platforms, and management systems is essential to our business. Any failure to maintain their satisfactory performance will materially and adversely affect our business, reputation, financial condition and results of operations.

Availability, satisfactory performance and reliability of our online platform, including our web and mobile platforms, are critical to our ability to attract and retain customers and provide quality travel products and services to our customers. Any unavailability or slowdown of our online platforms would reduce the number of our customers and our customers' travel bookings. Some telecommunications carriers have system constraints that can affect our customer experience. For example, if a large number of customers use the same telecommunications carrier at the same time for services requiring a large amount of data transmission, the customers could experience reduced speed or other technical issues due to the carrier's capacity constraints, over which we have no control. Our servers may also be vulnerable to computer viruses, physical or electronic break-ins or other potential disruptions, which could lead to interruptions, delays, loss of data or the inability to accept and process customer queries or bookings. We may also experience interruptions caused by reasons beyond our control such as power outages. Unexpected interruptions could damage our reputation and result in a material decrease in our revenues. In addition, our online platform may contain undetected errors or "bugs" that could adversely affect their performance.

In 2018, 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 on our mobile platform accounted for over 75% of the average daily unique visitors on our online platform. As a result, our mobile platform serves as an important and integral part of our customers' research on travel-related information. The lower functionality, speed and memory generally associated with mobile devices may make it more difficult for our customers to fully access our mobile platform, and we may fail to attract and retain a significant portion of the growing number of customers who search for and book travel products and services through mobile devices. We may also experience difficulties monetizing customer traffic to our mobile platform.

In addition, we rely significantly on our proprietary N-Booking system and other management systems to facilitate and process transactions. We may in the future experience system interruptions that prevent us from efficiently fulfilling bookings or providing services and support to our customers or travel suppliers. Any interruptions, outages or delays in our systems, or deterioration in their performance, could impair our ability to process transactions and decrease the quality of our services to our customers or travel suppliers. If we were to experience frequent or persistent system failures, our reputation and brand would be harmed.

If we are unable to maintain existing relationships with travel suppliers, or develop relationships with new travel suppliers on favorable terms or terms similar to those we currently have, our business and results of operations may suffer.

Our business is dependent on our ability to maintain our relationships and arrangements with existing travel suppliers. For most of our suppliers, we do not prohibit travel suppliers from developing business relationships with our competitors or selling, through their direct sales, travel products that are the same as or similar to those they supply to us. If we are unable to maintain satisfactory relationships with our existing travel suppliers, or if travel suppliers establish similar or more favorable relationships with our competitors, or if travel suppliers increase their competition with us through their direct sales, we may not have the necessary supply to meet the needs of our customers, or we may not obtain it at satisfactory rates. We do not enter into any long-term agreements with travel suppliers. We cannot assure you that travel suppliers will renew our agreements in the future on favorable terms or terms similar to those we currently have agreed. Travel suppliers may increase the prices that they charge us or the deposits that they require from us. As a result, the amount, pricing and breadth of travel products and services that we are able to offer may be reduced and our business and results of operations could be materially and adversely affected.

Furthermore, in order to grow our business, we will need to develop relationships with new travel suppliers of good quality. We cannot assure you that we will be able to identify appropriate travel suppliers or enter into arrangements with those travel suppliers on favorable terms or at all. Any failure to do so could harm the growth of our business and adversely affect our financial condition and results of operations.

We may suffer losses if we are unable to predict the amount of travel products we will need to purchase in advance.

For peak seasons and for certain tours and destinations, we have made commitments with a number of travel suppliers to purchase packaged tours, hotel rooms and air tickets before selling them to our customers. If we are unable to accurately predict demand for the packaged tours, hotel rooms and air tickets that we are committed to purchase and which are nonrefundable, we would be responsible for bearing the cost of the travel products we are unable to sell, and our financial condition and results of operations would be adversely affected.

We may not be able to effectively manage our growth and expansion or implement our business strategies, in which case our business and results of operations may be materially and adversely affected.

We have experienced a period of rapid growth and expansion, including our recent increase in the number of offline retail stores and local tour operators to strengthen our service capability. Such growth and expansion has placed, and will continue to place, significant strain on our management and resources. We cannot assure you that this level of significant growth and expansion will be sustainable or achieved at all in the future. We believe that our continued growth and expansion will depend on our ability to provide competitive travel products and services, attract new customers, continue developing travel products and services and innovative technologies in response to customer demand and preferences, increase brand awareness through marketing and promotional activities, expand into new market segments, and take advantage of any growth in the relevant markets. We cannot assure you that we will achieve any of the above.

To manage our growth and expansion, and to achieve profitability, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our N-Booking system and other management systems. We will also need to further expand, train, manage and motivate our workforce and manage our relationships with travel suppliers and customers. All of these objectives entail risks and will require substantial management efforts and skills and significant additional expenditures. Our further expansion may divert our management, operational or technological resources from our existing business operations. In addition, our expansion has required us to operate in new cities in China, including a number of small cities in China, where we may have difficulty in adjusting to local market demands and regulatory requirements. We cannot assure you that we will be able to effectively manage our growth and expansion or implement our future business strategies effectively, and failure to do so may materially and adversely affect our business and results of operations.

Our quarterly results are likely to fluctuate because of seasonality in the leisure travel industry in China.

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. Consequently, our results of operations may fluctuate from quarter to quarter. Our rapid growth has tended to mask the seasonality of our business. As our growth rate slows, the seasonality in our business will become more pronounced and cause our operating results to fluctuate.

If we are unable to identify, attract, hire, train and retain key individuals and highly skilled employees, our business may be adversely affected

Our future performance depends on the continued service of our senior management, in particular, Mr. Dundu Yu, our founder, chairman and chief executive officer. If one or more of our key executives were unable or unwilling to continue in their present positions, we may not be able to replace them easily, our future growth may be constrained, our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. There is no assurance that we can continue to retain their services and there can be no assurance that they will not compete against us.

If our business continues to expand, we will need to hire additional employees, including supplier management personnel to maintain and expand our travel supplier network, information technology and engineering personnel to maintain and expand our online platform and customer service personnel to serve an increasing number of customers. If we are unable to identify, attract, hire, train and retain sufficient employees in these areas, our customers may not have satisfactory experiences with us and may turn to our competitors, which may adversely affect our business and results of operations.

We may be subject to legal or administrative proceedings regarding our travel products and services, information provided on our online platform or other aspects of our business operations, which may be time-consuming to defend and affect our reputation.

From time to time, we have become and may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including breach of contract claims, anti-competition claims and other matters. Such proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome and merit of such proceedings, any such legal action could have an adverse impact on our business because of defense costs, negative publicity, diversion of management's attention and other factors. In addition, it is possible that an unfavorable resolution of one or more legal or administrative proceedings, whether in the PRC or in another jurisdiction, could materially and adversely affect our financial position, results of operations or cash flows in a particular period or damage our reputation. In addition, our online platform contains information about our travel products and services, vacation destinations and other travel-related topics. It is possible that our customers would take action against us in the event that any content accessible on our online platform were to contain errors or false or misleading information.

We may be subject to detrimental adverse publicity, malicious allegations or other conduct by people or entities, which could harm our reputation, adversely affect our business and the trading price of our ADSs.

We have been, and in the future may be, the target of adverse publicity, malicious allegations or other detrimental conduct by people or entities. Such allegations, directly or indirectly against us, may be posted in internet chat-rooms or on blogs or any website by anyone on an anonymous basis. We may be required to spend significant time and incur substantial costs in response to such allegations or other detrimental conduct, and there is no assurance that we will be able to conclusively refute each of them within a reasonable period of time, or at all. Our reputation may be harmed as a result of the public dissemination of malicious allegations about our personnel, business, operations, accounting, prospects or business ethics, which in turn could adversely affect our business and the trading price of our ADSs.

We have limited experience and operating history in developing and providing new products and services, which may negatively affect our business, financial condition and results of operations.

As part of our growth strategy, we intend to develop and offer new travel products and services to satisfy the evolving needs of our customers. In January 2016, we launched an open platform for air ticketing and hotel booking services. New bundles such as the "Air Ticket plus X" and "Hotel plus X" allow our new services to closely complement our core leisure travel services. We also launched bus ticketing and car rental channels in order to provide leisure travellers with the most comprehensive solutions. We have limited experience and operating history in developing and operating these new services. These and other new products and services we may offer in the future present operating and marketing challenges that are different from those we currently encounter. In addition, the market for our new travel products and services may be highly competitive. If we fail to successfully develop and offer our new travel products and services in an increasingly competitive market, we may not be able to capture the growth opportunities associated with them or recover the development and marketing costs, and our future results of operations and growth strategies could be adversely affected.

We have limited experience in operating a finance business. Increased exposure to credit risks or significant deterioration in the asset quality of our finance business may have a material adverse effect on our business, results of operations and financial condition.

We started to offer financial services in China since 2015. We provide various financial services, including consumer financing, supply chain financing, microcredit, factoring service and insurance products. We used to provide yield enhancement products, the provision of which has been terminated in 2018. Expansion in the finance sector involves new risks and challenges. For certain financial products, we have committed or will commit our own capital. Our lack of familiarity with the finance sector may make it difficult for us to anticipate the demands and preferences in the market and develop financial products that meet the requirements and preference. We may not be able to successfully identify new product and service opportunities or develop and introduce these opportunities to our clients in a timely and cost-effective manner, or our clients may be disappointed in the returns from financial products that we offer.

The risk of nonpayment of loans is inherent in the finance business and we are subject to credit risk resulting from defaults in payment for loans by the suppliers and customers. Credit risks are exacerbated in consumer financing because there is relatively limited information available about the credit histories of customers. There can be no assurances that our monitoring of credit risk issues and our efforts to mitigate credit risks through our credit assessment and risk management policies are or will be sufficient to result in lower delinquencies. Furthermore, our ability to manage the quality of our loan portfolio and the associated credit risks will have significant impact on the results of operations of our finance business. Deterioration in the overall quality of loan portfolio and increased exposure to credit risks may occur due to a variety of reasons, including factors beyond our control, such as a slowdown in the growth of the PRC or global economies or a liquidity or credit crisis in the PRC or global finance sectors, which may adversely affect the businesses, operations or liquidity of our suppliers and customers or their ability to repay or roll over their debt. Any significant deterioration in the asset quality of our finance business and significant increase in associated credit risks may have a material adverse effect on our business, results of operations and financial condition.

In addition, the development of finance business is capital intensive. We continue to provide management, administration and collection services on the transferred financial assets and are obligated to absorb a portion of the losses incurred in the outstanding portfolio of the transferred financial assets in the event of default. We may need additional cash resources due to further developments of our financial services or changed business conditions, which may cause us to seek credit facilities or sell additional equity or debt securities. The incurrence of indebtedness would result in increased debt obligations and could result in operating and financial covenants that would restrict our operations. Additionally, it is uncertain whether financing will be available in amounts or on terms acceptable, if at all.

We have limited experience in operating our self-operated local tour operators, which may negatively affect our business, financial condition and results of operations.

Starting in 2016, we further strengthened our presence in the travel supply chain by introducing a number of self-operated local tour operators in major destinations such as Xiamen, Beijing, Changsha. We operate our domestic self-operated local tour operators primarily through Xiamen Suiwang International Travel Service Co., Ltd., a wholly owned subsidiary of us established in January 2016. Our self-operated local tour operators directly provide destination-based services to our organized tour customers, starting from their arrival at the destination and all the way until they depart from the destination. Similar to our travel suppliers, our self-operated local tour operators coordinate the tours based on pre-arranged itineraries and cover all components of the tours including transportations, accommodations, entertainments, meals and tour guide services. The tour guides directly serving our customers are either directly employed by us or working for us on a contract basis. By operating the self-operated local tour operators, we are able to exercise greater control over the quality of our trips and utilize years of data on travel preference to design more suitable products for consumers. As of February 28, 2019, we operate our own local tour operators in 25 domestic destinations and 4 international destinations.

We have limited experience in operating our self-operated local tour operators. The local leisure travel industry is highly fragmented, so our self-operated local tour operators may encounter fierce competition from peers and we may not generate the expected profits. Furthermore, if any destinations where we have self-operated local tour operators are negatively affected by external events such as earthquake, such events may negatively affect the business of our self-operated local tour operator as it will be difficult for the affected self-operated local tour operators to change the pre-arranged itineraries of the customers. In addition, we may not be able to adequately control and ensure the quality of service provided by the tour guides directly serving our customers, in particular the tour guides working for us on a contract basis. If our tour guides fail to provide high quality services in a timely manner to our customer or violate any applicable PRC laws and regulations, or in the case of customer injury or death due to the negligence or misconduct of our tour guides, we may be liable for compensation, which may adversely affect our reputation, business, financial condition and results of operations.

If the fragmented travel industry in China becomes consolidated, our business, financial condition and results of operations may be adversely affected.

China's enormous size and population, imbalanced economic development and differences in consumer behavior across the country have created a highly fragmented and diverse travel industry. In recent years, customers have been shifting from highly fragmented traditional offline travel companies to travel websites for a wider product selection and greater convenience. If, however, traditional tour operators form alliances, or merge or consolidate among themselves, or if one of travel suppliers is acquired by another company with which we do not have a relationship, we may not be able to maintain our strength in offering a wider selection of travel products and services as compared to traditional travel companies, and our business, financial condition and results of operations may be adversely affected.

The Tourism Law and the Measures for Administration of the Overseas Tours of Chinese Citizens may reduce the demand of organized tours and materially and adversely affect our business and results of operations.

On April 25, 2013, the Standing Committee of the National People's Congress promulgated the Tourism Law, which became effective as of October 1, 2013 and was amended in 2016 and 2018, respectively. On May 27, 2002, the State Council promulgated the Measures for the Administration of the Overseas Tours of Chinese Citizens which became effective as of July 1, 2002 and was amended in 2017. The Tourism Law and the Measures for the Administration of the Overseas Tours of Chinese Citizens impose more stringent restrictions on tour operators. Pursuant to the Tourism Law and the Measures for the Administration of the Overseas Tours of Chinese Citizens, tour operators are prohibited from arranging compulsory shopping or other activities which charge additional fees on top of the contract prices that the tourist has already paid, unless it is agreed upon by both parties through consultation or requested by the tourist and does not affect the itinerary of other tourists. See "Item 4.B. Information on the Company—Business Overview—PRC Regulation—Regulations on Travel Companies." If travel suppliers fail to comply with these restrictions, our reputation and brand may be negatively affected. In addition, as a result of the Tourism Law and the Measures for the Administration of the Overseas Tours of Chinese Citizens, the commissions or rebates that tour operators receive from shopping establishments have declined and organized tour prices have risen, which have reduced the demand for organized tours in the short term and may continue to reduce the demand for organized tours in the future. If customers cannot adapt to the increased organized tour prices, our business and results of operations will be materially and adversely affected.

The E-Commerce Law may significantly increase our compliance cost.

In August 2018, the Standing Committee of the National People's Congress promulgated the PRC E-commerce Law, which became effective in January 2019. The E-commerce Law strengthens the regulation on E-commerce operators relating to consumer protection, personal data protection and intellectual property rights protection. As an e-commerce operator, we are required under the E-commerce Law, (1) to refrain from conducting false or misleading commercial promotion by fabricating transactions, making up user comments or otherwise, to defraud or mislead consumers, (2) to allow consumer to opt out of search results targeting his or her personally characteristics such as hobbies and shopping patterns and simultaneously show the consumers with options not targeting his or her personally characteristics, (3) to alert consumers of tie-in sale of commodities or services, and shall not set the tied-in commodities or services as a default option, (4) to obtain and maintain business license and other applicable licenses as required, and disclose information of such license at our front-page, (5) to clearly detail the refund procedure for the deposit we received from customers, and not set any unreasonable conditions to refund, (6) to take the risks and responsibilities in the transportation of the products, unless the consumer chooses a courier logistics service provider other than the default service provider, etc.

We have adopted the required measures to keep our current practice in line with the requirements under the E-Commerce Laws. However, the competent PRC government may promulgate implementation rules under the E-Commerce Law and may deem our current measures not sufficient under the E-Commerce Law and its implementation rules. If we are required to adopt additional measures to comply with the E-Commerce Law and its implementation rules, our compliance cost would increase significantly, and our business and results of operations will be materially and adversely affected.

We may not be able to prevent others from using our intellectual property, which may harm our business and expose us to litigation.

We regard our intellectual property as critical to our success. 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, to protect our intellectual property rights. The protection of intellectual property rights in China may not be as effective as that in the United States. Unauthorized use or other misappropriation of our technologies would enable third parties to benefit from our technologies without paying us, or enable our competitors to offer travel products and services that are comparable to or better than ours. From time to time, we may have to enforce our intellectual property rights through litigation. Such litigation may result in substantial costs and diversion of resources and management attention. If we are not successful in protecting our intellectual property, our business, financial condition and results of operations may be materially and adversely affected.

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.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon copyrights or other intellectual property rights held by third parties. We have been in the past, and may be from time to time in the future, subject to legal proceedings, claims or government administrative actions relating to alleged infringement on copyrights or other intellectual property rights held by third parties in relation to the content on our online platform or intellectual property rights otherwise used in our operation. For example, our website may be found to contain pictures that infringe on copyrights of third parties or hotel reviews that are third parties' proprietary information. In addition, some of the software that we are currently using in our business may infringe on third parties' copyrights. If we are found to have infringed on the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question. Moreover, regardless of whether we successfully defend against such claims, we could suffer negative publicity and our reputation could be severely damaged. Any of these events could have a material and adverse effect on our business, financial condition and results of operations.

In addition, user-generated content on our online platform may contain or provide links to information that infringes on the copyrights or other intellectual property rights of third parties or violates applicable rules or regulations in relation to censorship, or we may use the user-generated content in a way that infringes on the rights of the users or third parties. Any claims, with or without merit, could be time-consuming to defend, result in litigation and divert management's attention and resources.

The successful operation of our business depends upon the performance and reliability of the Internet infrastructure and telecommunications networks in China.

Our business depends on the performance and reliability of the Internet infrastructure and telecommunications networks in China. Almost all access to the Internet is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology of the PRC, or the MIIT. In addition, the national networks in China are connected to the Internet through international gateways controlled by the PRC government. These international gateways are the only channels through which domestic users can connect to the Internet. We rely on a limited number of telecommunications service providers, primarily China Telecom and China Unicom, to provide us with data communications capacity. We, our customers or travel suppliers, may not have access to alternative networks in the event of disruptions, failures or other problems with China's Internet infrastructure. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our online platform. However, we have no control over the costs of the services provided by telecommunications service providers. If the prices we pay for telecommunications and Internet services rise significantly, our results of operations may be materially and adversely affected. If Internet access fees or other charges to Internet users increase, the number of Internet users may decline and our business may be harmed. Moreover, if we are not able to renew services agreements with the telecommunications carriers when they expire and are not able to enter into agreements with alternative carriers on commercially reasonable terms or at all, the quality and stability of our online platform may be adversely affected.

We are subject to payment-related risks.

We enable our customers to make payments through our website by working with various third-party online payment processing service providers. As we rely on third parties to provide payment processing services, including processing payments made with credit cards and debit cards, it could disrupt our business if these companies become unwilling or unable to provide these services to us. We may be subject to human error, fraud and other illegal activities in connection with third-party online payment services. If our data security systems are breached or compromised, we may lose our ability to accept credit and debit card payments from our customers, and we may be subject to claims for damages from our customers and third parties, all of which could adversely and materially affect our reputation as well as our results of operations.

If we fail to adopt new technologies or adapt our online platform and management systems to changing user requirements, increasing traffic or emerging industry standards, our business may be materially and adversely affected.

The online travel industry is subject to rapid technological changes. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our online platform. The online travel industry is also characterized by rapid technological evolution and changes in customer requirements and preferences. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business and respond to technological advances and emerging industry standards and practices in a cost-effective and timely manner. The development of our online platform and other proprietary technology entails significant technical and business risks. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or adapt our infrastructure. We may not be able to use new technologies effectively or adapt our online platform, proprietary technologies and operating systems to the requirements of our customers and travel suppliers or emerging industry standards. If we are unable to adapt in a cost-effective and timely manner to changing market conditions or user requirements, whether for technical, legal, financial, or other reasons, our business may be materially and adversely affected.

Our business may be harmed if we are unable to upgrade our systems and infrastructure quickly enough to accommodate increasing traffic levels, or to avoid obsolescence, or successfully integrate any newly developed or purchased technologies with our existing systems. Capacity constraints could cause unanticipated system disruptions, slower response times, poor customer experience, impaired quality and speed of reservations and confirmations and delays in reporting accurate financial and operating information. These factors could cause us to lose customers. Additionally, we will continue to upgrade and improve our technology infrastructure to support our business growth. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies. In particular, our systems may experience interruptions during upgrades, and any new technologies or infrastructures may not be fully integrated with our existing systems on a timely basis, or at all. If our existing or future technology infrastructure does not function properly, it could cause system disruptions and slow response times that affect data transmission, which in turn could materially and adversely affect our business.

We are exposed to risks associated with online security.

The secure transmission of confidential information over the Internet is essential in maintaining customer confidence in us. We conduct a significant portion of our transactions through our website. We utilize digital certificates to help us conduct secure communications and transactions. In addition, sensitive customer information, such as password and payment information, is stored with encryption, and our data servers are secured with firewalls. However, advances in technology or other developments could result in a compromise or breach of the technology that we use to protect customer and transaction data. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us, expose us to legal claims, and adversely affect our operating results.

In addition, our security measures may not be sufficient to prevent security breaches. Any systems failure or compromise of our security that results in the unauthorized access to or release of our customers' data could significantly limit the delivery of our products and services, as well as harm our reputation and brand and, therefore, our business. We spend significant resources on technology and product development to protect against leakage of user information and other security breaches. Nonetheless, given its great commercial value, our customer data may still likely to be misused by third-parties, which could expose us to legal and regulatory risks and seriously harm our business.

On November 7, 2016, the Standing Committee of the National People's Congress issued the Cyber Security Law, which came into effect on June 1, 2017. The Cyber Security Law, effective on June 1, 2017, stipulates that a network operator, including internet information service provider among others, must adopt technical measures and other necessary measures in accordance with the applicable laws and regulations as well as compulsory national and industrial standards to safeguard the safety and stability of network operations, effectively respond to network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. Although we take measures to comply with the Cyber Security Law and the applicable laws, regulations and standards, and we believe our current business operation is in line with the requirements under the Cyber Security Law and the applicable laws, regulations and standards, there can be no assurance that our measures will be effective and sufficient under the Cyber Security Law and the applicable laws, regulations and standards. In addition, if we were found by the regulatory authorities to have violated the Cyber Security Law and the applicable laws, regulations and standards, we would be subject to warnings, fines, confiscation of illegal revenue, revocation of licenses, cancellation of filings, shutdown of our platform or even criminal liability and our business, results of operations and financial condition would be materially adversely affected. Furthermore, in light of the evolving regulatory framework of China for the protection of information in cyberspace, we may be subject to uncertainties of and adjustments to our business operations, which may incur additional operating expenses and adversely affect our results of operations and financial condition.

Our use of open source software could adversely affect our ability to offer our products and services and subject us to possible litigation.

We use open source software in connection with our development of technology infrastructure. From time to time, companies that use open source software have faced claims challenging the use of open source software and/or compliance with open source license terms. We could be subject to suits by parties claiming ownership of what we believe to be open source software, or claiming noncompliance with open source licensing terms. Some open source licenses require users who distribute software containing open source to make available all or part of such software, which in some circumstances could include valuable proprietary code. While we monitor the use of open source software and try to ensure that none is used in a manner that would require us to disclose our proprietary source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur, in part because open source license terms are often ambiguous. Any requirement to disclose our proprietary source code or pay damages for breach of contract could be harmful to our business, results of operations or financial condition, and could help our competitors develop travel products and services that are similar to or better than ours.

We may not be successful in pursuing strategic alliances and acquisitions, and future alliances and acquisitions may not bring us anticipated benefits.

Part of our growth strategy is the pursuit of strategic alliances and acquisitions. There can be no assurance that we will succeed in implementing this strategy as it is subject to many factors which are beyond our control, including our ability to identify and successfully execute suitable acquisition opportunities and alliances. Any future acquisitions, investments, and strategic alliances may expose us to new operational, regulatory and market risks, as well as risks associated with additional capital requirements, including risks associated with unforeseen or hidden liabilities, diversion of management resources and costs of integrating acquired businesses, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions, and potentially significant loss of investments. Any acquisitions we pursue could also create difficulties with integrating the technology of acquired businesses with our existing technology, and employees of acquired businesses into the various departments and ranks in our company, and it could take substantial time and effort to integrate the business processes being used in the acquired businesses with our existing business processes. Should we fail to integrate acquired companies efficiently, our earnings, revenues, gross margins, operating margins and business operations could be negatively affected. Furthermore, acquired companies may not perform to our expectations for various reasons, including legislative or regulatory changes that affect the products and services in which the acquired companies specialize and the loss of key personnel and customer accounts. Any alliances we pursue could also subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third party and increased expenses in establishing new strategic alliances, any of which may materially and adversely affect our business. We may also have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic third parties suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third party.

We may not be able to identify suitable future acquisition or investment candidates or alliance partners. Moreover, there is no assurance that such alliances or acquisitions will achieve our intended objectives or benefits. Even if we identify suitable candidates or partners, we may be unable to complete an acquisition, investment or alliance on terms commercially acceptable to us. If we fail to identify appropriate candidates or partners, or complete desired acquisitions, investments or alliances, we may not be able to implement our strategies effectively or efficiently, and our overall profitability and growth plans may be adversely affected.

If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately report our results of operations or prevent fraud or fail to meet our reporting obligations, and investor confidence and the market price of our ADSs may be materially and adversely affected.

We are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. In addition, our independent registered public accounting firm must report on the effectiveness of our internal control over financial reporting.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. See “Item 15. Controls and Procedures.” Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting was effective in all material aspects as of December 31, 2018. However, if we fail to maintain the effectiveness of our internal control over financial reporting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports. As a result, any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could negatively impact the trading price of our ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

We have limited business insurance coverage in China.

Insurance companies in China offer limited business insurance products. Business disruption insurance is available to a limited extent in China, but we have determined that the risks of disruption, the cost of such insurance and the difficulties associated with acquiring such insurance make it commercially impractical for us to have such insurance. We maintain insurance coverage for travel company liabilities, but we do not maintain insurance coverage for business disruptions and would have to bear the costs and expenses associated with any such events out of our own resources.

We may need additional capital, and financing may not be available on terms acceptable to us, or at all.

Although we believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. We may require additional cash resources due to changed business conditions or other future developments, including any marketing initiatives or investments we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

We have granted share options and restricted shares, and may grant share options and other share-based awards in the future, which may materially increase our net loss.

We adopted an incentive compensation plan in 2008, or the 2008 Plan, which permits the granting of options to purchase our ordinary shares and restricted shares. We also adopted a separate incentive compensation plan in 2014, or the 2014 Plan, which permits the granting of options to purchase our ordinary shares, restricted shares and restricted share units. In particular, our 2014 Plan contains an evergreen provision which allows us to automatically increase the maximum aggregate number of ordinary shares reserved under the 2014 Plan to 5% of the then-issued and outstanding shares on an as-converted basis without shareholder approval, if and whenever the shares reserved in the 2014 Plan account for less than 1% of the total then-issued and outstanding shares on an as-converted basis. For more details regarding the 2008 Plan and the 2014 Plan, see “Item 6.B. Directors, Senior Management and Employees—Compensation.” As of February 28, 2019, there were options to acquire 3,881,334 ordinary shares outstanding under the 2008 Plan, and options to acquire 20,892,957 ordinary shares and 208,176 restricted shares outstanding under the 2014 Plan. In addition, we plan to grant employees share options and other share-based compensation in the future. Expenses associated with share-based awards may materially impact our results of operations.

Risks Related to Our Corporate Structure

Substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations relating to restrictions on foreign investment in value-added telecommunications and travel companies in China. If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, we could be subject to severe penalties, including shutting down of our online platform.

Foreign ownership of Internet-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates Internet access, the distribution of online information and the conduct of online commerce through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership in PRC companies that provide Internet content distribution services. Specifically, foreign investors are prohibited from owning more than 50% of the equity interest in any PRC entity conducting value-added telecommunications business, except for online data processing and transaction processing business (operational e-commerce), in which foreign investors are allowed to hold up to 100% of the equity interest. The Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business issued by the Ministry of Industry and Information Technology in July 2006, or the MIIT Circular, reiterated the regulations on foreign investment in telecommunications business, which require foreign investors to set up foreign-invested telecom enterprises and obtain business operating licenses for Internet content provision, or an ICP license to conduct any value-added telecommunications business in China. Under 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. Due to a lack of interpretation from the MIIT, it is unclear what impact the MIIT Circular will have on us or other PRC Internet companies that have adopted the same or similar corporate structures and contractual arrangements as ours. Nanjing Tuniu holds our ICP licenses, and owns the domain name used in our value-added telecommunications business. Nanjing Tuniu is also the owner of all registered trademarks used in our value-added telecommunications business and is the applicant of all the applications for trademark registration we have made.

We are a Cayman Islands company and our wholly owned PRC subsidiary, Beijing Tuniu Technology Co., Ltd., or Beijing Tuniu, is considered a foreign invested enterprise. To comply with PRC laws and regulations, we conduct our operations in China through a series of contractual arrangements entered into among Beijing Tuniu, Nanjing Tuniu, and the shareholders of Nanjing Tuniu. As a result of these contractual arrangements, we exert control over Nanjing Tuniu and its subsidiaries and consolidate their results of operations in our financial statements under U.S. GAAP. For a detailed description of these contractual arrangements, see “Item 4.C. Information on the Company—Organizational Structure.”

In the opinion of our PRC counsel, Fangda Partners, our current ownership structure, the ownership structure of our PRC subsidiaries and our consolidated affiliated entities, each of the shareholders’ voting rights agreement, powers of attorney, equity interest pledge agreement and purchase option agreement entered into among Beijing Tuniu, Nanjing Tuniu and the shareholders of Nanjing Tuniu, and the cooperation agreement between Beijing Tuniu and Nanjing Tuniu, which establish our contractual arrangement with Nanjing Tuniu and its shareholders, and, except as otherwise disclosed in this annual report, our business operations are not in violation of existing PRC laws, rules and regulations. However, we are advised by our PRC counsel, Fangda Partners, that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations and there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of our PRC counsel stated above.

In or around September 2011, various media sources reported that the China Securities Regulatory Commission, or the CSRC, had prepared a report proposing regulating the use of variable interest entity structures, such as ours, in industry sectors subject to foreign investment restrictions in China and overseas listings by China-based companies. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide.

If our ownership structure, contractual arrangements and business of our company, our PRC subsidiaries or our consolidated affiliated entities are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant governmental authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income or the income of our PRC subsidiaries or consolidated affiliated entities, revoking the business licenses or operating licenses of our PRC subsidiaries or consolidated affiliated entities, shutting down our servers or blocking our online platform, discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring, restricting or prohibiting our use of proceeds from our earlier initial public offering and the related concurrent private placement as well as our subsequent private placement in December 2014, May 2015 and November 2015 to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business. Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of our consolidated affiliated entities that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of our consolidated affiliated entities, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in industries that are currently subject to foreign investment restrictions in China. See “—Risks Related to Our Corporate Structure—Substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations relating to restrictions on foreign investment in value-added telecommunications and travel companies in China. If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, we could be subject to severe penalties, including the forced closure of our online platform” and “Item 4.C. Information on the Company—Organizational Structure.” The MOC published a discussion draft of the proposed Foreign Investment Law in January 2015, or the 2015 draft PRC Foreign Investment Law, according to which, variable interest entities that are controlled via contractual arrangements would be deemed as FIEs, if they are ultimately “controlled” by foreign investors. In March 2019, the PRC National People’s Congress promulgated the Foreign Investment Law, or the 2019 PRC Foreign Investment Law, which will become effective on January 1, 2020 and will replace the major existing laws and regulations governing foreign investment in the PRC. Pursuant to the 2019 PRC Foreign Investment Law, “foreign investments” refer to investment activities conducted by foreign investors directly or “indirectly” in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment in other methods as specified in laws and administrative regulations, or as stipulated by the State Council. Although the 2019 PRC Foreign Investment Law does not use the concept of “control” in determining whether a company should be considered as a foreign-invested enterprise, nor does it explicitly provide the VIE structure as a method of foreign investment, as the 2019 PRC Foreign Investment Law is newly adopted and relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the 2019 PRC Foreign Investment Law, the possibility can’t be ruled out that the concept of “control” as stated in the 2015 Draft PRC Foreign Investment Law may be reimposed, or the “variable interest entity” structure adopted by us may be deemed as a method of foreign investment by, any of such future laws, regulations and rules, which cause significant uncertainties as to whether our VIE structures would be treated as a method of foreign investment. If our VIE structure would be deemed as a method of foreign investment under any of such future laws, regulations and rules, and any of our businesses operation would fall in the “negative list” for foreign investment that is subject to any foreign investment restrictions or prohibitions, we would be required to take further actions to comply with such laws, regulations and rules, which may materially and adversely affect our current corporate structure, corporate governance, business, financial conditions and results of operations.

The 2019 PRC Foreign Investment Law requires foreign investors or applicable FIEs to report investment information to government authority. Although the 2019 PRC Foreign Investment Law does not specify the form, content, scope and frequency of such information reporting, it imposes up to RMB 500,000 monetary fines on non-compliance of such information report obligations. The PRC governmental authorities may promulgate implementation rules to further clarify the detailed information reporting requirements on foreign investors and the applicable FIEs. In that case, our current corporate governance practices and business operations may need to be adjusted to comply with the information reporting requirements, which would significantly increase our compliance costs, and have a material and adverse effect on our current corporate structure, corporate governance, business, financial conditions and results of operations.

We rely on contractual arrangements with Nanjing Tuniu and its shareholders for the operation of our business, which may not be as effective as direct ownership. If Nanjing Tuniu or its shareholders fail to perform their obligations under these contractual arrangements, we may have to resort to litigation or arbitration to enforce our rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation. If we are unable to maintain effective control we would not be able to continue to consolidate the financial results of our consolidated affiliated entities with our financial results.

Although we have been advised by our PRC counsel, Fangda Partners, that our contractual arrangements with Nanjing Tuniu and its shareholders did not and does not result in any violation of current PRC laws, these contractual arrangements may not be as effective in providing control as direct ownership. If Nanjing Tuniu or its shareholders fail to perform their obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under contract law, including seeking specific performance or injunctive relief and claiming damages, which we cannot assure you will be effective. For example, if the shareholders of Nanjing Tuniu refuse to transfer their equity interests in Nanjing Tuniu to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they otherwise act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations. Furthermore, while the company chops of Nanjing Tuniu are held by its legal and accounting departments, our ability to ensure its performance under the contractual agreements may be limited if we are unable to secure control of the company chops in the event of a dispute with its management or shareholders, as many official documents require affixation of company chops to become fully effective. If we were the controlling shareholder of Nanjing Tuniu with direct ownership, we would be able to exercise our rights as shareholders to effect changes to its board of directors, which in turn could implement changes at the management and operational level.

All the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. There remain significant uncertainties regarding how our contractual arrangements would be interpreted under PRC laws and the ultimate outcome of the resolution of disputes in relation to such contractual arrangements, should arbitration become necessary. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Under PRC laws, if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over Nanjing Tuniu and its shareholders, and our ability to conduct our business may be negatively affected. If we are unable to maintain effective control, we would not be able to continue to consolidate the financial results of our consolidated affiliated entities with our financial results.

The shareholders of Nanjing Tuniu may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

We have designated individuals who are PRC nationals to be the shareholders of Nanjing Tuniu. The equity interests of Nanjing Tuniu are held by Messrs. Dundu Yu, Haifeng Yan, Tong Wang, Jiping Wang, Xin Wen, Yongquan Tan and Haifeng Wang. The interests of these individuals as the shareholders of Nanjing Tuniu may differ from the interests of our company as a whole. These shareholders may breach, or cause Nanjing Tuniu to breach, the existing contractual arrangements we have with them and Nanjing Tuniu, which would have a material and adverse effect on our ability to effectively control Nanjing Tuniu. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the purchase option agreement with these shareholders to request them to transfer all of their equity interests in Nanjing Tuniu to a PRC entity or individual designated by us, to the extent permitted by PRC laws. We rely on Messrs. Dundu Yu, who is our founder, director and beneficial owner, Messrs. Haifeng Yan, who was our co-founder and is our director and beneficial owner, Messrs. Tong Wang, Jiping Wang, Xin Wen and Yongquan Tan, who are our beneficial owners and Mr. Haifeng Wang, who is an employee of one of our shareholders, to abide by the PRC law. If we cannot resolve any conflict of interest or dispute between us and the shareholders of Nanjing Tuniu, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Our contractual arrangements with Nanjing Tuniu and its shareholders may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially increase our consolidated net loss and reduce the value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among Beijing Tuniu, Nanjing Tuniu and the shareholders of Nanjing Tuniu do not represent an arm's-length transaction and adjust Nanjing Tuniu's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by Nanjing Tuniu, which could in turn increase its tax liabilities without reducing our tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to Nanjing Tuniu for under-paid taxes. Our consolidated net loss may be increased if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

If Nanjing Tuniu becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy its assets, which could materially and adversely affect our business.

To comply with PRC laws and regulations relating to foreign ownership restrictions in the online value-added telecommunications business, we hold our ICP license and operate our business through contractual arrangements with Nanjing Tuniu as well as its shareholders. As part of these arrangements, Nanjing Tuniu holds assets that are important to the operation of our business.

We do not have priority pledges or liens against Nanjing Tuniu's assets. As a contractual and property right matter, this lack of priority pledges and liens has remote risks. If Nanjing Tuniu undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on Nanjing Tuniu's assets. If Nanjing Tuniu undergoes a voluntary liquidation, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by Nanjing Tuniu to Beijing Tuniu under the cooperation agreement between them. To ameliorate the risks of an involuntary liquidation proceeding initiated by a third-party creditor, we closely monitor the operations and finances of Nanjing Tuniu through carefully designed budgetary and internal controls to ensure that Nanjing Tuniu is well capitalized and is highly unlikely to trigger any third party monetary claims in excess of its assets and cash resources. Furthermore, Beijing Tuniu has the ability, if necessary, to provide financial support to Nanjing Tuniu to avoid such an involuntary liquidation.

If the shareholders of Nanjing Tuniu were to attempt to voluntarily liquidate Nanjing Tuniu without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request Nanjing Tuniu's shareholders to transfer all of their equity interests to a PRC entity or individual designated by us in accordance with the purchase option agreement with the shareholders of Nanjing Tuniu, to the extent permitted by PRC laws. In the event that the shareholders of Nanjing Tuniu initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of Nanjing Tuniu without our prior consent, we may need to resort to legal proceedings to enforce the terms of the contractual agreements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding would be uncertain.

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.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our PRC subsidiaries and consolidated affiliated entities are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.

Our business operations are based in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by economic, political and social conditions or government policies in China generally and by continued economic growth in China as a whole.

China's economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While China's economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and in the recent years, the growth has been slowing down. Some of the government measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. Any stimulus measures designed to boost the Chinese economy may contribute to higher inflation, which could adversely affect our financial condition and results of operations. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation.

The PRC government regulates travel and other related industries. If we fail to obtain or maintain all pertinent permits and approvals or if the PRC government imposes more restrictions on these industries, our business may be adversely affected.

We are required to obtain applicable permits or approvals from regulatory authorities to conduct our business activities. See "Item 4.B. Information on the Company—Business Overview—PRC Regulation." If we fail to obtain or maintain any of the required permits or approvals in the future, we may be subject to various penalties, such as fines or suspension of operations in these regulated businesses, which could severely disrupt our business operations. As a result, our financial condition and results of operations may be adversely affected.

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.

Under the PRC Enterprise Income Tax Law, or the EIT Law, that became effective on January 1, 2008 and was amended in February 2017 and December 2018, respectively, 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 to the EIT Law, or 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 and was amended in December 2017 by the State Administration of Taxation, or the SAT, 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, 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.

We do not believe that Tuniu Corporation meets all of the conditions above and thus we do not believe that it is a PRC resident enterprise for PRC enterprise income tax purposes, despite the fact that all of the members of our management team as well as the management team of Tuniu (HK) Limited are located in China. However, if the PRC tax authorities determine that it is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we will be subject to the uniform 25% enterprise income tax on our worldwide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Second, although dividends paid by one PRC tax resident to another PRC tax resident should qualify as “tax-exempt income” under the EIT Law, we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax on dividends, and the PRC tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are not controlled by any PRC enterprise or PRC enterprise group and treated as PRC resident enterprises for PRC enterprise income tax purposes.

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 otherwise provides. 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. It is also 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. If PRC income tax were imposed on gains realized through the transfer of our ADSs or ordinary shares or on dividends paid to our non-PRC resident investors, the value of the investment in our ADSs or ordinary shares may be materially and adversely affected. Furthermore, our ADS holders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

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.

According to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (“Bulletin 7”) promulgated by the SAT in February 2015, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by transfer of the equity interests of an offshore holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public stock market) without a reasonable commercial purpose, the PRC tax authorities have the discretion to reassess the nature of the transaction and the indirect equity transfer will be treated as a direct transfer. As a result, gains derived from such transfer, which means the equity transfer price minus the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of Bulletin 7, the transfer that meets all of the following conditions shall be directly deemed as having no reasonable commercial purposes: (i) more than 75% of the value of the equity interests of the offshore holding company are directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company’s revenue is directly or indirectly derived from PRC territory; (iii) the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; or (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties.

There is uncertainty as to the interpretation and application of Bulletin 7. If an Indirect Transfer occurs for us, we and our non-PRC resident investors may be at risk of being taxed under Bulletin 7, and we may be required to expend valuable resources to comply with Bulletin 7 or to establish that we should not be taxed under Bulletin 7.

PRC regulations establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

Six PRC regulatory agencies promulgated regulations effective in September 2006 that are commonly referred to as the M&A Rules, which were amended on June 22, 2009, with such amendments becoming effective as of the same date. See “Item 4.B. Information on the Company—Business Overview—PRC Regulation.” The M&A Rules establish procedures and requirements that could make some acquisitions of PRC companies by foreign investors more time-consuming and complex, including requirements in some instances that the MOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In addition, national security review rules issued by the PRC governmental authorities in 2011 require acquisitions by foreign investors of domestic companies engaged in military-related or certain other industries that are crucial to national security to be subject to prior security review. Moreover, the Anti-Monopoly Law requires that the State Administration of Market Regulation, or SAMR, shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules, security review rules and other PRC regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOC, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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 liabilities and penalties under PRC laws.

The PRC State Administration of Foreign Exchange, or the SAFE, promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as “SAFE Circular 75” promulgated by SAFE in October, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity for the purpose of overseas investment and financing, with assets or equity interests of onshore companies or offshore assets or interests held by the PRC residents, referred to in SAFE Circular 37 as a “special purpose vehicle.” SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increases or decreases in capital contributed by PRC residents, transfers or exchanges of shares, mergers, divisions, or other material changes. The term “control” under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements.

If our shareholders or beneficial owners who are PRC citizens or residents do not complete their registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liabilities for our PRC subsidiaries under PRC laws for evasion of applicable foreign exchange restrictions, including (1) the requirement by SAFE to return the foreign exchange remitted overseas within a period specified by SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive and (2) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at our PRC subsidiaries who are held directly liable for the violations may be subject to criminal sanctions.

SAFE Circular 37 provides that PRC residents include both PRC citizens, meaning any individual who holds a PRC passport or resident identification card, and individuals who are non-PRC citizens but primarily reside in the PRC due to their economic ties to the PRC. We have requested all of our known current shareholders and/or beneficial owners to disclose whether they or their shareholders or beneficial owners fall within the ambit of SAFE Circular 37 and other related rules, and urged relevant shareholders and beneficial owners, upon learning they are PRC residents, to make the necessary applications, filings and amendments as required under SAFE Circular 37 and other related rules. However, we cannot assure you that they did successfully amend their foreign exchange registrations with the local SAFE branch in compliance with applicable laws after our initial public offering. In addition, we may not be informed of the identities of all the PRC residents holding direct or indirect interests in our company, 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 residents have complied with and will in the future comply with our requests to make or obtain any applicable registrations or comply with other requirements required by SAFE Circular 37 or other related rules. A failure by any of our current or future shareholders or beneficial owners who are PRC residents to comply with the SAFE regulations may subject us to fines or other legal sanctions, restrict our cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

Furthermore, since it is unclear how SAFE Circular 37 and any future regulation concerning offshore or cross-border transactions will be interpreted, amended and implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, either we or the owners of such company, as the case may be, may not be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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 February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plans in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan 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. See "Item 4.B. Information on the Company—Business Overview—PRC Regulation—Regulations on Employee Stock Option Plans."

We and our PRC employees who have been granted share options are subject to these regulations and Beijing Tuniu as an agent has registered with the Beijing Branch of SAFE in connection with the 2008 Plan and the 2014 Plan. We have advised our employees and directors participating in our share incentive plans to handle foreign exchange matters in accordance with the Stock Option Rules. However, we cannot assure you that the share option holders can successfully register with SAFE in full compliance with the Stock Option Rules for material changes of the granted share options. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially adversely affect our business.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities and governmental control of currency conversion may delay or limit us from using the proceeds of our financing activities, including our initial public offering, to make additional capital contributions or loans to our PRC subsidiaries and our consolidated affiliated entities.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries and PRC consolidated affiliated entities, including from the proceeds of our earlier initial public offering and concurrent private placement as well as our subsequent private placements, are subject to PRC laws and regulations. Under PRC laws and regulations, we are permitted to utilize such proceeds to fund our existing PRC subsidiaries and PRC consolidated affiliated entities only through loans or capital contributions or to establish new PRC subsidiaries or new PRC consolidated affiliated entities, subject to applicable government registration and approval requirements. Currently, there is no statutory limit to the amount of funding that we can provide to our PRC subsidiaries through capital contributions. However, the maximum amount we can loan to our PRC subsidiaries and consolidated affiliated entities is subject to statutory limits. According to current PRC laws and regulations, we can provide funding to our PRC subsidiaries through loans of up to either (i) the amount of the difference between the respective registered total investment amount and registered capital of each of our PRC subsidiaries, or the Total Investment and Registered Capital Balance, or (ii) two times, or the then applicable statutory multiple, the amount of their respective net assets, calculated in accordance with PRC GAAP, or the Net Assets Limit, at our election. We may also fund our PRC consolidated affiliated entities through cross-border loans and the maximum amount would be their respective Net Assets Limit. Increasing the Total Investment and Registered Capital Balance of our PRC subsidiaries is subject to governmental procedures and may require a PRC subsidiary to increase its registered capital at the same time. If we choose to make a loan to a PRC subsidiary or PRC consolidated affiliated entity based on its Net Assets Limit, the maximum amount we would be able to loan to the relevant PRC subsidiary or PRC consolidated affiliated entity would depend on the relevant PRC entity's net assets and the applicable statutory multiple at the time of calculation. PRC laws and regulations may also impose more stringent limitations to cross-border loans, which will also have negative impact on our ability to fund our PRC entities.

In August 2008, SAFE promulgated a SAFE Circular 142 regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and unless otherwise provided by law, such Renminbi capital may not be used for equity investments in the PRC. Although on July 4, 2014, the SAFE issued the Circular of the SAFE on Relevant Issues Concerning the Pilot Reform in Certain Areas of the Administrative Method of the Conversion of Foreign Exchange Funds by Foreign-invested Enterprises, or SAFE Circular 36, which launched a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises in certain designated areas from August 4, 2014 and some of the restrictions under SAFE Circular 142 will not apply to the settlement of the foreign exchange capitals of the foreign-invested enterprises established within the designate areas and such enterprises are allowed to use its Renminbi capital converted from foreign exchange capitals to make equity investment, our PRC subsidiary is not established within the designated areas. 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 providing loans to non-affiliated enterprises, except as otherwise expressly permitted under 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. The business scopes of Beijing Tuniu and Tuniu (Nanjing) Information Technology Co., Ltd., or Tuniu NJ Information Technology, include research and development of computer software, network information technology products, computer application systems, e-commerce systems, network security systems and computer system integration; technology services, consulting and transfers; sales of self-developed products; investment consulting; business information consulting; and conference services and public relations advice. Beijing Tuniu and Tuniu NJ Information Technology may only use Renminbi converted from foreign exchange capital contribution for activities within their respective approved business scope. In addition, the use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of these Circulars could result in severe monetary or other penalties. If we convert the net proceeds we receive from our earlier initial public offering and the concurrent private placement as well as our subsequent private placement into Renminbi pursuant to these Circulars, our use of Renminbi funds for general corporate purposes will be within the business scopes of our PRC subsidiaries.

Our PRC subsidiaries are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.

We are a holding company incorporated in the Cayman Islands. We may need dividends and other distributions on equity from our PRC subsidiaries to satisfy our liquidity requirements. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. Our PRC subsidiaries may also allocate a portion of its 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. Furthermore, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements among Beijing Tuniu, Nanjing Tuniu and the shareholders of Nanjing Tuniu in a manner that would materially and adversely affect Beijing Tuniu's ability to pay dividends and other distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends to us or on the ability of Nanjing Tuniu to make payments to us may restrict our ability to satisfy our liquidity requirements.

We may not be able to obtain certain treaty benefits on dividends paid to us by our PRC subsidiaries through our Hong Kong subsidiary.

Under the EIT Law, dividends generated from retained earnings after January 1, 2008 from a PRC company and distributed to a foreign parent company are subject to a withholding tax rate of 10% unless the foreign parent's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, or the Hong Kong Tax Treaty, which became effective on December 8, 2006, a company incorporated in Hong Kong, such as Tuniu (HK) Limited, will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries, if it holds a 25% or more interest in that particular PRC subsidiary, or 10% if it holds less than a 25% interest in that subsidiary. However, the SAT promulgated SAT Circular 9 on February 3, 2018, which became effective from April 2018 and replaced Circular 601 issued by SAT on October 27, 2009 and the Announcement of the SAT regarding Recognition of "Beneficial Owner" under Tax Treaties, or Announcement 30 issued on June 29, 2012. Circular 9 stipulates that in determining whether a non-resident enterprise has the status as a beneficial owner, comprehensive analysis shall be conducted based on the factors provided in Circular 9 and the actual circumstances of the specific case shall be taken into consideration. Specifically, Circular 9 expressly excludes an agent or a designated payee from being considered as a "beneficial owner." As a result, although our PRC subsidiaries, Beijing Tuniu and Tuniu NJ Information Technology, are currently wholly owned by our Hong Kong subsidiary, Tuniu (HK) Limited, we cannot assure you that we would be entitled to the tax treaty benefits and enjoy the favorable 5% rate applicable under the Hong Kong Tax Treaty. If Tuniu (HK) Limited is not recognized as the beneficial owner of the dividends paid to it by Beijing Tuniu or Tuniu NJ Information Technology, such dividends will be subject to a normal withholding tax of 10% as provided by the EIT Law.

Discontinuation or revocation of any of the preferential tax treatments and government subsidies or imposition of any additional taxes or surcharges could adversely affect our financial condition and results of operations.

Our PRC subsidiaries are incorporated in the PRC and governed by applicable PRC tax laws and regulations. The EIT Law and its Implementation Rules have adopted a uniform statutory enterprise income tax rate of 25% to all enterprises in China, including foreign-invested enterprises. The EIT Law and its Implementation Rules also permit qualified "high and new technology enterprises," or HNTEs, to enjoy a preferential enterprise income tax rate of 15% upon filing with the relevant tax authorities. The qualification as a HNTE is generally effective for a term of three years and the renewal of such qualification is subject to review by the relevant authorities in China. Nanjing Tuniu obtained its HNTE certificate in 2010 with a valid period of three years and successfully renewed such certificate in December 2013 for additional three years and December 2016 for another three years. 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. If Nanjing Tuniu fails to maintain its HNTE qualification or renew its qualification when its current term expires, its applicable enterprise income tax rate may increase to 25%, which could have an adverse effect on our financial condition and results of operations.

In addition, our PRC subsidiaries have received various financial subsidies from PRC local government authorities. Preferential tax treatments and financial subsidies are subject to review and may be adjusted or revoked at any time in the future. The discontinuation of any preferential tax treatments or financial subsidies or imposition of any additional taxes or surcharges could adversely affect our financial condition and results of operations.

Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.

We generate all of our revenues and incur substantially all of our expenses in Renminbi, and substantially all of our sales and supply contracts are denominated in Renminbi. As a result, fluctuations in the exchange rates between the U.S. dollar and Renminbi will affect the relative purchasing power in Renminbi terms of our U.S. dollar assets and the proceeds received from our earlier initial public offering, related concurrent private placement and our subsequent private placements which took place in December 2014 and May 2015. As the functional currency for our PRC subsidiaries and affiliated PRC entities is Renminbi, fluctuations in the exchange rates may also cause us to incur foreign exchange losses on any foreign currency holdings they may have. In addition, appreciation or depreciation in the value of Renminbi relative to the U.S. dollar would affect our financial results in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. If we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of U.S. dollar against Renminbi would have a negative effect on the U.S. dollar amount available to us.

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. Since October 1, 2016, Renminbi has joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. 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. Any significant appreciation or depreciation of the Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert the U.S. dollars we received from our initial public offering into Renminbi to pay our operating expenses, any appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, a significant depreciation of the Renminbi against the U.S. dollar may significantly reduce the amount of the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

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.

Six PRC regulatory agencies, including the China Securities Regulatory Commission, or the CSRC, promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and was subsequently amended. The M&A Rules, among other things, require offshore special purpose vehicles controlled by PRC companies or individuals formed for the purpose of an overseas listing of such PRC companies' or individuals' interests in PRC domestic companies to obtain the CSRC's approval prior to listing their securities on an overseas stock exchange. The application of this regulation remains unclear. Our PRC counsel, Fangda Partners, has advised us that, based on its understanding of the current PRC laws, rules and regulations, we are not required to submit an application to the CSRC for its approval of the listing and trading of our ADSs on the Nasdaq Global Market, because:

- the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like our initial public offering are subject to this regulation;
- our wholly owned PRC subsidiaries were established by means of foreign direct investment, rather than through a merger or acquisition of domestic companies, as defined under the M&A Rules; and
- there is no provision in the M&A Rules that explicitly classifies contractual arrangements as a type of transaction subject to the M&A Rules.

There is uncertainty as to how this regulation will be interpreted or implemented. If it is determined that the CSRC approval was required for our initial public offering, we may face sanctions by the CSRC or other PRC regulatory agencies for failure to seek the CSRC's approval for our initial public offering. These sanctions may include fines and penalties on our operations in the PRC, delays or restrictions on the repatriation of the proceeds from our initial public offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our PRC subsidiaries, or other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

Online payment systems in China are at the stage of development and may restrict our ability to expand our online business.

Online payment systems in China are at the stage of development. Although major Chinese banks are instituting online payment systems, these systems are not as widely acceptable to consumers in China as in the United States and other developed countries. The lack of wide acceptance of online payment systems and concerns regarding the adequacy of system security may limit the number of online commercial transactions that we can service. If online payment services and their security capabilities are not significantly enhanced, our ability to grow our online business may be limited.

The Internet market has not been proven as an effective commercial medium in China. The Internet penetration rate in China is lower than those in the United States and other developed countries. Our future results of operations from online business will depend substantially upon the increased use and acceptance of the Internet for distribution of products and services and facilitation of commerce in China.

The Internet may not become a viable commercial medium in China for various reasons in the foreseeable future. More salient impediments to Internet development in China include:

- consumer dependence on traditional means of commerce;
- inexperience with the Internet as a sales and distribution channel;
- inadequate development of the necessary infrastructure;
- concerns about security, reliability, cost, ease of deployment, administration and quality of service associated with conducting business and settling payment over the Internet;

- inexperience with credit card usage or with other means of electronic payment; and
- limited use of personal computers.

If the Internet is not widely accepted as a medium for online commerce in China, our ability to grow our online business would be impeded.

Implementation of laws and regulations relating to data privacy in China could adversely affect our business.

Certain data and services collected, provided or used by us or provided to and used by us are currently subject to regulation in certain jurisdictions, including China. The PRC Constitution states that PRC laws protect the freedom and privacy of communications of citizens and prohibit infringement of such basic rights, and the PRC Contract Law prohibits contracting parties from disclosing or misusing the trade secrets of the other party. Further, companies or their employees who illegally trade or disclose customer data may face criminal charges. Although the definition and scope of “privacy” and “trade secret” remain relatively ambiguous under PRC laws, growing concerns about individual privacy and the collection, distribution and use of information about individuals have led to national and local regulations that could increase our expenses.

In December 2012, the Standing Committee of the National People’s Congress enacted the Decision to Enhance the Protection of Network Information, or the Information Protection Decision, to further enhance the protection of users’ personal information in electronic form. The Information Protection Decision provides that Internet information services providers must expressly inform their users of the purpose, manner and scope of the collection and use of users’ personal information by Internet information services providers, publish the Internet information services providers standards for their collection and use of users’ personal information, and collect and use users’ personal information only with the consent of the users and only within the scope of such consent. The Information Protection Decision also mandates that Internet information services providers and their employees keep users’ personal information that they collect strictly confidential, and that they must take such technical and other measures as are necessary to safeguard the information against disclosure, damages and loss. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People’s Congress in August 2015 and becoming effective in November 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, shall be subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client’s information; (iii) any serious loss of criminal evidence; or (iv) other severe situation, and any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtain any personal information, shall be subject to criminal penalty in severe situation. Compliance with current regulations and regulations that may come into effect in these areas may increase our expenses related to regulatory compliance, which could have an adverse effect on our financial condition and results of operations.

The PRC regulatory and enforcement regime with regard to data security and data protection is evolving. For example, the Cyber Security Law sets high requirements for the operational security of facilities deemed to be part of the PRC’s “critical information infrastructure.” New laws or regulations concerning data protection, or the interpretation and application of existing consumer and data protection laws or regulations, which is often uncertain and in flux, may be inconsistent with our practices. If so, in addition to the possibility of violation of laws and fines imposed by regulatory authorities, this could result in an order requiring that we change our practices, which could have an adverse effect on our business and operating results. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

Regulation and censorship of information distribution over the Internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from or linked to our website.

The PRC government has adopted regulations governing Internet access and the distribution of information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is reactionary, obscene, superstitious, fraudulent or defamatory. Failure to comply with these regulations may result in the revocation of licenses to provide Internet content and other licenses, the closure of the concerned websites. A website operator may also be held liable for such censored information displayed on or linked to its website. For a detailed discussion, see “Item 4.B. Information on the Company—Business Overview—PRC Regulation—Regulations on Information Security and Censorship.” We have a team dedicated to screening and monitoring content published on our online platform and removing prohibited content. However, we may have difficulty identifying and removing all illegal content displayed on or linked to our website, which could expose us to the penalties described above.

Increases in labor costs in the PRC may adversely affect our business and results of operations.

The economy of China has been experiencing increases in inflation and labor costs in recent years. As a result, the average wage in the PRC is expected to continue to grow. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. If the relevant PRC authorities determine that we shall make supplemental social insurance and housing fund contributions and that we are subject to fines and legal sanctions, our business, financial condition and results of operations may be adversely affected. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our customers by increasing the prices of our products and services, our financial condition and results of operations may be materially and adversely affected.

We face certain risks relating to the real properties that we lease.

We lease real properties from third parties primarily for our office use in the PRC. Our leasehold interests in a number of these leased properties may be defective as a result of the lessors' lack of proper title or right to lease. As a result, we cannot assure you that our leasehold interests will not be challenged. In addition, we have not registered the vast majority of our lease agreements with the relevant PRC governmental authorities as required by PRC law, and although failure to do so does not in itself invalidate the leases, we may not be able to defend these leases against bona fide third parties. As of the date of this annual report, we are not subject to any actions, claims or investigations pending or threatened in writing by government authorities or third parties with respect to defects in our leased properties. However, if third parties who purport to be property owners or beneficiaries of the mortgaged properties challenge our right to lease these properties, we may not be able to protect our leasehold interests and may be ordered to vacate the affected premises, which could materially and adversely affect our business and results of operations.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the Public Company Accounting Oversight Board (United States), or PCAOB, and are subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess their compliance with the relevant professional standards. Because our auditor is located in the Peoples' Republic of China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the PRC authorities, our auditor is not currently inspected by the PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

PCAOB's inspections of other firms outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB's inspections in China prevents the PCAOB from regularly evaluating audits and quality control procedures of any auditors operating in China, including our auditor. As a result, investors may be deprived of the benefits of PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Additional remedial measures could be imposed on certain PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings instituted by the SEC, as a result of which our financial statements may be determined to not be in compliance with the requirements of the Exchange Act, if at all.

In December 2012, the SEC brought administrative proceedings against the PRC-based affiliates of the Big Four accounting firms, including our independent registered public accounting firm, alleging that they had violated U.S. securities laws by failing to provide audit work papers and other documents related to certain other PRC-based companies under investigation by the SEC. On January 22, 2014, an initial administrative law decision was issued, censuring and suspending these accounting firms from practicing before the SEC for a period of six months. The decision was neither final nor legally effective until reviewed and approved by the SEC, and on February 12, 2014, the PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to such firms' audit documents via the CSRC. If these accounting firms failed to meet the specified criteria during a period of four years starting from the settlement date, or if there was a failure in the process between the SEC and the CSRC, the SEC retained authority to impose a variety of additional remedial measures on the accounting firms depending on the nature of the failure. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was February 6, 2019. We cannot predict if the SEC will further challenge the four PRC-based accounting firms' compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions. If additional challenges are imposed on the Chinese affiliates of the "big four" accounting firms, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In the event the Chinese affiliates of the "big four" become subject to additional legal challenges by the SEC or PCAOB, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding PRC-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ordinary shares from the Nasdaq Global Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our ADSs

The trading prices of our ADSs have fluctuated and may continue to be volatile.

The trading prices of our ADSs have fluctuated since we first listed our ADSs. From the time our ADSs became listed on Nasdaq on May 9, 2014 through April 1, 2019, the trading price of our ADSs has ranged from US\$24.99 to US\$4.34 per ADS, and the last reported trading price on April 1, 2019 was US\$4.82 per ADS. The prices of our ADSs may continue to fluctuate because of broad market and industry factors, like the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. The widespread negative publicity of alleged fraudulent accounting practices and poor corporate governance of certain U.S. public companies with operations in China in recent years were believed to have negatively affected investors' perception and sentiment towards companies with connection with China, which significantly and negatively affected the trading prices of some companies' securities listed in the U.S. Any similar negative publicity or sentiment may affect the performances of our ADSs. The securities of some PRC companies that have listed their securities on U.S. stock markets have experienced significant volatility. The trading performances of these PRC companies' securities after their offerings may affect the attitudes of investors toward PRC companies listed in the United States in general and consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. The trading prices of our ADSs may also be affected by changes in the U.S. stock markets in general.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- the financial projections that we may choose to provide to the public, any changes in those projections or our failure for any reason to meet those projections;

- variations in our revenues, net income and cash flow;
- announcements of new investments, acquisitions, strategic partnerships, or joint ventures;
- announcements of new products, services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- potential litigation or regulatory investigations; and
- fluctuations in market prices for our products or services.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs trade.

If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our ADSs, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs will be influenced by research or reports that securities or industry analysts publish about our business. If one or more analysts who cover us downgrade our ADSs, or publish unfavorable research about us, the market price for our ADSs would likely decline. Failure to meet expectations driven by analyst research or reports, even by aggressive research or reports, may cause the market price of our ADSs to decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline.

Our dual class share structure with different voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share, with Class A and Class B ordinary shares voting together as one class on all matters subject to a shareholders' vote. Due to the disparate voting powers attached to these two classes of ordinary shares, holders of our Class B ordinary shares collectively beneficially owned approximately 4.71% of our outstanding ordinary shares as of February 28, 2019, representing 33.06% of our total voting power. As of February 28, 2019, our directors and officers beneficially own an aggregate of 72.5% of our outstanding shares representing 68.8% of our total voting power.

As a result of the dual class share structure and the concentration of ownership, holders of our Class B ordinary shares have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial. For more information regarding our principal shareholders and their affiliated entities, see "Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders."

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. As of February 28, 2019, we had 389,331,544 ordinary shares outstanding, comprising of (i) 371,958,044 Class A ordinary shares (including 20,256,207 Class A ordinary shares, represented by 6,752,069 ADSs, repurchased and reserved for the future exercise of options or the vesting of other awards under the 2008 Plan and the 2014 Plan), and (ii) 17,373,500 Class B ordinary shares. Among these shares, 86,577,000 Class A ordinary shares are in the form of ADSs, which are freely transferable by persons other than our affiliates without restriction or additional registration under the Securities Act. The remaining Class A ordinary shares outstanding will be available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs. In addition, certain holders of our Class B ordinary shares are entitled to certain registration rights in the event that specified conditions are met, including demand registration rights, piggyback registration rights, and Form F-3 or Form S-3 registration rights. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market, or the perception that such sales could occur, could cause the price of our ADSs to decline.

We may be classified as a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to United States investors in the ADSs or ordinary shares.

Under United States federal income tax law, we will be classified as a “passive foreign investment company,” or PFIC, for any taxable year, if either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of our 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”). Although the law in this regard is unclear, we treat Nanjing Tuniu and its subsidiaries as being owned by us for United States federal income tax purposes, not only because we exercise effective control over their operations, 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, 2018 or any future taxable year. The determination of whether we are or will become a PFIC is uncertain, because it is a fact-intensive inquiry made on an annual basis that depends, in part, on the composition of our income and assets. Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years because the value of assets for the purpose of the asset test may be determined by reference to the market price of our ADSs from time to time (which may be volatile). 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.

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 depositary. However, the depositary 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 depositary 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 depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary 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 overseas 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.

During the year ended December 31, 2018, we acquired 80% of equity interests of one offline travel agency, to further expand our overseas tourism market and promote our destination local tour operator service. The total purchase price was RMB20.2 million (US\$2.9 million), which included cash consideration of RMB9.8 million (US\$1.4 million) and RMB10.4 million (US\$1.5 million), the fair value of contingent cash consideration, as at the acquisition date, to be made based on the achievement of net 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% of our packaged tour gross bookings in 2018.

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 water resort 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 group trips, 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 of 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 for 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, 2018, we had more than approximately 6 million customer reviews and approximately 90,000 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, customized 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, themed tours, hotels, destination activities 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 in the years of 2014, 2015, 2016 and 2018, a call center and business process outsourcing industry group, for offering outstanding call center and customer service experiences. We were awarded the Call Center with best user feedback by CAEC in 2017, and the Best Call Center by CCCS in years of 2017 and 2018.

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, 2018, 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 a major conference event for our travel suppliers each year and present to our travel suppliers our projected travel demand trends. 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. We have offline retail stores throughout China that help us closely track the performance of travel suppliers in each region. 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.

B2B distribution

We launched our B2B distribution business in September 2015 and rebranded it to Difeng Cloud in October 2018. Based on Tuniu's direct procurement and integration with the supply chain, Difeng Cloud was able to rapidly scale by offering Tuniu's products and resources to other distributors within the leisure travel industry. Difeng Cloud currently offers travel products including both packaged tours and other travel-related products such as air ticketing, hotel reservations, attraction tickets, visa applications and insurance products.

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, mainly 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 insurance products to our customers. We used to provide yield enhancement products to individual investors, the provision of which has been terminated in 2018. For travel suppliers, we provide various types of loans and factoring service 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 2018, we obtained ISO 9001:2015 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.

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, China Merchants Bank and China Guangfa 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, 2018, we had 61 registered computer software copyrights, 13 registered patent and 24 registered artwork copyrights in China, and were in the process of applying for 28 patents in China. In addition, as of December 31, 2018, we had 92 registered domain names that were material to our business, including *tuniu.com*, and 413

registered trademarks, including 途牛 (the Chinese characters of Tuniu),  and  途牛旅游网,  and  途牛 *tuniu.com* 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 SAMR (formerly the State Administration for Industry and Commerce, or the SAIC), the State Administration of Radio and Television, or SART, and the State Administration of News and Publication, both of which were split from 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 October 2022.

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.

In addition to the Telecommunications Regulations and the other regulations as disclosed above, the provision of commercial internet information services on mobile internet applications is regulated by the Administrative Provisions on Mobile Internet Applications Information Services, which was promulgated by the Cyberspace Administration of China in June 2016. Under the Administrative Provisions on Mobile Internet Applications Information Services, the providers of mobile internet applications need to, among other things, acquire the relevant qualifications and comply with other requirements provided by laws and regulations and being responsible for information security.

Foreign Investment in Value-Added Telecommunications Services

On March 15, 2019, the National People's Congress promulgated the 2019 PRC Foreign Investment Law, which will become effective on January 1, 2020 and will replace the major existing laws and regulations governing foreign investment in the PRC. Pursuant to the 2019 PRC Foreign Investment Law, "foreign investments" refer to investment activities conducted by foreign investors directly or "indirectly" in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment of other methods as specified in laws, administrative regulations, or as stipulated by the State Council. Although VIE structure is not explicitly defined as a method of foreign investment, it remains to be further clarified and detailed on whether VIE Structure will be interpreted to fall under the scope of the "investment in other methods as specified in laws and administrative regulations, or as stipulated by the State Council". Please also refer to "Item 3.D. Key Information—Risk Factors—Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations."

According to 2019 PRC Foreign Investment Law, China adopts a system of national treatment plus negative list with respect to foreign investment administration, and such negative list will be issued by, amended or release upon approval by the State Council, from time to time. Such negative list is contemplated to consist of a list of industries in which foreign investments are prohibited and a list of industries in which foreign investments are restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the negative list for investment in restricted industries. Foreign investment and domestic investment in industries out of the scope of the prohibited industries and restricted industries stipulated in the negative list would be treated equally. The current entry clearance requirements are set out in the Catalog for the Guidance of Foreign Investment Industries, or the Catalog, which was promulgated by and amended from time to time by the MOC and the National Development and Reform Commission, with the latest amendment being effective as of July 2018. The latest Catalog divides the foreign invested industries into two categories, i.e., "Category of Industries Encouraged for Foreign Investment" and "Special Administrative Measures (Negative List) for Foreign Investment Access," or the "Negative List." Industries not listed in the Catalog are generally deemed "permitted" for foreign investment. Although the latest Negative List reduced the number of industries that fall within the Negative List where foreign investment is prohibited or restricted, the value-added telecommunication services industry remains restricted from foreign investment.

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. However, according to the Notice on Lifting the Restriction to Foreign Shareholding Percentage in Online Data Processing and Transaction Processing Business (Operational E-commerce) promulgated by the MIIT in June 2015, foreign investors are allowed to hold up to 100% of the equity interest in the online data processing and transaction processing business (operational e-commerce) in China, while other requirements provided by the Provisions on Administration of Foreign-Invested Telecommunications Enterprises still apply. In addition, the Approval on Fully Promoting the Comprehensive Trial Work Plan of Opening-up Service Industry of Beijing issued by the State Council in January 2019, or the State Council Circular 16 lifted the prohibition of foreign investors' equity ownership of entities registered in certain areas of Beijing that conduct certain types of value-added telecommunication businesses.

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.

Pursuant to the Cyber Security Law, personal information refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify a specific natural persons. Such information includes but not limited to a natural person's name, date of birth, ID number, biologically identified personal information, addresse and telephone numbers, etc. The Cyber Security Law also provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose their rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with the persons whose data is collected; and (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, exceptions may apply if the information has been processed and cannot be recovered and thus it is impossible to match such information with any specific persons.

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 SAMR. 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. 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, which has been amended in 2016. 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 and December 2017, respectively, 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 and December 2018, respectively, 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 October 2018, respectively, 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. The State Council Circular 16 allows qualified foreign-invested travel companies, including Sino-foreign joint ventures and wholly foreign owned travel companies, registered in Beijing to engage in overseas travel business, except in Taiwan area.

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.

In August 2018, the Standing Committee of the National People's Congress promulgated the PRC E-commerce Law, which became effective in January 2019. The E-commerce Law strengthens the regulation on E-commerce operators relating to consumer protection, personal data protection and intellectual property rights protection. As an e-commerce operator, we are required under the E-commerce Law, (1) to refrain from conducting false or misleading commercial promotion by fabricating transactions, making up user comments or otherwise, to defraud or mislead consumers, (2) to allow consumer to opt out of search results targeting his or her personally characteristics such as hobbies and shopping patterns and simultaneously show the consumers with options not targeting his or her personally characteristics, (3) to alert consumers of tie-in sale of commodities or services, and shall not set the tied-in commodities or services as a default option, (4) to obtain and maintain business license and other applicable licenses as required, and disclose information of such license at our front-page, (5) to clearly detail the refund procedure for the deposit we received from customers, and not set any unreasonable conditions to refund, (6) to take the risks and responsibilities in the transportation of the products, unless the consumer chooses a courier logistics service provider other than the default service provider, etc.

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 June, 2017, the SAIC issued the Interim Measures for No Reason Return of Online Purchased Commodities within Seven Days, which came into effect in March 2017, which further clarifies the scope of consumers' rights to make returns without a reason, including the detailed rules on exceptions, return procedures and online marketplace platform providers' responsibility to formulate seven-day no-reason return rules, sets up the related consumer protection systems and supervision on merchants for compliance with the relevant rules.

In December 2003, the Supreme People's Court in China issued 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 SAMR 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 most recently amended on October 26, 2018 and effective as of the same date;
- Administrative Regulations for Advertising, promulgated by the PRC State Council on October 26, 1987 and effective since December 1, 1987.
- Regulations on Internet Information Search Services, promulgated by the Cyberspace Administration of China on June 25, 2016 and effective on August 1, 2016 ; and
- Interim Measures for Administration of Internet Advertising, promulgated by the SAIC on July 4, 2016 and effective on September 1, 2016.

According to the above regulations, companies that engage in advertising activities must each obtain, from the SAMR 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 SAMR or its local branches may revoke such offenders’ licenses or permits for their advertising business operations.

Regulations on Small Credit Companies

Under the Guiding Opinions on the Pilot Operation of Small Credit Companies which was promulgated by the China Banking Regulatory Commission, or the CBRC which is now merged into the China Banking and Insurance Regulatory Commission, or CBIRC, and the People's Bank of China, or PBOC, on May 4, 2008, or the Guiding Opinions on Small Credit Companies, a small credit company is a company which is specialized in operating a small credit business, established with investments from natural persons, legal-person enterprises or other social organizations, and does not accept any public deposits. Currently there is no regulatory authority at the national level with respect to the administration and supervision of small credit companies in the PRC. Pursuant to the Guiding Opinions on Small Credit Companies, if a provincial government determines a competent department (office of finance or relevant organizations) to be responsible for the supervision and administration of small credit companies and the regulation of risks associated with small credit companies, such provincial government may carry out the pilot operation of small credit companies within such province. The applicant is required to file an application with the competent department of the provincial government to apply for setting up a small credit company. Based on the Guiding Opinions on Small Credit Companies, many provincial governments, including that of Guangdong Province, where our small credit company is incorporated, promulgated local implementing rules on the administration of small credit companies. Such small credit company has obtained the approval issued by the competent authority to conduct small credit businesses through the internet.

Regulations on Insurance Brokerage

According to the Provisions on the Supervision of Insurance Brokers, or the POSIB, promulgated by the China Insurance Regulatory Commission, which was merged into CBIRC, on February 1, 2018 and effective on May 1, 2018, the insurance brokerage company must obtain insurance brokerage license from CBIRC before engaging in insurance brokerage business. One of our PRC consolidated affiliated entities has obtained the insurance brokerage license to operate the following insurance brokerage businesses: (i) draft insurance plans for insurance applicants, select insurance companies and handle insurance application formalities nationwide; (ii) assist the insured parties or beneficiaries in making claims; (iii) reinsurance brokerage, (iv) provide disaster prevention, loss prevention, risk evaluation or risk management advisory services to entrusting parties; (v) other businesses approved by the CBIRC.

Regulations on Fund Distribution

According to the Administrative Measures on Securities Investment Fund Distribution, or the Fund Distribution Administrative Measures, promulgated by CSRC, fund distribution institutions include fund managers and other institutions registered with the CSRC or its branches. Commercial banks, securities companies, futures companies, insurance institutions, securities investment consulting institutions and independent institutions are required to register with local CSRC branch and obtain the relevant fund distribution license before engaging in fund distribution service. Distribution services regulated under the Fund Distribution Administrative Measures refer to marketing and promotion, sales and distribution, and in particular, subscription and redemption services of mutual funds. With the fund distribution license, the distributor can also distribute the asset management plans under the CSRC regime. One of our PRC consolidated affiliated entities obtained the fund distribution license from the CSRC.

Regulations on Commercial Factoring

On June 27, 2012, the MOC promulgated the Notice on Pilot Scheme for Commercial Factoring, or Notice 419, to launch the pilot scheme for commercial factoring in Shanghai Pudong New District and Tianjin Binhai New District. The MOC also released several other circulars to expand the pilot areas to Guangzhou and Chongqing Liangjiang New Area, and certain other areas. According to the local implementation rules, commercial factoring company may be established upon approval by the local branches of the MOC or other competent authorities (e.g. local financial work offices) in the said regions. The business scope of a commercial factoring company may cover trade financing services, management of sales ledgers, customer credit investigation and evaluation, management and collection of accounts receivable and credit risk guarantee. Commercial factoring companies are neither allowed to engage in prohibited financial activities such as acceptance of deposits and disbursement of loans, nor allowed to engage in debt collection business or being entrust to collect debts. On May 14, 2018, MOC announced that the regulatory authority of commercial factoring industry has been transferred from MOC to the CBIRC since April 20, 2018.

One of our PRC subsidiaries established in Nanjing is approved by the competent authority in Jiangsu to provide commercial factoring services.

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 State Intellectual Property Office, formerly 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, 2018, we had 413 registered trademarks in different applicable trademark categories and were in the process of applying to register 47 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 August 2017 and effective on November 2017. 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, 2018, we had 92 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 24 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, 2018, we had 61 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, 2018, we had 13 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 or prior registration with appropriate government authorities or designated banks 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. In February 2015, SAFE promulgated the Circular of Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, which became effective on June 1, 2015. Under SAFE Circular 13, the foreign exchange procedures are further simplified, and foreign exchange registrations of direct investment will be handled by the banks designated by the foreign exchange authority instead of SAFE and its branches. We generally follow the regulations and apply to obtain the approval of or registration with SAFE and other relevant PRC government authorities or designated banks. However, we may not be able to obtain these 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 and in October 2018, respectively, 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.

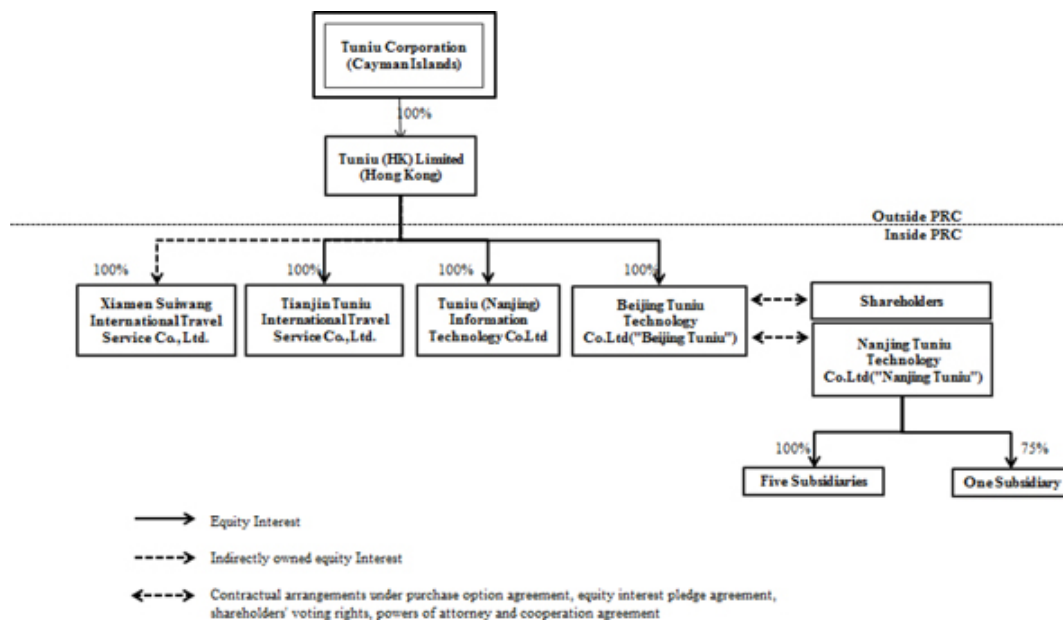
Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a 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, consolidated affiliated entity and its principal subsidiaries, as of the date of this annual report on Form 20-F:



- (1) Messrs. Dundu 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. Among the shareholders of Nanjing Tuniu, Messrs. Dundu Yu is our founder, director and an ultimate shareholder of Tuniu Corporation. Messrs. Haifeng Yan was our co-founder and is our director. 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 2016, 2017 and 2018, we received service fees of RMB109.6 million, RMB138.1 million and RMB197.9 million (US\$28.8 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 Jiangsu, Shanghai and Beijing comprising approximately 57,139 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 1 million stock keeping units, or SKUs, of organized tours, over 1.2 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 approximately 67% of packaged tour gross bookings on our platform in 2018. In 2018, 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 75% of the average daily unique visitors to our online platform.

We generated net revenues of RMB10,530.9 million, RMB2,192.1 million, RMB2,240.1 million (US\$325.8 million) in 2016, 2017 and 2018, respectively. We recognized substantially all revenues from organized tours for 2016 on a gross basis and revenues from most of the organized tours for 2017 and 2018 on a net basis as a result of changes in our role in the organized tour arrangements since the beginning of 2017 (except for certain business arrangements that we takes substantive inventory risks and the self-operated local tour operators in which we act as a principal, for which revenue are recognized on gross basis for 2017 and 2018), which caused the decrease in the revenue amount for 2017 and 2018. On a comparable net basis whereby revenues for 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 and 2018, we generated comparable amount of net revenues of RMB1,430.3 million, RMB2,192.1 million, RMB2,240.1 million (US\$325.8 million) in 2016, 2017 and 2018, respectively. We had a net loss of RMB2,422.3 million, RMB771.3 million, and RMB199.4 million (US\$29.0 million) in 2016, 2017 and 2018, respectively. We generally collect payments from our customers upon contract confirmation before we pay travel suppliers. Our net cash provided by operating activities was RMB268.1 million (US\$39.0 million) in 2018, and net cash used in operating activities was RMB2,239.4 million and RMB418.6 million in 2016 and 2017.

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 RMB9,891.7 million, RMB1,024.2 million, and RMB1,065.0 million (US\$154.9 million) in 2016, 2017 and 2018 respectively. Our operating expenses were RMB3,138.3 million, RMB2,051.3 million and RMB1,524.1 million (US\$221.7 million) in 2016, 2017 and 2018 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 RMB1,900.4 million, RMB894.1 million, and RMB778.1 million (US\$113.2 million) in 2016, 2017 and 2018, 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, 2016, we have recast certain of the following financial data as a result of the adoption of ASC 606. See Note 2(a). “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,					
	2016		2017		2018	
	RMB	%	RMB	%	RMB	US\$
(in thousands, except percentages)						
Revenues:						
Packaged tours	10,147,148	96.4	1,589,353	72.5	1,830,630	266,254
Others	401,100	3.8	602,747	27.5	409,519	59,562
Total revenues	10,548,248	100.2	2,192,100	100.0	2,240,149	325,816
Less: Business and related taxes	(17,307)	(0.2)	—	—	—	—
Net revenues	10,530,941	100.0	2,192,100	100.0	2,240,149	325,816

Packaged tours. Packaged tours, which consist of organized tours and self-guided tours, have grown rapidly in the past three years. In 2016, 2017 and 2018, revenues from sales of packaged-tours accounted for RMB10,147.1 million, RMB1,589.4 million and RMB1,830.6 million (US\$266.3 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 in business arrangements, revenue from the organized tours for 2017 and 2018 was generally recognized on a net basis except for those that we take substantive inventory risk and our self-operated local tour operators in which we act as a principal (see Note 2(s) “Revenue Recognition” to our consolidated financial statements included in this Annual Report on Form 20-F for further information). Under ASC 606, “Revenue from Contracts with Customers”, substantially all revenues from our organized tours for the years 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 2016 were recognized over the period of the tours, and revenues from organized tours for 2017 and 2018 were recognized when the tours depart. From 2017 to 2018, our revenues from packaged tours increased by 15.2% from RMB1,589.4 million in 2017 to RMB1,830.6 million (US\$266.3 million) in 2018. The increase was primarily due to the growth of organized tours. To increase comparability of operating results and aid investors to better understand our business performance and operating trends from 2016 to 2018, 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 and 2018. 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 in 2017. The increase was primarily due to the growth of organized tours and self-guided tours.

Others. Other revenues were RMB401.1 million, RMB602.7 million and RMB409.5 million (US\$59.6 million) in 2016, 2017 and 2018, 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, (iv) service fees for financial services, and (v) interest income for yield enhancement products, the offering of which has been terminated in 2018. The decrease was primarily due to the decline in revenues generated from financial services and service fees received from insurance companies.

Cost of Revenues

Our cost of revenues accounted for 93.9%, 46.7% and 47.5% as percentages of our net revenues in 2016, 2017 and 2018, respectively. As revenues from packaged tours are mainly recognized on net basis in 2017 and 2018 (except for certain business arrangements that we takes substantive inventory risks and the self-operated local tour operators in which we act as a principal, for which revenue are recognized on gross basis), 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 self-operated local tour operators since 2018 and the organized tours prior to the beginning of 2017 in which we act as a principal, 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 RMB45,494 for the year ended December 31, 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 years ended December 31, 2017 and were insignificant for the year ended December 31, 2018.

Operating Expenses

Our operating expenses were RMB3,138.3 million, RMB2,051.3 million and RMB1,524.1 million(US\$221.7 million) in 2016, 2017 and 2018, 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:

	2016		2017		For the Year Ended December 31, 2018		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Operating expenses:							
Research and product development	(601,402)	(5.7)	(541,126)	(24.7)	(315,222)	(45,847)	(14.1)
Sales and marketing	(1,900,397)	(18.0)	(894,148)	(40.8)	(778,126)	(113,174)	(34.7)
General and administrative	(658,790)	(6.3)	(637,795)	(29.1)	(487,372)	(70,885)	(21.8)
Other operating income	22,323	0.2	21,749	1.0	56,599	8,232	2.5
Total operating expenses	(3,138,266)	(29.8)	(2,051,320)	(93.6)	(1,524,121)	(221,674)	(68.1)

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 RMB601.4 million, RMB541.1 million and RMB315.2 million (US\$45.8 million) in 2016, 2017 and 2018, respectively. Our research and product development expenses decreased in 2018 compared to 2017 primarily due to the increase in efficiency resulting from economies of scale and refined management, 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 RMB1,900.4 million, RMB894.1 million and RMB778.1 million (US\$113.2 million) in 2016, 2017 and 2018, respectively. Our sales and marketing expenses decreased in 2018 compared to 2017 primarily due to the optimization of promotional expense structure 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 RMB658.8 million, RMB637.8 million and RMB487.4 million (US\$70.9 million) in 2016, 2017 and 2018, respectively. Our general and administrative expenses in 2018 decreased as we increased our operating efficiency resulting from economies of scale and refined management.

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%, 1.0% and 2.5% of our net revenues in 2016, 2017 and 2018, 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 expired in 2018. Therefore, Nanjing Tuniu was 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 expects to obtain an updated HNTE in December 2019 certificate under which it is eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 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. Tuniu (Nanjing) Information Technology Co., Ltd also obtained HNTE certificate in 2017 and is eligible to enjoy a preferential tax rate of 15% from 2017 to 2019 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. Besides, Beijing Tuniu expects to obtain the HNTE certificate in 2019 under which it is eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 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.

On May 6, 2016, the SAT issued the Administrative Measures for Value Added-Tax Exemption on Cross-border Taxable Activities under the Program for the Collection of Value Added-Tax Instead of Business Tax, which was most recently amended on June 15, 2018, or Circular 29, pursuant to which the tourism services provided overseas are exempted from VAT.

On April 4, 2018, the PRC Ministry of Finance and the SAT jointly issued the Notice on Adjustment of VAT Rates, which came into effect on May 1, 2018. According to the abovementioned notice, starting from May 1, 2018, the taxable goods previously subject to VAT rates of 17% and 11% respectively now become subject to lower VAT rates of 16% and 10% respectively. No change of VAT rate is applicable to our services due to the promulgation of the abovementioned notice.

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 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,					
	2016		2017		2018	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except percentages)					
Revenues:						
Packaged tours	10,147,148	96.4	1,589,353	72.5	1,830,630	266,254
Others	401,100	3.8	602,747	27.5	409,519	59,562
Total revenues	10,548,248	100.2	2,192,100	100.0	2,240,149	325,816
Less: Business and related taxes	(17,307)	(0.2)	—	—	—	—
Net revenues	10,530,941	100.0	2,192,100	100.0	2,240,149	325,816
Cost of revenues	(9,891,736)	(93.9)	(1,024,206)	(46.7)	(1,065,022)	(154,901)
Gross profit	639,205	6.1	1,167,894	53.3	1,175,127	170,915
Operating expenses:						
Research and product development	(601,402)	(5.7)	(541,126)	(24.7)	(315,222)	(45,847)
Sales and marketing	(1,900,397)	(18.0)	(894,148)	(40.8)	(778,126)	(113,174)
General and administrative	(658,790)	(6.3)	(637,795)	(29.1)	(487,372)	(70,885)
Other operating income	22,323	0.2	21,749	1.0	56,599	8,232
Loss from operations	(2,499,061)	(23.8)	(883,426)	(40.3)	(348,994)	(50,759)
Other income/(expenses):						
Interest and investment income	87,305	0.8	130,250	5.9	152,929	22,243
Foreign exchange losses, net	(9,734)	(0.1)	(2,394)	(0.1)	(11,729)	(1,706)
Other (loss)/income, net	(2,553)	(0.0)	(121)	0.0	8,576	1,247
Loss before income tax expense	(2,424,043)	(23.0)	(755,691)	(34.5)	(199,218)	(28,975)
Income tax benefit/(expense)	1,711	0.0	(15,625)	(0.7)	(153)	(22)
Net loss	(2,422,332)	(23.0)	(771,316)	(35.2)	(199,371)	(28,997)

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net Revenues. Net revenues were RMB2,192.1 million and RMB2,240.1 million in 2017 and 2018, respectively.

- *Revenues from packaged tours.* Revenues from packaged tours increased by 15.2% from RMB1,589.4 million in 2017 to RMB1,830.6 million (US\$266.3 million) in 2018 primarily due to the growth of organized tours.
- *Other revenues.* Other revenues decreased by 32.1% from RMB602.7 million in 2017 to RMB409.5 million (US\$59.6 million) in 2018, primarily due to the decline in revenues generated from financial services and service fees received from insurance companies.

Cost of Revenues. Our cost of revenues increased by 4.0% from RMB1,024.2 million in 2017 to RMB1,065.0 million (US\$154.9 million) in 2018. As a percentage of net revenues, cost of revenues was 47.5% in 2018 compared to 46.7% in 2017.

Operating Expenses. Operating expenses decreased by 25.7% from RMB2,051.3 million in 2017 to RMB1,524.1 million (US\$221.7 million) in 2018, due to decreases in sales and marketing expenses, research and product development expenses and general and administrative expenses, and the increase in other operating income.

- *Research and product development.* Research and product development expenses decreased by 41.7% from RMB541.1 million in 2017 to RMB315.2 million (US\$45.8 million) in 2018, primarily due to the increase in efficiency resulting from economies of scale and refined management, and optimization of research and product development personnel.
- *Sales and marketing.* Sales and marketing expenses decreased by 13% from RMB894.1 million in 2017 to RMB778.1 million (US\$113.2 million) in 2018. The decrease was primarily due to the optimization of promotional expense structure and preference for marketing channels with higher ROI.
- *General and administrative.* General and administrative expenses decreased by 23.6% from RMB637.8 million in 2017 to RMB487.4 million (US\$70.9 million) in 2018, primarily due to increase in operating efficiency resulting from economies of scale and refined management.
- *Other operating income.* Other operating income increased from RMB21.7 million in 2017 to RMB56.6 million (US\$8.2 million) in 2018.

Net Loss. As a result of the foregoing, net loss decreased from RMB771.3 million in 2017 to RMB199.4 million (US\$29.0 million) in 2018.

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 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 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 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 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 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 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 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 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 RMB21.7 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 in 2017.

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 2016, 2017 and 2018 were increases of 2.1%, 1.8% and 1.9%, 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 RMB6.8755 per U.S. dollar as of December 31, 2018. For the year ended December 31, 2018, we recorded RMB11.7 million (US\$1.7 million) of net foreign currency translation income 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.

Subsequent to the initial measurement of acquisition, adjustments to the amount of contingent consideration are recognized as a gain or loss during the period of adjustments, and are reflected in other operating income.

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, 2016, 2017 and 2018.

Land use right

Land use right represents the payments for usage of land for office buildings, which is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over their respective lease period which is 49.

Long-term investments

Long-term investments include equity investments, held-to-maturity investments and other long-term investments.

Equity investments

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.

We adopted the ASU 2016-01 at January 1, 2018. Upon adoption of the ASU 2016-01, we elect a measurement alternative for equity investments that do not have readily determinable fair values and where we do not have the ability to exercise significant influence over operating and financial policies of the entity. Under the measurement alternative, we measured these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. 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.

Held-to-maturity investments

The investments that we intend and are able to hold to maturity are classified as held-to-maturity investments and are stated at amortized cost, and interest income is recorded in the consolidated statements of comprehensive income. We monitor our investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

Other long-term investments

Other long-term investments include financial products with maturities over one year and securities including perpetual bonds and preferred shares issued by companies, 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, 2017 and 2018.

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 performed goodwill impairment test and no impairment loss was recognized for the years ended December 31, 2016, 2017 and 2018.

Revenue Recognition

We generate revenues primarily from sales of packaged tours and other service fees.

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. There are no significant estimates in our revenue arrangements.

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 to (and solely authorized to) refund 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 and the self-operated local tour operators in which we act as a principal, as discussed below) 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 and RMB241.2 million (US\$35.1 million) for the year ended December 31, 2017 and 2018, which were recorded in revenues for packaged tours.

In 2018, we expanded our self-operated local tour operators in various destinations by directly providing destination-based services to our organized tour customers, starting from their arrival at the destination and all the way until they depart from the destination. As a self-operated local tour operator, we integrate the underlying resources such as transportations, accommodations, entertainments, meals and tour guide services from selected suppliers, direct the selected vendors to provide services on our behalf, and hence set up the price for the tour. Besides, we are primarily responsible for fulfilling the promise of the whole packaged tours service, which is a single performance obligation. Accordingly, we are a principal for the self-operated local tour operator business and recognize revenue on a gross basis in accordance with ASC 606. Revenues from our self-operated tour operator business are recognized over time during the period of the tours when control over the tour services is transferred to the customers. Revenues for the self-operated local tour operator business were RMB509.7 million (US\$74.1 million) for the year ended December 31, 2018, which were recorded in revenues for packaged tours.

Under ASC 606, revenues from organized tours for which we were a principal for year 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 (except for the self-operated local tour operators in which we act as a principal, as discussed above), for which our role was changed into an agent, revenues 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 the 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. In 2018, we terminated the offering of yield enhancement products and have no related balances as of December 31, 2018.

We also provided account receivables factoring service and cash lending service to customers, and fees charged in connection with these financial services were recorded as other revenue over the period of the service rendered.

Customer incentives

We offer travellers coupons, travel vouchers, membership points or cash rewards from time to time. 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 the prior purchase revenue is initially 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.

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.

U.S. GAAP 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, 2017 and 2018, 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 and restricted shares 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 RMB92.4 million, RMB98.7 million and RMB68.7 million (US\$10.0 million) in 2016, 2017 and 2018, 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 2016, 2017 and 2018:

	Number of Options Granted	Exercise Price		Fair Value of 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 ⁽²⁾	US\$	RMB ⁽²⁾	US\$	RMB ⁽²⁾	US\$	RMB ⁽²⁾	
May 27, 2016 ⁽¹⁾	320,000	0.0001	0.0007	2.97	20.60	2.97	20.62	2.97	20.62	Contemporaneous
May 27, 2016 ⁽¹⁾	70,000	2.97	20.62	1.57	10.90	2.97	20.62	—	—	Contemporaneous
December 2, 2016 ⁽¹⁾	4,360,000	2.68	18.61	1.59	11.04	2.68	18.61	—	—	Contemporaneous
December 2, 2016 ⁽¹⁾	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 ⁽¹⁾	25,300	2.72	17.7	1.39	9.04	2.72	17.7	—	—	Contemporaneous
June 12, 2017 ⁽¹⁾	80,000	2.72	17.7	1.55	10.08	2.72	17.7	—	—	Contemporaneous
May 8, 2018 ⁽¹⁾	2,848,503	1.67	11.48	1.35	9.28	2.21	15.19	0.54	3.71	Contemporaneous
May 8, 2018 ⁽¹⁾	4,855,500	1.67	11.48	1.24	8.53	2.21	15.19	0.54	3.71	Contemporaneous

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

(2) The translations from U.S. dollars to Renminbi were made at 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 before December 31, 2017, and at a rate of RMB6.8755 to US\$1.00, the exchange rate in effect as of December 31, 2018 for the options granted after January 1, 2018 (including January 1, 2018) solely for the convenience of the readers.

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 DLOM.

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 DLOM.

Recent Accounting Pronouncements

See Note 2(af) 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 packaged tours during peak seasons.

In November 2016, the FASB issued ASU No. 2016-18, “*Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*” (“ASU 2016-18”), which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Effective from January 1, 2018, we adopted the new guidance which primarily requires that restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. In addition, transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of the entity’s operating, investing, and financing activities, and details of those transfers are not reported as cash flow activities in the statement of cash flows. As a result of the foregoing, the changes in restricted cash in the consolidated cash flows were RMB214.4 million and RMB32.8 million for the years ended December 31, 2016 and 2017, respectively, which were no longer presented within investing activities and were retrospectively included in the changes of cash, cash equivalents and restricted cash as required. As of December 31, 2018, our total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows include cash and cash equivalents of RMB560.4 million (US\$81.5 million) and restricted cash of RMB270.7 million (US\$39.4 million) within the consolidated balance sheets.

Our advances from customers decreased from RMB1,806.5 million as of December 31, 2016 to RMB1,210.6 million as of December 31, 2017, and further decreased to RMB1,058.9 million (US\$154.0 million) as of December 31, 2018, which was primarily due to the change in customers’ prepayment habits. Accounts and notes payable decreased from RMB1,022.7 million as of December 31, 2016 to RMB852.5 million as of December 31, 2017. Accounts and notes payable increased from RMB852.5 million as of December 31, 2017 to RMB1,305.6 million (US\$189.9 million) as of December 31, 2018 which was primarily due to the application of combination settlement. Furthermore, prepayments and other current assets decreased from RMB1,632.3 million as of December 31, 2016 to RMB939.5 million as of December 31, 2017 primarily due to the technology improvement which shortened our payment cycle to suppliers, and increased to RMB1,673.6 million (US\$243.4 million) as of December 31, 2018 which was primarily because we strengthened our supply chain financing cooperation to our suppliers. Moreover, our sales and marketing expenses decreased from RMB1,900.4 million in 2016 to RMB894.1 million in 2017 which was primarily attributable to the decline in brand promotions and preference for marketing channels with higher ROI, and further decreased to RMB778.1 million (US\$113.2 million) in 2018 which was primarily due to the optimization of promotional expense structure and preference for marketing channels with higher ROI. As a result, our net cash used in operating activities were RMB2,239.4 million and RMB418.6 million in 2016 and 2017 respectively, and our net cash provided by operating activities was RMB268.1 million (US\$39.0 million) in 2018.

Our principal uses of cash for the years ended December 31, 2016, 2017 and 2018 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, 2016, 2017 and 2018, we had RMB4,813.3 million, RMB3,660.5 million and RMB1,690.2 million (US\$245.8 million) in cash, cash equivalents, restricted cash and short-term investments, respectively. We had credit from several Chinese commercial banks. As of December 31, 2018, our outstanding short-term borrowings (including outstanding discounted bank acceptance notes) were RMB191.3 million (US\$27.8 million) and our outstanding long-term borrowings were RMB4.5 million (US\$0.7 million).

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 RMB2,407.2 million, RMB767.3 million and RMB185.5 million (US\$27.0 million) for the years ended December 31, 2016, 2017 and 2018, respectively. Net cash used in operating activities were approximately RMB2,239.4 million and RMB418.6 million for the years ended December 31, 2016 and 2017 respectively, and net cash provided by operating activities was RMB268.1 million (US\$39.0 million) for the years ended December 31, 2018. Accumulated deficit was RMB4,738.6 million, RMB5,505.9 million and RMB5,691.4 million (US\$827.8 million) as of December 31, 2016, 2017 and 2018, 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,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands, except percentages)			
Net cash (used in)/provided by operating activities	(2,239,444)	(418,649)	268,089	38,992
Net cash (used in)/provided by investing activities	(2,728,683)	615,554	153,992	22,398
Net cash provided by/(used in) financing activities	3,627,058	(784,766)	(145,212)	(21,122)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	110,652	(46,025)	(21,754)	(3,164)
Net (decrease)/increase in cash, cash equivalents and restricted cash	(1,230,417)	(633,886)	255,115	37,104
Cash, cash equivalents and restricted cash at the beginning of year	2,440,214	1,209,797	575,911	83,763
Cash, cash equivalents and restricted cash at the end of year	1,209,797	575,911	831,026	120,867

Operating Activities

Our net cash provided by operating activities was RMB268.1million (US\$39.0 million) in 2018, primarily attributable to cash inflows from sales of our travel products and services of RMB20,575.3 million (US\$2,992.6 million) and cash inflows from other operating activities such as deposits, interest income and government subsidies of RMB290.2 million (US\$42.2 million), that were offset by cash outflows due to payments to travel suppliers of RMB18,837.1 million (US\$2,739.7 million), payments relating to other operating activities, which include payments to employees and for employees' benefits of RMB1,061.5 million (US\$154.4 million), payments for marketing and promotional activities, office rental and utilities and professional services of RMB605.3 million (US\$88.1 million), and payments of taxes and levies of RMB93.5 million (US\$13.6 million).

Our net cash used in operating activities was RMB418.6 million in 2017, primarily attributable to cash inflows from sales of our travel products and services of RMB21,593.0 million and cash inflows from other operating activities such as deposits, interest income and government subsidies of RMB165.4 million, that were offset by cash outflows due to payments to travel suppliers of RMB19,708.8 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, payments to employees and for employees' benefits of RMB1,329.6 million and payments of taxes and levies of RMB37.2 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.

Investing Activities

Our net cash provided by investing activities was RMB154.0 million (US\$22.4 million) in 2018, primarily attributable to the proceeds from the maturity of short-term investments of RMB4,067.8 million (US\$591.6 million), the proceeds from maturity of yield enhancement products of RMB172.5 million (US\$25.1 million), the proceeds from maturity of long-term investments of RMB91.0 million (US\$13.2 million), cash received from disposal of equity investments of RMB3.1 million (US\$0.5 million), which were offset by the purchase of short-term investments of RMB1,858.0 million (US\$270.2 million), the increase in loan receivable of RMB1,326.2 million (US\$192.9 million), the purchase of property and equipment and intangible assets of RMB119.4 million (US\$17.4 million), the cash paid for long-term investment of RMB874.1 million (US\$127.1 million), and cash paid for acquisition (net of cash received) of RMB2.7 million (US\$0.4 million).

Our net cash provided by investing activities was RMB615.6 million in 2017, primarily attributable to the proceeds from the maturity of short-term investments of RMB3,271.9 million, the proceeds from maturity of yield enhancement products of RMB435.0 million, partially offset by the purchase of short-term investments of RMB2,488.0 million, the increase in loan receivable of RMB16.4 million, the purchase of property and equipment and intangible assets of RMB160.5 million, and the cash paid for long-term investment of RMB426.2 million.

Our net cash used in investing activities was RMB2,728.7 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.

Financing Activities

Our net cash used in financing activities in 2018 was RMB145.2 million (US\$21.1 million) primarily attributable to RMB171.4 million (US\$24.9 million) we paid in due course for redemption of the yield-enhancement products, RMB139.1 million (US\$20.2 million) we paid for share repurchase, RMB6.8 million (US\$1.0 million) we paid for deferred and contingent consideration of business acquisitions made in previous years, RMB30.0 million (US\$4.4 million) we paid to redeem non-controlling interests, and RMB0.4 million (US\$0.1 million) we paid as repayment of short-term borrowing, which were offset by RMB195.8 million (US\$28.5 million) proceeds from short-term and long-term borrowings, RMB4.6 million (US\$0.7 million) proceeds from employees exercising stock options, and RMB2.1 million (US\$0.3 million) proceeds contribution from noncontrolling interests shareholders.

Our net cash used in financing activities in 2017 was RMB784.8 million primarily attributable to repayment of RMB682.8 million collected from the sales of yield-enhancement products to individual investors on our website, payment of share repurchase of RMB166.1 million and the deferred and contingent consideration paid for prior year business acquisitions of RMB6.8 million, partially offset by RMB67.3million proceeds from employees exercising stock options and proceeds contribution from noncontrolling interests shareholders of RMB3.6 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.

Capital Expenditures

Cash outflow in connection with capital expenditures amounted to RMB117.9 million, RMB160.5 million and RMB119.4 million (US\$17.4 million) in 2016, 2017 and 2018, respectively. Our capital expenditures were primarily used to purchase equipment and intangible assets and payment for land use right for our business. As of December 31, 2018, capital commitments relating to leasehold improvement, purchase of equipment and construction of office building were approximately RMB15.1 million (US\$2.2 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. Our research and product development expenses were RMB601.4 million, RMB541.1 million and RMB315.2 (US\$45.8) million in 2016, 2017 and 2018, respectively, which decreased year-over-year primarily due to the increase in efficiency resulting from economies of scale and refined management, 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, 2018 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, 2018.

	Payment Due by Period				
	Total	Less Than	1-3 Years	3-5 Years	More Than
		1 Year			5 Years
		(In RMB thousands)			
Operating Lease Obligations ⁽¹⁾	217,258	101,947	109,475	5,089	747
Purchase Obligations ⁽²⁾	15,079	15,079	—	—	—
Total	232,337	117,026	109,475	5,089	747

- (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 not 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:

Directors and Executive Officers	Age	Position/Title
Dunde Yu	38	Founder, Chairman and Chief Executive Officer
Haifeng Yan	37	Director
Tie Li	43	Director
Jie Zhu	38	Director
Cindy Chen	44	Independent Director
Frank Lin	55	Independent Director
Tao Yang	43	Independent Director
Onward Choi	48	Independent Director
Jack Xu	52	Independent Director
Shengli Hu	47	Independent Director
Maria Yi Xin	34	Chief Financial Officer
Shihong Chen	36	Chief Technology Officer
Wei Zhang	53	Executive Vice President

Mr. Dunde Yu is our 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 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 General Manager of Discipline Inspection and Supervision Department in HNA Aviation Group. 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 chairman of HNA Hospitality Group. 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 independent 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 independent 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. Tao Yang has served as our independent 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 was the acting chief financial officer of NetEase Inc., a Nasdaq-listed company, from July 2007 to June 2017. Mr. Choi currently serves as an independent non-executive director and the chairman of the audit committee of Beijing Jingkelong Company Limited (HKEX: 0814) and Wise Talent Information Technology Company Limited (HKEX: 6100), both of which are listed on the Hong Kong Stock Exchange. Mr. Choi is a fellow member of the Association of Chartered Certified Accountants, CPA Australia, and the Hong Kong Institute of Certified Public Accountants. Mr. Choi received a bachelor's degree in accountancy with honors from the Hong Kong Polytechnic University.

Mr. Jack Xu has served as our 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 independent director since May 2017. Mr. Hu is president of JD Fashion and Lifestyle, and a senior vice president of JD.com. He is responsible for JD's fashion, home furnishing, luxury products and cosmetics businesses. Mr. Hu has led JD's fashion and lifestyle business since 2018 focusing on creating a global fashion and luxury ecosystem based on the idea that "fashion is boundaryless". Mr. Hu has played a key role in JD's strategic partnerships with Xinyu Group, Secoo, Ruyi and Farfetch. Mr. Hu joined JD.com in 2014, and previously served as president of JD Electronics and Lifestyle. 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, 2018, we paid an aggregate of approximately RMB5.6 million (US\$0.8 million) in cash to our executive officers and RMB0.8 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 February 28, 2019, options to purchase 3,881,334 ordinary shares were outstanding under the 2008 Plan. The 2008 Plan terminated automatically in 2018.

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. The 2008 Plan terminated automatically in 2018.

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. In 2016, we increased the maximum aggregate number of shares which may be issued under the 2014 Plan from 5,500,000 ordinary shares to 7,942,675 ordinary shares. As of February 28, 2019, there were options to purchase 20,892,957 ordinary shares and 208,176 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 February 28, 2019, 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) ⁽³⁾			
Dunde Yu	630,814	0.100	0.688	November 5, 2009	4 years ⁽¹⁾	November 4, 2019
	1,100,000	0.226	1.554	March 11, 2011	4 years ⁽¹⁾	March 10, 2017
	1,269,995	0.0001	0.001	August 1, 2013	4 years ⁽¹⁾	July 31, 2019
	900,000	3.000	20.627	June 13, 2014	4 years ⁽¹⁾	June 12, 2024
	760,000	3.090	21.245	March 6, 2015	4 years ⁽¹⁾	March 5, 2025
	1,981,000	3.090	21.245	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	1,420,000	2.683	18.447	December 2, 2016	4 years ⁽¹⁾	December 1, 2026
	17,256	0.0001	0.001	January 1, 2017	1 years ⁽²⁾	December 31, 2026
	3	1.670	11.482	May 8, 2018	4 years ⁽¹⁾	May 7, 2028
	37,716	0.0033	0.023	January 30, 2019	1 years ⁽²⁾	January 29, 2029
Maria Yi Xin	*			November 30, 2013		November 29, 2019
		2.000	13.751		4 years ⁽¹⁾	
	*	0.0001	0.001	August 15, 2014	4 years ⁽¹⁾	August 14, 2024
	*	0.0001	0.001	March 6, 2015	4 years ⁽¹⁾	March 5, 2025
	*	0.0001	0.001	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	*	2.683	18.447	December 2, 2016	4 years ⁽¹⁾	December 1, 2026
	*	0.0001	0.001	January 1, 2017	1 years ⁽²⁾	December 31, 2026
	*	1.670	11.482	May 8, 2018	4 years ⁽¹⁾	May 7, 2028
	*	0.0033	0.023	January 30, 2019	1 years ⁽²⁾	January 29, 2029
	*	0.226	1.554	July 6, 2011	4 years ⁽¹⁾	July 5, 2021
Shihong Chen	*	1.135	7.804	March 19, 2012	4 years ⁽¹⁾	March 18, 2022
	*	1.790	12.307	August 15, 2013	4 years ⁽¹⁾	August 14, 2019
	*	0.0001	0.001	August 15, 2014	4 years ⁽¹⁾	August 14, 2024
	*	3.000	20.627	August 15, 2014	4 years ⁽¹⁾	August 14, 2024
	*	0.0001	0.001	March 6, 2015	4 years ⁽¹⁾	March 5, 2025
	*	3.090	21.245	March 6, 2015	4 years ⁽¹⁾	March 5, 2025
	*	0.0001	0.001	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	*	3.090	21.245	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	*	2.683	18.447	December 2, 2016	4 years ⁽¹⁾	December 1, 2026
	*	0.0001	0.001	January 1, 2017	1 years ⁽²⁾	December 31, 2026
Wei Zhang	*	1.670	11.482	May 8, 2018	4 years ⁽¹⁾	May 7, 2028
	*	0.0033	0.023	January 30, 2019	1 years ⁽²⁾	January 29, 2029
	*	3.090	21.245	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	*	0.0001	0.001	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	*	2.683	18.447	December 2, 2016	4 years ⁽¹⁾	December 1, 2026
	*	1.670	11.482	May 8, 2018	4 years ⁽¹⁾	May 7, 2028
	*	0.0033	0.023	January 30, 2019	1 years ⁽²⁾	January 29, 2029
	*	3.090	21.245	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	*	0.0001	0.001	August 20, 2015	4 years ⁽¹⁾	August 19, 2025
	*	2.683	18.447	December 2, 2016	4 years ⁽¹⁾	December 1, 2026
Jack Xu	*†	N/A		May 9, 2018	4 years ⁽¹⁾	May 8, 2028
Onward Choi	*†	N/A		May 9, 2018	4 years ⁽¹⁾	May 8, 2028
Directors and officers as a group	12,410,083	—	—	—	—	—

* 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.

- (1) 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 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.

- (2) Pursuant to the relevant award agreement, 1/12 of the ordinary shares underlying the option shall vest on a monthly basis. 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.
- (3) The prices in Renminbi were translated using the rate of US\$1.00 = RMB6.8755, the exchange rate in effect as of December 31, 2018, solely for the convenience of the readers.

C. Board Practices

Board of Directors

Our board of directors currently consists of ten 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 (i) a majority of the votes cast at a shareholder meeting (in person or by proxy) that is duly constituted and meets the quorum requirement; or (ii) approval by unanimous written shareholder resolutions. 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, 2018, 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 8,277, 6,841, and 7,355 employees as of December 31, 2016, 2017 and 2018, respectively. The following table sets forth the numbers of our employees, categorized by function, as of December 31, 2018:

Function	Number of Employees
Management and administration	753
Customer service center	1,911
Sales and marketing	688
Research and product development	1,663
Offline retail stores and local tour operators	2,340
Total	7,355

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 February 28, 2019 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) 369,075,337 ordinary shares outstanding as of February 28, 2019, including 17,373,500 Class B ordinary shares outstanding and 351,701,837 Class A ordinary shares outstanding (excluding 20,256,207 Class A ordinary shares, represented by 6,752,069 ADSs, repurchased 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 ⁽¹⁾	11,432,630	10,423,503	21,856,133	5.8	21.7
Tie Li ⁽²⁾	100,786,465	—	100,786,465	27.3	19.2
Jie Zhu ⁽³⁾	100,786,465	—	100,786,465	27.3	19.2
Shengli Hu ⁽⁴⁾	78,061,780	—	78,061,780	21.2	14.9
Cindy Chen ⁽⁵⁾	27,436,780	—	27,436,780	7.4	5.2
Frank Lin ⁽⁶⁾	31,829,512	—	31,829,512	8.6	6.1
Tao Yang ⁽⁷⁾	12,481,034	—	12,481,034	3.4	2.4
Haifeng Yan ⁽⁸⁾	—	—	—	—	—
Onward Choi ⁽⁹⁾	**	—	**	**	**
Jack Xu ⁽¹⁰⁾	**	—	**	**	**
Maria Yi Xin	**	—	**	**	**
Wei Zhang	**	—	**	**	**
Shihong Chen	**	—	**	**	**
All directors and executive officers as a group	263,069,282	10,423,503	273,492,785	72.5	68.8
Principal Shareholders:					
BHR Winwood Investment Management Limited ⁽¹¹⁾	100,786,465	—	100,786,465	27.3	19.2
Affiliates of JD.com, Inc. ⁽¹²⁾	78,061,780	—	78,061,780	21.2	14.9
DCM V, L.P. and Affiliates ⁽¹³⁾	31,829,512	—	31,829,512	8.6	6.1
Unicorn Riches Limited ⁽¹⁴⁾	27,436,780	—	27,436,780	7.4	5.2
Dragon Rabbit Capital Limited ⁽¹⁵⁾	4,104,137	10,423,503	14,527,640	3.9	20.6
Fullshare Holdings Limited ⁽¹⁶⁾	18,303,650	6,949,997	25,253,647	6.8	16.7
Temasek Holdings (Private) Limited ⁽¹⁷⁾	24,583,333	—	24,583,333	6.7	4.7

* Except for Tie Li, Jie Zhu, Shengli Hu, Cindy Chen, Frank Lin, Tao Yang, Haifeng Yan, Onward Choi and Jack Xu, the business address of our directors and executive officers is Tuniu Building, No. 699-32, Xuanwudao, 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.

† 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 February 28, 2019, which is 369,075,337 ordinary shares outstanding, including 17,373,500 Class B ordinary shares outstanding and 351,701,837 Class A ordinary shares outstanding (excluding the 20,256,207 Class A ordinary shares, represented by 6,752,069 ADSs, repurchased 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 February 28, 2019.

†† 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 February 28, 2019, with respect to the total voting power based on all the 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.

- (1) Represents (i) 7,328,493 Class A ordinary shares underlying the options or restricted shares that have become fully vested as of February 28, 2019 or will become fully vested within 60 days after February 28, 2019, and (ii) 4,104,137 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.
- (2) Represents 100,786,465 Class A ordinary shares held by BHR Winwood Investment Management Limited and Hong Kong Praise Tourism Investment Limited. The business address of Mr. Li is 20F, Tower A, Hainan Airlines Plaza, B-2, East 3rd Ring North Road, Chaoyang District, Beijing, PRC.
- (3) Represents 100,786,465 Class A ordinary shares held by BHR Winwood Investment Management Limited and Hong Kong Praise Tourism Investment Limited. The business address of Mr. Zhu is 20F, Tower A, Hainan Airlines Plaza, B-2, East 3rd Ring North Road, Chaoyang District, Beijing, PRC.
- (4) 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 Mr. Hu is 15F, Building C, No. 18 Kechuang 11 Street, BDA, Beijing, PRC
- (5) 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.
- (6) Represents (i) 19,952,556 Class A ordinary shares held by DCM V, L.P., (ii) 486,864 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 business address of Mr. Lin is Unit 1, Level 10, Tower W2, Oriental Plaza, Dong Cheng District, Beijing, PRC.
- (7) Represents 12,481,034 Class A ordinary shares held by Ctrip Investment Holding Ltd. The business address of Mr. Yang is Building 16, Sky SOHO, No. 968 Jinzhong Road, Shanghai, PRC.
- (8) The business address of Mr. Yan is No. 39, High-tech 6th Road, Binhai High-tech Industrial Park, Binhai High-Tech District, Tianjin, PRC.
- (9) 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.
- (10) The business address of Mr. Xu is 3000 Sand Hill Road, Building 4, Suite 100; Menlo Park, CA 94025.
- (11) 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) 19,952,556 Class A ordinary shares held by DCM V, L.P., (ii) 486,864 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., 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.
- (14) 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 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.
- (15) Dragon Rabbit Capital Limited is wholly owned by Longtu Holdings Limited is a British Virgin Islands company 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.
- (16) Represents (i) 8,965,580 Class A ordinary shares (including 4,104,137 Class A ordinary shares and 4,861,443 Class A ordinary shares represented by 1,620,481 ADSs) and 6,949,997 Class B ordinary shares held by Verne Capital Limited, and (ii) 2,730,000 Class A ordinary shares represented by 910,000 ADSs held by Pride Success Capital Limited, and (iii) 2,346,066 Class A ordinary shares represented by 782,022 ADSs held by Wealth Add Limited, and (iv) 4,262,004 Class A ordinary shares represented by 1,420,668 ADSs held by Five Seasons XV Limited. Verne Capital Limited, Pride Success Capital Limited and Wealth Add Limited are wholly owned subsidiaries of Five Seasons XV Limited. Five Seasons XV Limited is a wholly owned subsidiary of Fullshare Value Fund II L.P.. Fullshare Investment Management III Limited is the general partner of Fullshare Value Fund II L.P., and is wholly owned by Five Seasons XII Limited, which is a wholly owned subsidiary of Fullshare Holdings Limited. Accordingly, Fullshare Value Fund II L.P., Fullshare Investment Management III Limited, Five Seasons XII Limited and Fullshare Holdings Limited may be deemed to beneficially own the securities held by Verne Capital Limited, Pride Success Capital Limited, Wealth Add Limited and Five Seasons XV Limited. The business address of Fullshare Holdings Limited is Unit 10-12, Level 43, Champion Tower, Three Garden Road, Central, Hong Kong.
- (17) Represents 24,583,333 Class A ordinary shares (directly or in the form of ADSs) owned by Esta Investments Pte. Ltd.. Esta Investments Pte. Ltd. is wholly-owned by Tembusu Capital Pte. Ltd., which in turn is wholly-owned by Temasek Holdings (Private) Limited. The business address of Temasek Holdings (Private) Limited is 60B Orchard Road, #06-18 Tower 2, The Atrium@Orchard Singapore 238891.

To our knowledge, as of February 28, 2019, 110,766,420 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 30.01% of our total outstanding shares. This includes 86,577,000 ordinary shares 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. Revenues from Ctrip consist of commission fees for the booking of hotel rooms and air tickets through our online platform, amounting to RMB54.8 million, RMB61.5 million and RMB161.7 million (US\$23.5 million) for the years ended December 31, 2016, 2017 and 2018, respectively. As of December 31, 2017 and 2018, amounts due from Ctrip amounted to RMB16.1 million and RMB11.1 million (US\$1.6 million), respectively, and amounts due to Ctrip amounted to RMB87.0 million and RMB73.2 million (US\$10.7 million), 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 representing the fair value of 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. As of December 31, 2017 and 2018, amounts due from JD.com, Inc. amounted to RMB10.9 million and RMB50.3 million (US\$7.3 million), respectively, and amounts due to JD.com, Inc. amounted to nil and RMB2.4 million (US\$0.3 million), respectively.

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, RMB394.7 million and RMB588.9 million (US\$85.7 million) air tickets from HNA Tourism for the years ended December 31, 2016, 2017 and 2018, respectively. In 2018, we also provided account receivables factoring service to an affiliate of HNA Tourism amounting to RMB500 million (US\$72.7 million) with a repayment term of 12 months. As of December 31, 2017 and 2018, amounts due from HNA Tourism amounted to RMB143.1 million and RMB635.1 million (US\$92.4 million), respectively.

Relationship with Black Fish Group Limited

Haifeng Yan, our director, founded Black Fish 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 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. As of December 31, 2017 and 2018, amounts due from Black Fish amounted to RMB1.2 million and nil, respectively.

Relationship with Fullshare Holdings Limited

Fullshare Holdings Limited (“Fullshare”) is our principal shareholder. During the year ended December 31, 2018, Fullshare made several prepayments to us for travelling products, which was RMB1.6 million (US\$0.2 million) in 2018. As of December 31, 2018, amounts due to Fullshare amounted to RMB1.6 million (US\$0.2 million).

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.”

C. Interests of Experts and Counsel

Not applicable.

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

See “—C. Markets.”

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

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 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 (by vote or value), investors that hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction), investors required to accelerate the recognition of any item of gross income with respect to our ADSs or ordinary shares as a result of such income being recognized on an applicable financial statement 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, 25% or more (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, 2018 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, 2018 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 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 depositary 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 depositary 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 depositary 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, 2018, we had Renminbi-denominated cash and cash equivalents, restricted cash and short-term investments of RMB1,690.2 million, and U.S. dollar-denominated cash, cash equivalents and short-term investments of US\$245.8 million. Assuming we had converted RMB1.0 million into U.S. dollars at the exchange rate of RMB6.8755 for US\$1.00 as of December 31, 2018, our U.S. dollar cash balance would have been US\$145,444. If the Renminbi had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$132,222 instead. Assuming we had converted US\$1.0 million into Renminbi at the exchange rate of RMB6.8755 for US\$1.00 as of December 31, 2018, our Renminbi cash balance would have been RMB6.9 million. If the Renminbi had depreciated by 10% against the U.S. dollar, our Renminbi cash balance would have been RMB7.6 million instead. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk.

Inflation

Inflation in China has not materially affected our results of operations in recent years. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2016, 2017 and 2018 were increases of 2.1%, 1.8% and 1.9%, 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.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADSs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of US\$1.50 per ADR for transfers of certificated or direct registration ADRs;
- a fee of up to US\$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of up to US\$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- a fee for the reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of its agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the sale of securities (including, without limitation, deposited securities), the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which fees and charges shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the US\$0.05 per ADS issuance fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- the fees, expenses and other charges charged by JPMorgan Chase Bank, N.A. and/or its agent (which maybe a division, branch or affiliate) in connection with the conversion of foreign currency into U.S. dollars; and

- fees of any division, branch or affiliate of the depositary utilized by the depositary to direct, manage and/or execute any public and/or private sale of securities under the deposit agreement.

JPMorgan Chase Bank, N.A. and/or its agent may act as principal for such conversion of foreign currency. We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program upon such terms and conditions as we and the depositary may agree from time to time. The depositary may make available to us a set amount or a portion of the depositary fees charged in respect of the ADR program or otherwise upon such terms and conditions as we and the depositary may agree from time to time. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid. At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary. For the fiscal year 2018, we received a reimbursement of approximately US\$0.2 million from the depositary net of US\$0.07 million United States withholding tax.

The fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of any increase in any such fees and charges.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

See “Item 10.B. Additional Information—Memorandum and Articles of Association—Ordinary Shares” for a description of the rights of our securities holders, which remain unchanged. For information on limitations on our payment of dividends, 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.”

The following “Use of Proceeds” information relates to the registration statement on Form F-1, or the Form F-1, as amended (File No. 333-195075) in relation to our initial public offering of 8,580,000 ADSs, representing 25,740,000 Class A ordinary shares, which registration statement was declared effective by the SEC on May 8, 2014. We received proceeds of approximately US\$68.2 million from our initial public offering.

For the period from May 8, 2014, the date that the Form F-1 was declared effective by the SEC, through December 31, 2018, we used all the net proceeds we received from our initial public offering for the following purposes, as set forth in the Form F-1: (i) expanding our sales and marketing efforts; (ii) expanding our product selection and offerings; (iii) strengthening our technology and products developments capabilities; and (iv) general corporate purposes, including funding strategic investments in and acquisitions of complementary businesses, assets and technologies.

We filed another registration statement on Form F-1 (File No. 333-200667) in relation to the sale of our ordinary shares represented by ADSs in a follow-on public offering. We filed a Registration Withdrawal Request (File No. 333-200667) related to that follow-on offering on December 14, 2014 because we were able to acquire funds on favorable terms by entering into a share subscription agreement with five investors, including the respective personal holding companies of Tuniu’s chief executive officer and chief operating officer, pursuant to which we sold newly issued class A ordinary shares to the investors.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2018, the end of the period covered by this annual report.

Based upon that evaluation, our management has concluded that, as of December 31, 2018, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company’s assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has excluded one online travel agency acquired in 2018, as described in Note 4 “Business Acquisition” to our consolidated financial statements included in this Annual Report on Form 20-F, from our assessment of the effectiveness of the internal control over financial reporting as of December 31, 2018. The total assets and total revenues of this excluded online travel agency constitute 0.5% and 0.2%, respectively of our total assets and total net revenues, as of and for the year ended December 31, 2018.

Our management conducted an evaluation of the effectiveness of our company’s internal control over financial reporting as of December 31, 2018 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, audited the effectiveness of our company’s internal control over financial reporting as of December 31, 2018, as stated in its report, which appears on page F-2 of this Form 20-F.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Onward Choi and Mr. Jack Xu, each an independent director (under the standards set forth in Nasdaq Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act) and a member of our audit committee, are audit committee financial experts.

Item 16B. Code of Ethics

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees, including certain provisions that specifically apply to our chief executive officers, chief financial officer, senior finance officer and any other persons who perform similar functions for us. We filed our code of business conduct and ethics as Exhibit 99.1 to our registration statement on Form F-1, as amended, which was originally filed with the SEC on April 4, 2014. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.tuniu.com>.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, for the periods indicated.

	2017	2018
Audit fees ⁽¹⁾	US\$ 1,573,258	1,518,941
Audit-related fees ⁽²⁾	US\$ 44,793	—
All other fees ⁽³⁾	US\$ —	86,106

(1) “Audit fees” means the aggregate fees billed for professional services rendered by our principal external auditors for the audits of our annual financial statements and effectiveness of internal control over financial reporting, as well as the quarterly reviews of condensed consolidated financial information.

(2) “Audit-related fees” means the aggregate fees billed for professional services rendered by our principal external auditors associated with certain financial due diligence projects.

(3) “All other fees” means the aggregate fees billed for professional services rendered by our principal external auditors associated with other advisory services.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by PricewaterhouseCoopers Zhong Tian LLP, including audit services, audit-related services and all other services as described above, other than those for de minimis services which are approved by the audit committee prior to the completion of the audit.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On August 23, 2016, our board of directors authorized a share repurchase program under which we may repurchase up to US\$150 million worth of our ordinary shares or American depositary shares representing ordinary shares over the next 12 months. On January 12, 2018, our board of directors authorized a share repurchase program under which we may repurchase up to US\$100 million worth of our ordinary shares or American depositary shares representing ordinary shares over the next 12 months. The share repurchase programs permitted us to purchase shares from time to time on the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. The repurchased shares were presented as “treasury stock” in shareholder’s equity on our consolidated balance sheets. Treasury stock is accounted for under the cost method.

The following table sets forth a summary of our repurchase of our ADSs made in the year 2018 under the share repurchase programs described in the paragraph above.

Period	Total Number of ADSs Purchased ⁽¹⁾	Average Price Paid Per ADS ⁽¹⁾	Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Approximate Dollar Value of ADSs that May Yet Be Purchased Under Plans or Programs (US\$)
March 16, 2018 to March 29, 2018	439,225	US\$ 6.60	439,225	US\$ 97,102,540
April 2, 2018 to April 30, 2018	1,030,347	US\$ 6.27	1,030,347	US\$ 90,642,422
May 1, 2018 to May 31, 2018	1,037,310	US\$ 6.98	1,037,310	US\$ 83,399,845
June 1, 2018 to June 20, 2018	618,034	US\$ 7.61	618,034	US\$ 78,694,501
December 20, 2018 to December 28, 2018	180,821	US\$ 4.92	180,821	US\$ 77,804,291
Total	3,305,737	US\$ 6.71	3,305,737	US\$ 77,804,291

(1) Each ADS represents three Class A ordinary shares.

(2) On August 23, 2016, our board of directors authorized a share repurchase program under which we may repurchase up to US\$150 million worth of our ordinary shares or American depositary shares representing ordinary shares over the next 12 months. On January 12, 2018, our board of directors authorized a share repurchase program under which we may repurchase up to US\$100 million worth of our ordinary shares or American depositary shares representing ordinary shares over the next 12 months.

Item 16F. Change in Registrant’s Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a Cayman Islands company listed on Nasdaq, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Travers Thorp Alberga, our Cayman Islands counsel, has advised us that certain corporate governance practices in the Cayman Islands, our home country, may differ significantly from the Nasdaq corporate governance listing standards. We followed home country practice for our private placements in December 2014, May 2015 and November 2015, which would have required shareholder approval under the Nasdaq Rules but for which there was no such requirement under Cayman Islands law. In addition, we have elected to follow home country practice in lieu of the requirement to hold an annual meeting of shareholders under Nasdaq Rule 5620(a).

We currently do not plan to rely on the home country exemption for any other corporate governance matters. However, if we choose to follow home country practice in other matters in the future, our shareholders may be afforded less protection than they otherwise would under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers. See “Item 3.D. Key Information — Risk Factors — Risks Related to Our ADSs — 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.”

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

Item 18. Financial Statements

The consolidated financial statements of Tuniu Corporation, its subsidiaries and its consolidated affiliated entities are included at the end of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Document
<u>1.1</u>	<u>Fifth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form F-1 (file no. 333-195075), as amended, initially filed with the Securities and Exchange Commission on April 4, 2014).</u>
<u>2.1</u>	<u>Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3).</u>
<u>2.2</u>	<u>Registrant's Specimen Certificate for Class A ordinary shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>2.3</u>	<u>Deposit Agreement among the Registrant, the depository and holders of the American Depositary Receipts dated May 8, 2014 (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-198111), filed with the Security and Exchange Commission on August 13, 2014).</u>
<u>2.4</u>	<u>Third Amended and Restated Investors' Rights Agreement dated as of August 28, 2013 among the Registrant, its ordinary shareholders, preferred shareholders and several other parties named therein (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>4.1</u>	<u>2008 Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>4.2</u>	<u>2014 Share Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>4.3</u>	<u>Form of Indemnification Agreement with the Registrant's directors (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>4.4</u>	<u>English Translation of Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>4.5</u>	<u>English Translation of Amended and Restated Cooperation Agreement dated January 24, 2014 between Beijing Tuniu and Nanjing Tuniu (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>4.6</u>	<u>English Translation of Shareholders' Voting Rights Agreement dated September 17, 2008 among Beijing Tuniu, Nanjing Tuniu and the shareholders of Nanjing Tuniu (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
<u>4.7</u>	<u>English Translation of Amended and Restated Powers of Attorney dated January 24, 2014 granted to Beijing Tuniu by each of the shareholders of Nanjing Tuniu (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>

Exhibit Number	Description of Document
4.8	<u>English Translation of Equity Interest Pledge Agreement dated September 17, 2008 among Beijing Tuniu and the shareholders of Nanjing Tuniu (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
4.9	<u>Subscription Agreement dated April 27, 2014 between Tuniu Corporation and Ctrip Investment Holding Ltd. (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
4.10	<u>Subscription Agreement dated April 25, 2014 between Tuniu Corporation and DCM Hybrid RMB Fund, L.P. (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
4.11	<u>Subscription Agreement dated April 25, 2014 between Tuniu Corporation and Qihoo 360 Technology Co. Ltd. (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
4.12	<u>Subscription Agreement dated December 15, 2014 between Tuniu Corporation, JD.com E-commerce (Investment) Hong Kong Corporation Limited, Unicorn Riches Limited, Ctrip Investment Holding Ltd., Verne Capital Limited and Dragon Rabbit Capital Limited. (incorporated by reference to Exhibit 4.12 from our annual report on Form 20-F (file no. 001-36430) filed with the Securities and Exchange Commission on April 17, 2015).</u>
4.13	<u>Subscription Agreement dated May 8, 2015 between Tuniu Corporation and Fabulous Jade Global Limited (incorporated herein by reference to Exhibit 99.5 to amendment no. 1 to Schedule 13D filed by JD.com, Inc. and its affiliates with the Securities and Exchange Commission on May 29, 2015).</u>
4.14	<u>Subscription Agreement dated May 8, 2015 between Tuniu Corporation and Unicorn Riches Limited (incorporated herein by reference to Exhibit 7.02 to Schedule 13D filed by Unicorn Riches Limited and its affiliates with the Securities and Exchange Commission on May 18, 2015).</u>
4.15	<u>Subscription Agreement dated May 8, 2015 between Tuniu Corporation and Sequoia Capital 2010 CV Holdco, Ltd. (incorporated herein by reference to Exhibit 99.4 to amendment no. 2 to Schedule 13D filed by Sequoia Capital 2010 CV Holdco, Ltd. with the Securities and Exchange Commission on May 18, 2015).</u>
4.16	<u>Subscription Agreement dated May 8, 2015 between Tuniu Corporation and DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P. (incorporated herein by reference to Exhibit 2 to amendment no. 2 to Schedule 13D filed by DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P. with the Securities and Exchange Commission on May 28, 2015).</u>
4.17	<u>Business Cooperation Agreement dated May 8, 2015 between Tuniu Corporation and JD.com, Inc. (incorporated herein by reference to Exhibit 99.6 to amendment no. 1 to Schedule 13D filed by JD.com, Inc. and its affiliates with the Securities and Exchange Commission on May 29, 2015).</u>
4.18	<u>Investor Rights Agreement dated May 22, 2015 between Tuniu Corporation and Fabulous Jade Global Limited (incorporated herein by reference to Exhibit 99.7 to amendment no. 1 to Schedule 13D filed by JD.com, Inc. and its affiliates with the Securities and Exchange Commission on May 29, 2015).</u>

Exhibit Number	Description of Document
4.19	<u>Registration Rights Agreement dated as of May 22, 2015 between Tuniu Corporation and Unicorn Riches Limited (incorporated herein by reference to Exhibit 7.08 to amendment no. 1 to Schedule 13D filed by Unicorn Riches Limited with the Securities and Exchange Commission on May 26, 2015).</u>
4.20	<u>Subscription Agreement dated as of November 20, 2015 between Tuniu Corporation and HNA Tourism Holding (Group) Co., Ltd. (incorporated herein by reference to Exhibit 7.1 to Schedule 13D filed by BHR Winwood Investment Management Limited and its affiliates with the Securities and Exchange Commission on February 1, 2016).</u>
4.21	<u>Amendment No. 1 to Subscription Agreement dated as of December 31, 2015 between Tuniu Corporation and HNA Tourism Holding (Group) Co., Ltd. (incorporated herein by reference to Exhibit 7.2 to Schedule 13D filed by BHR Winwood Investment Management Limited and its affiliates with the Securities and Exchange Commission on February 1, 2016).</u>
4.22	<u>Investor Rights Agreement dated as of November 20, 2015 between Tuniu Corporation and HNA Tourism Holding (Group) Co., Ltd. (incorporated herein by reference to Exhibit 7.3 to Schedule 13D filed by BHR Winwood Investment Management Limited and its affiliates with the Securities and Exchange Commission on February 1, 2016).</u>
4.23	<u>Amendment No. 1 to Investor Rights Agreement dated as of December 31, 2015 between Tuniu Corporation and HNA Tourism Holding (Group) Co., Ltd. (incorporated herein by reference to Exhibit 7.4 to Schedule 13D filed by BHR Winwood Investment Management Limited and its affiliates with the Securities and Exchange Commission on February 1, 2016).</u>
4.24	<u>Amendment No. 2 to Investor Rights Agreement dated February 19, 2016 between Tuniu Corporation and BHR Winwood Investment Management Limited (incorporated herein by reference to Exhibit A to amendment no. 1 to Schedule 13D filed by BHR Winwood Investment Management Limited and its affiliates with the Securities and Exchange Commission on February 29, 2016).</u>
8.1*	<u>List of Significant Subsidiaries.</u>
11.1	<u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-195075), as amended, initially filed with the Security and Exchange Commission on April 4, 2014).</u>
12.1*	<u>Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
12.2*	<u>Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
13.1**	<u>Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
13.2**	<u>Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
15.1*	<u>Consent of PricewaterhouseCoopers Zhong Tian LLP.</u>
15.2*	<u>Consent of Travers Thorp Alberga.</u>
15.3*	<u>Consent of Fangda Partners.</u>

Exhibit Number	Description of Document
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
*	Filed herewith
**	Furnished herewith

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Tuniu Corporation

By: /s/ Dunde Yu

Name: Dunde Yu

Title: Chairman and Chief Executive Officer

Date: April 4, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tuniu Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Tuniu Corporation and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive loss, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15, management has excluded an online travel agency acquired in 2018 from its assessment of internal control over financial reporting as of December 31, 2018 because it was acquired by the Company in a purchase business combination during 2018. We have also excluded this online travel agency from our audit of internal control over financial reporting. This online travel agency is a subsidiary whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 0.5% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
April 4, 2019

We have served as the Company's auditor since 2010, which includes periods before the Company became subject to SEC reporting requirements.

TUNI CORPORATION
CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
ASSETS			
Current assets			
Cash and cash equivalents	484,101	560,356	81,500
Restricted cash	91,810	270,670	39,367
Short-term investments	3,084,634	859,211	124,967
Accounts receivable, net	286,627	347,547	50,549
Amounts due from related parties	171,331	696,520	101,305
Prepayments and other current assets	939,463	1,673,584	243,413
Yield enhancement products and accrued interest	31,337	—	—
Total current assets	5,089,303	4,407,888	641,101
Non-current assets			
Long-term investments	484,991	1,302,506	189,442
Property and equipment, net	148,278	187,360	27,250
Intangible assets, net	460,634	317,885	46,234
Land use right, net	—	100,836	14,666
Goodwill	147,639	159,409	23,185
Yield enhancement products over one year and accrued interest	170,505	—	—
Other non-current assets	156,455	81,039	11,787
Total non-current assets	1,568,502	2,149,035	312,564
Total assets	6,657,805	6,556,923	953,665
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY			
Current liabilities (including current liabilities of the Affiliated Entities without recourse to the Company amounting to RMB2,453,662 and RMB2,691,090, as of December 31, 2017 and 2018, respectively):			
Accounts and notes payable	852,500	1,305,610	189,893
Amounts due to related parties	86,923	77,159	11,222
Salary and welfare payable	187,561	104,480	15,196
Taxes payable	32,036	23,316	3,391
Advances from customers	1,210,615	1,058,946	154,017
Accrued expenses and other current liabilities	373,690	533,144	77,544
Amounts due to the individual investors of yield enhancement products and accrued interests	177,971	—	—
Total current liabilities	2,921,296	3,102,655	451,263
Non-current liabilities			
Deferred tax liabilities	21,142	19,855	2,888
Other non-current liabilities	21,339	20,561	2,990
Total non-current liabilities	42,481	40,416	5,878
Total liabilities	2,963,777	3,143,071	457,141

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Commitments and contingencies (Note 20)			
Redeemable noncontrolling interests	96,719	69,319	10,082
Equity			
Ordinary shares (US\$0.0001 par value; 1,000,000,000 shares (including 780,000,000 Class A shares, 120,000,000 Class B shares and 100,000,000 shares to be designated by the Board of Directors) authorized as of December 31, 2017 and 2018; 388,918,015 shares (including 371,544,515 Class A shares and 17,373,500 Class B shares) and 389,331,544 shares (including 371,958,044 Class A shares and 17,373,500 Class B shares) issued and outstanding as of December 31, 2017 and 2018, respectively)	248	249	36
Less: Treasury stock	(185,419)	(304,535)	(44,293)
Additional paid-in capital	9,013,793	9,061,979	1,318,010
Accumulated other comprehensive income	272,386	284,079	41,318
Accumulated deficit	(5,505,897)	(5,691,409)	(827,781)
Total Tuniu Corporation shareholders' equity	3,595,111	3,350,363	487,290
Noncontrolling interests	2,198	(5,830)	(848)
Total equity	3,597,309	3,344,533	486,442
Total liabilities, redeemable noncontrolling interests and equity	6,657,805	6,556,923	953,665

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Revenues				
Packaged tours	10,147,148	1,589,353	1,830,630	266,254
Others	401,100	602,747	409,519	59,562
Total revenues	10,548,248	2,192,100	2,240,149	325,816
Less: Business and related taxes	(17,307)	—	—	—
Net revenues	10,530,941	2,192,100	2,240,149	325,816
Cost of revenues	(9,891,736)	(1,024,206)	(1,065,022)	(154,901)
Gross profit	639,205	1,167,894	1,175,127	170,915
Operating expenses				
Research and product development	(601,402)	(541,126)	(315,222)	(45,847)
Sales and marketing	(1,900,397)	(894,148)	(778,126)	(113,174)
General and administrative	(658,790)	(637,795)	(487,372)	(70,885)
Other operating income	22,323	21,749	56,599	8,232
Total operating expenses	(3,138,266)	(2,051,320)	(1,524,121)	(221,674)
Loss from operations	(2,499,061)	(883,426)	(348,994)	(50,759)
Other income/(expenses)				
Interest and investment income, net	87,305	130,250	152,929	22,243
Foreign exchange losses, net	(9,734)	(2,394)	(11,729)	(1,706)
Other (loss)/income, net	(2,553)	(121)	8,576	1,247
Loss before income tax expense	(2,424,043)	(755,691)	(199,218)	(28,975)
Income tax benefit/(expense)	1,711	(15,625)	(153)	(22)
Net loss	(2,422,332)	(771,316)	(199,371)	(28,997)
Net loss attributable to noncontrolling interests	(15,104)	(4,934)	(14,037)	(2,042)
Net (loss)/income attributable to redeemable noncontrolling interests	(34)	922	178	26
Net loss attributable to Tuniu Corporation	(2,407,194)	(767,304)	(185,512)	(26,981)
Accretion on redeemable noncontrolling interests	(106)	(5,725)	(2,422)	(352)
Net loss attributable to ordinary shareholders	(2,407,300)	(773,029)	(187,934)	(27,333)
Net loss	(2,422,332)	(771,316)	(199,371)	(28,997)
Other comprehensive income/(loss)				
Foreign currency translation adjustment, net of nil tax	233,900	(128,539)	11,693	1,701
Comprehensive loss	(2,188,432)	(899,855)	(187,678)	(27,296)
Comprehensive loss attributable to noncontrolling interests	(15,104)	(4,934)	(14,037)	(2,042)
Comprehensive (loss)/income attributable to redeemable noncontrolling interests	(34)	922	178	26
Comprehensive loss attributable to Tuniu Corporation	(2,173,294)	(895,843)	(173,819)	(25,280)
Loss per share				
Basic and diluted	(6.45)	(2.04)	(0.50)	(0.07)
Weighted average number of ordinary shares used in computing basic and diluted loss per share	373,347,855	378,230,039	377,744,381	377,744,381

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	Ordinary shares		Treasury Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Accumulated deficit	Total Tuniu Corporation Shareholders' equity	Noncontrolling interests	Total Equity
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2016	286,970,892	181	—	—	5,482,637	167,025	(2,331,399)	3,318,444	16,303	3,334,747
Issuance of ordinary shares upon the private placement, net of issuance costs of RMB3,414	90,909,091	60	—	—	3,275,775	—	—	3,275,835	—	3,275,835
Repurchase of ordinary shares	—	—	(985,299)	(19,708)	—	—	—	(19,708)	—	(19,708)
Issuance of ordinary shares pursuant to share incentive plan	1,590,774	1	—	—	5,266	—	—	5,267	—	5,267
Share-based compensation expenses	—	—	—	—	92,419	—	—	92,419	—	92,419
Foreign currency translation adjustments	—	—	—	—	—	233,900	—	233,900	—	233,900
Remeasurement of prior year acquisitions	—	—	—	—	—	—	—	—	(401)	(401)
Accretion on redeemable noncontrolling interests	—	—	—	—	(106)	—	—	(106)	—	(106)
Net loss	—	—	—	—	—	—	(2,407,194)	(2,407,194)	(15,104)	(2,422,298)
Balance as of December 31, 2016	379,470,757	242	(985,299)	(19,708)	8,855,991	400,925	(4,738,593)	4,498,857	798	4,499,655
Repurchase of ordinary shares	—	—	(8,986,053)	(165,711)	—	—	—	(165,711)	—	(165,711)
Issuance of ordinary shares pursuant to share incentive plan	9,447,258	6	—	—	67,587	—	—	67,593	—	67,593
Share-based compensation expenses	—	—	—	—	98,675	—	—	98,675	—	98,675
Capital contribution to a subsidiary with noncontrolling interest	—	—	—	—	(2,735)	—	—	(2,735)	6,334	3,599
Foreign currency translation adjustments	—	—	—	—	—	(128,539)	—	(128,539)	—	(128,539)
Accretion on redeemable noncontrolling interest	—	—	—	—	(5,725)	—	—	(5,725)	—	(5,725)
Net loss	—	—	—	—	—	—	(767,304)	(767,304)	(4,934)	(772,238)
Balance as of December 31, 2017	388,918,015	248	(9,971,352)	(185,419)	9,013,793	272,386	(5,505,897)	3,595,111	2,198	3,597,309

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	Ordinary shares		Treasury Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Accumulated deficit	Total Tuniu Corporation Shareholders' equity	Noncontrolling interests	Total Equity
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB
Repurchase of ordinary shares	—	—	(9,917,211)	(141,471)	—	—	—	(141,471)	—	(141,471)
Issuance of ordinary shares pursuant to share incentive plan	413,529	1	564,663	22,355	(18,130)	—	—	4,226	—	4,226
Share-based compensation expenses	—	—	—	—	68,738	—	—	68,738	—	68,738
Capital contribution to a subsidiary with noncontrolling interest	—	—	—	—	—	—	—	—	2,117	2,117
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	3,892	3,892
Foreign currency translation adjustments	—	—	—	—	—	11,693	—	11,693	—	11,693
Accretion on redeemable noncontrolling interest	—	—	—	—	(2,422)	—	—	(2,422)	—	(2,422)
Net loss	—	—	—	—	—	—	(185,512)	(185,512)	(14,037)	(199,549)
Balance as of December 31, 2018	389,331,544	249	(19,323,900)	(304,535)	9,061,979	284,079	(5,691,409)	3,350,363	(5,830)	3,344,533
Balance as of December 31, 2018(US\$ (Note 2(d)))	389,331,544	36	(19,323,900)	(44,293)	1,318,010	41,318	(827,781)	487,290	(848)	486,442

TUNI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Cash flows from operating activities:				
Net loss	(2,422,332)	(771,316)	(199,371)	(28,997)
Depreciation of property and equipment	66,510	65,704	66,903	9,731
Amortization of intangible assets and land use right	145,063	150,092	153,258	22,290
Allowance for doubtful accounts	30,919	45,808	2,568	374
Change in fair value of contingent consideration	(1,225)	5,572	(5,242)	(762)
Foreign exchange loss	7,597	673	14,279	2,077
Loss from disposal of property and equipment	859	562	1,368	199
Share-based compensation expenses	92,419	98,675	68,738	9,998
Change in deferred tax liabilities	(2,322)	(2,314)	(2,362)	(344)
Remeasurement of equity investments	—	—	(12,581)	(1,830)
Change in fair value of investments	—	—	(8,153)	(1,186)
Gain from disposal of equity investment	—	—	(1,850)	(269)
Changes in operating assets and liabilities:				
Accounts receivable	(92,147)	(64,286)	(60,584)	(8,812)
Amounts due from related parties	(395,228)	283,901	14,810	2,154
Prepayments and other current assets	(379,924)	691,932	(1,867)	(272)
Accrued interests of yield enhancement products	(29,318)	15,114	10,580	1,539
Other non-current assets	288,460	(9,668)	(25,606)	(3,724)
Accounts and notes payable	133,809	(167,262)	553,445	80,495
Amounts due to related parties	3,764	54,398	(9,765)	(1,420)
Salary and welfare payable	42,688	(4,930)	(83,274)	(12,112)
Taxes payable	(1,075)	20,417	(8,748)	(1,272)
Advances from customers	668,567	(595,876)	(152,335)	(22,156)
Accrued expenses and other liabilities	(399,107)	(221,018)	(34,719)	(5,050)
Accrued interests of amounts due to the individual investors of yield enhancement products	8,065	(11,183)	(6,559)	(954)
Non-current liabilities	(5,486)	(3,644)	(4,844)	(705)
Net cash (used in)/provided by operating activities	(2,239,444)	(418,649)	268,089	38,992
Cash flows from investing activities:				
Purchase of short-term investments	(5,097,309)	(2,488,010)	(1,858,032)	(270,240)
Proceeds from maturity of short-term investments	2,847,284	3,271,860	4,067,804	591,638
Purchase of yield enhancement products	(807,210)	—	—	—
Proceeds from maturity of yield enhancement products	538,485	434,977	172,458	25,083
Increase in loan receivable	(18,038)	(16,438)	(1,326,160)	(192,882)
Purchase of property and equipment and intangible assets	(117,894)	(160,497)	(119,442)	(17,372)
Cash paid for long-term investments	(57,500)	(426,227)	(874,120)	(127,135)
Proceeds from maturity of long-term investments	—	—	91,030	13,240
Cash received from disposal of equity investment	—	—	3,114	453
Cash paid for acquisition, net of cash received	(16,501)	(111)	(2,660)	(387)
Net cash (used in)/provided by investing activities	(2,728,683)	615,554	153,992	22,398

The accompanying notes are an integral part of these consolidated financial statements.

TUNI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016, 2017 and 2018
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Cash flows from financing activities:				
Proceeds from the private placement, net of issuance cost	3,275,835	—	—	—
Cash paid for repurchase of ordinary shares	(19,708)	(166,149)	(139,070)	(20,227)
Proceeds from issuance of ordinary shares upon exercise of options	8,483	67,344	4,585	667
Contingent consideration paid for business acquisitions	(2,250)	(6,800)	(6,800)	(989)
Repurchase of redeemable noncontrolling interests	—	—	(30,000)	(4,363)
Cash contribution from noncontrolling interests	—	3,599	2,117	308
Proceeds from sales/(redemption) of yield enhancement products	274,698	(682,760)	(171,412)	(24,931)
Repayment of short-term borrowings	—	—	(390)	(59)
Proceeds from short-term and long-term borrowings	—	—	195,758	28,472
Cash contribution from redeemable noncontrolling interest holders	90,000	—	—	—
Net cash provided by/(used in) financing activities	3,627,058	(784,766)	(145,212)	(21,122)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	110,652	(46,025)	(21,754)	(3,164)
Net (decrease)/increase in cash, cash equivalents and restricted cash	(1,230,417)	(633,886)	255,115	37,104
Cash, cash equivalents and restricted cash at the beginning of year	2,440,214	1,209,797	575,911	83,763
Cash, cash equivalents and restricted cash at the end of year	1,209,797	575,911	831,026	120,867
Supplemental disclosure of cash flow information				
Income tax paid	1,506	12,199	3,740	544
Supplemental disclosure of non-cash investing and financing activities				
Accrual related to purchase of property and equipment	16,963	11,859	5,202	757
Receivables related to exercise of stock options	(163)	(385)	(23)	(3)
Accrual related to business acquisition	39,344	38,116	36,456	5,302

The accompanying notes are an integral part of these consolidated financial statements.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

1. Organization and Principal Activities

Tuniu Corporation (the “Company”) is an exempted company with limited liability incorporated in the Cayman Islands. The Company, its subsidiaries and the consolidated variable interest entity (“VIE”) and its subsidiaries (collectively referred to as the “Affiliated Entities”) are collectively referred to as the “Group”. The Group’s principal activity is the provision of travel-related services in the People’s Republic of China (“PRC”).

As of December 31, 2018, the Company’s significant consolidated subsidiaries and the consolidated Affiliated Entities are as follows:

Name of subsidiaries and Affiliated entities	Date of establishment/acquisition	Place of incorporation	Percentage of direct or indirect economic ownership
Subsidiaries of the Company:			
Tuniu (HK) Limited	Established on May 20, 2011	Hong Kong	100%
Tuniu (Nanjing) Information Technology Co., Ltd.	Established on August 24, 2011	PRC	100%
Beijing Tuniu Technology Co., Ltd. (“Beijing Tuniu”)	Established on September 8, 2008	PRC	100%
Xiamen Suiwang International Travel Service Co., Ltd.	Established on January 26, 2016	PRC	100%
Tianjin Tuniu International Travel Service Co., Ltd.	Established on March 23, 2016	PRC	100%
Variable Interest Entity (“VIE”)			
Nanjing Tuniu Technology Co., Ltd. (“Nanjing Tuniu”)	Established on December 18, 2006	PRC	100%
Subsidiaries of VIE			
Shanghai Tuniu International Travel Service Co., Ltd.	Acquired on August 22, 2008	PRC	100%
Nanjing Tuniu International Travel Service Co., Ltd.	Acquired on December 22, 2008	PRC	100%
Beijing Tuniu International Travel Service Co., Ltd.	Acquired on November 18, 2009	PRC	100%
Nanjing Tuzhilv Tickets Sales Co., Ltd.	Established on April 19, 2011	PRC	100%
Beijing Global Tour International Travel Service Co., Ltd.	Acquired on July 1, 2015	PRC	75.02%
Tuniu Insurance Brokers Co., Ltd.	Acquired on August 11, 2015	PRC	100%

2. Principal Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Financial statements of 2016 have been adjusted to conform to the current year presentation. Such adjustments relate to the adoptions of Accounting Standards Update (“ASU”) 2014-09 as further described in Note 2(s) “Revenue Recognition” and Note 2(af) “Recently Issued Accounting Pronouncements”.

Liquidity

The Group’s consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. The Group incurred net losses of approximately RMB2,407,194, RMB767,304 and RMB185,512 for the years ended December 31, 2016, 2017 and 2018, respectively. Net cash used in operating activities was approximately RMB2,239,444 and RMB418,649 for the years ended December 31, 2016 and 2017 respectively, and net cash provided by operating activities was RMB268,089 for the year ended December 31, 2018. Accumulated deficit was RMB4,738,593, RMB5,505,897 and RMB5,691,409 as of December 31, 2016, 2017 and 2018, respectively. The Group has adopted ASU No. 2014-15, “Presentation of Financial Statements – Going Concern”. As of December 31, 2018, the Group had net current assets and management believes that the Group’s available cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to meet working capital requirements and capital expenditures in the ordinary course of business for the next twelve months.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the Affiliated Entities for which the Company is the primary beneficiary. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of board of directors, or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, has controlling interest and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiary has controlling interests in a VIE, the Company considers whether the company or its subsidiary has the power to direct activities that most significantly impact the VIE's economic performance, and the right to receive benefits from the VIE or the obligation right to absorb losses of the VIE that could be potentially significant to the VIE.

All significant transactions and balances among the Company, its subsidiaries and the Affiliated Entities have been eliminated upon consolidation.

To comply with PRC laws and regulations that restrict foreign equity ownership of companies that operate internet content, travel agency and air-ticketing services, the Company operates its website and engaged in such restricted services through Nanjing Tuniu and its subsidiaries. Nanjing Tuniu's equity interests are held by Dundu Yu, the Company's Chief Executive Officer, Haifeng Yan, the Company's director, and several other PRC citizens. On September 17, 2008, Beijing Tuniu, one of the Company's wholly owned subsidiaries, entered into a series of agreements with Nanjing Tuniu and its shareholders. Pursuant to these agreements, Beijing Tuniu has the ability to direct substantially all the activities of Nanjing Tuniu, and absorb substantially all of the risks and rewards of the Affiliated Entities. As a result, Beijing Tuniu is the primary beneficiary of Nanjing Tuniu, and has consolidated the Affiliated Entities.

Contractual arrangements

On September 17, 2008, Beijing Tuniu entered into a series of contractual agreements with Nanjing Tuniu and its shareholders. The following is a summary of the agreements which allow the Company to exercise effective control over Nanjing Tuniu:

(1) Purchase Option Agreement.

Under the purchase option agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, Beijing Tuniu has the irrevocable exclusive right to purchase, or have its designated person or persons to purchase all or part of the shareholders' equity interests in Nanjing Tuniu at RMB1,800 which was increased to RMB2,430 in March 2014. The option term remains valid for a period of 10 years and can be extended indefinitely at Beijing Tuniu's discretion. The purchase consideration was paid by Beijing Tuniu to the shareholders of Nanjing Tuniu shortly after the purchase option agreement was entered. On January 24, 2014, the Company amended and restated the purchase option agreement, and the effective term of the purchase option agreement has been changed to until all equity interests held in Nanjing Tuniu are transferred or assigned to Beijing Tuniu or its designated person or persons.

(2) Equity Interest Pledge Agreement.

Under the equity interest pledge agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, the shareholders pledged all of their equity interests in Nanjing Tuniu to guarantee their performance of their 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 agreed that 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 agreement 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.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

(3) Shareholders' Voting Rights Agreement.

Under the shareholders' voting rights agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, each of the shareholders of Nanjing Tuniu appointed Beijing Tuniu's 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, nominating and appointing directors, convene extraordinary shareholders' meetings, and other voting rights pursuant to the then effective articles of association. The shareholders' voting rights agreement will remain in force for an unlimited term, unless all the parties to the agreement mutually agree to terminate the agreement in writing or cease to be shareholders of Nanjing Tuniu.

(4) Irrevocable Powers of Attorney.

Under the powers of attorney issued by the shareholders of Nanjing Tuniu on September 17, 2008, the shareholders of Nanjing Tuniu each irrevocably appointed Mr. Tao Jiang, a person designated by Beijing Tuniu, as the attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu. Each power of attorney will remain in force until the shareholders' voting rights agreement expires or is terminated. On January 24, 2014, the shareholders of Nanjing Tuniu issued powers of attorney to irrevocably appoint Beijing Tuniu as the attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu. These powers of attorney replaced the powers of attorney previously granted to Mr. Tao Jiang on September 17, 2008.

(5) Cooperation Agreement.

Under the cooperation agreement entered between Beijing Tuniu and Nanjing Tuniu, Beijing Tuniu has the exclusive right to provide Nanjing Tuniu technology consulting and services related to Nanjing Tuniu's operations, which require certain licenses. Beijing Tuniu owns the exclusive intellectual property rights created as a result of the performance of this agreement. Nanjing Tuniu agrees to pay Beijing Tuniu a monthly service fee for services performed, and the monthly service fee shall not be lower than 100% of Nanjing Tuniu's profits generated from such cooperation, which equal revenues generated from such cooperation, after deducting the expenses it incurred. This agreement remains effective for an unlimited term, unless the parties mutually agree 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. On January 24, 2014, the Company amended and restated the Cooperation Agreement. In the amended and restated agreement, the service fee has been changed to a quarterly payment which equals the profits of each of Nanjing Tuniu and its subsidiaries, and that Beijing Tuniu can adjust the service fee at its own discretion. Also in the amended and restated Cooperation Agreement, Beijing Tuniu has the unilateral right to terminate the agreement.

In the years ended December 31, 2016, 2017 and 2018, the Company and its subsidiaries received service fees of RMB109,572, RMB138,054 and RMB197,853, respectively, from its consolidated Affiliated Entities, which were eliminated in the consolidated financial statements.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

Risks in relation to the VIE structure

The Group believes that each of the agreements and the powers of attorney under the contractual arrangements among Beijing Tuniu, Nanjing Tuniu and its shareholders is valid, binding and enforceable, and does not and will not result in any violation of PRC laws or regulations currently in effect. The legal opinion of Fangda Partners, which was the Company's PRC legal counsel, also supports this conclusion. The shareholders of Nanjing Tuniu are also shareholders, nominees of shareholders, or designated representatives of shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of Nanjing Tuniu were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms.

The Company's ability to control Nanjing Tuniu also depends on the power of attorney Beijing Tuniu has to vote on all matters requiring shareholder approval in Nanjing Tuniu. As noted above, the Company believes this power of attorney is legally enforceable but it may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

- levying fines or confiscate the Group's income;
- revoke the Group's business or operating licenses;
- require the Group to discontinue, restrict or restructure its operations;
- shut down the Group's servers or block the Group's websites and mobile platform;
- restrict or prohibit the use of the Group's financing proceeds to finance its business and operations in China; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's business. In addition, the imposition of any of these penalties may cause the Group to lose the right to direct the activities of Nanjing Tuniu (through its equity interest in its subsidiaries) or the right to receive economic benefits from the Affiliated Entities. Therefore, a risk exists in that the Group would no longer be able to consolidate Nanjing Tuniu and its subsidiaries. In March 2019, the PRC National People's Congress promulgated the Foreign Investment Law, or the 2019 PRC Foreign Investment Law, which will become effective on January 1, 2020 and will replace the major existing laws and regulations governing foreign investment in the PRC. The approved Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. As the 2019 PRC Foreign Investment Law is newly adopted and relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the 2019 PRC Foreign Investment Law, the possibility can't be ruled out that the VIE structure adopted by the Group may be deemed as a method of foreign investment by, any of such future laws, regulations and rules, which cause significant uncertainties as to whether the Group's VIE structures would be treated as a method of foreign investment. If the Group's VIE structure would be deemed as a method of foreign investment under any of such future laws, regulations and rules, and any of the Group's businesses operation would fall in the "negative list" for foreign investment that is subject to any foreign investment restrictions or prohibitions, the Group would be required to take further actions to comply with such laws, regulations and rules, which may materially and adversely affect the Group's current corporate structure, corporate governance, business, financial conditions and results of operations.

Summary financial information of the Affiliated Entities in the consolidated financial statements

As of December 31, 2018, the aggregate accumulated deficit of the Affiliated Entities was RMB3,764 million prior to the elimination of transactions between the Affiliated Entities and the Company or the Company's subsidiaries.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

The following assets, liabilities, revenues and loss of the Affiliated Entities were included in the consolidated financial statements as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
ASSETS			
Current assets			
Cash and cash equivalents	289,259	254,373	36,997
Restricted cash	90,854	261,559	38,042
Short-term investments	1,685,045	584,032	84,944
Accounts receivable, net	140,464	266,225	38,721
Intercompany receivables	1,595,225	499,276	72,617
Prepayments and other current assets	228,604	769,824	111,966
Yield enhancement products and accrued interest	21,337	—	—
Total current assets	4,050,788	2,635,289	383,287
Non-current assets			
Long-term investments	501,227	1,022,453	148,710
Property and equipment, net	84,755	137,267	19,965
Intangible assets, net	95,550	85,388	12,419
Goodwill	137,074	137,074	19,937
Yield enhancement products over one year and accrued interest	170,505	—	—
Other non-current assets	27,258	66,335	9,648
Total non-current assets	1,016,369	1,448,517	210,679
Total assets	5,067,157	4,083,806	593,966
LIABILITIES			
Current liabilities			
Accounts and notes payable	629,707	1,251,543	182,029
Salary and welfare payable	157,440	82,254	11,963
Taxes payable	8,952	11,809	1,718
Advances from customers	1,145,306	998,041	145,159
Intercompany payable	4,966,577	5,141,083	747,740
Accrued expenses and other current liabilities	334,286	347,443	50,533
Amount due to the individual investors of yield enhancement products	177,971	—	—
Total current liabilities	7,420,239	7,832,173	1,139,142
Non-current liabilities	1,378,584	17,838	2,594
Total liabilities	8,798,823	7,850,011	1,141,736

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(b) Principles of Consolidation - continued

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Net revenues	10,562,269	1,954,746	1,524,924	221,791
Net loss	(2,034,208)	(348,755)	(29,031)	(4,222)
Net cash (used in)/provided by operating activities	(972,677)	(232,926)	31,282	4,550
Net cash used in investing activities	(208,278)	(1,021,286)	(465,029)	(67,636)
Net cash provided by financing activities	995,740	1,303,661	569,565	82,840

Certain financial data of 2016 listed in the tables above have been recast as a result of the adoption of Accounting Standards Update (“ASU”) 2014-09 as further described in Note 2(s) “Revenue Recognition” and Note 2(af) “Recently Issued Accounting Pronouncements”.

Currently there is no contractual arrangement that could require the Company to provide additional financial support to the Affiliated Entities. As the Company is conducting its business mainly through the Affiliated Entities, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

Under the contractual arrangements with Nanjing Tuniu and through its equity interest in its subsidiaries, the Group has the power to direct the activities of the Affiliated Entities and direct the transfer of assets out of the Affiliated Entities. As the consolidated Affiliated Entities are each incorporated as a limited liability company under the PRC Company Law, the creditors do not have recourse to the general credit of the Company for all of the liabilities of the consolidated Affiliated Entities.

(c) Use of Estimates

The preparation of the Group’s consolidated financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates. Significant accounting estimates reflected in the Group’s consolidated financial statements mainly include fair value of short-term and long-term investments, recoverability of receivables, estimating useful lives of property and equipment and intangible assets, impairment for goodwill and long-lived assets, the purchase price allocation in relation to business combination, fair value of contingent considerations with respect to business combinations, losses due to committed tour reservations, the valuation allowance for deferred tax assets and the determination of uncertain tax positions.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(d) Functional Currency and Foreign Currency Translation

The Group uses Renminbi (“RMB”) as its reporting currency. The functional currency of the Company and its subsidiaries incorporated outside of PRC is the United States dollar (“US\$”), while the functional currency of the PRC entities in the Group is RMB as determined based on ASC 830, *Foreign Currency Matters*.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. The resulting exchange differences are included in the consolidated statements of comprehensive loss as foreign exchange gains / losses.

When preparing the consolidated financial statements presented in RMB, assets and liabilities of the Company and its subsidiaries incorporated outside of PRC are translated into RMB at fiscal year-end exchange rates, and equity accounts are translated into RMB at historical exchange rates. Income and expense items are translated at average exchange rates prevailing during the respective fiscal years. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of accumulated other comprehensive income or loss in the consolidated statement of changes in shareholders’ equity.

The unaudited United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the readers. Translations of amounts from RMB into US\$ for the convenience of the reader were calculated at the rate of US\$1.00 = RMB6.8755 on December 31, 2018, as set forth in H.10 statistical release of the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2018, or at any other rate.

(e) Fair Value Measurement

The Group defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs may be used to measure fair value include:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Group’s financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, amounts due from and due to related parties, balance in relation to yield enhancement products, long-term investments in financial products, contingent consideration for acquisitions and certain accrued liabilities and other current liabilities. The carrying values of these financial instruments approximated their fair values due to the short-term maturity of these instruments except for certain investments which are carried at fair value at each balance sheet date. Certain short-term and long-term investments in financial products and securities classified within Level 2 are valued using directly or indirectly observable inputs in the market place. Certain long-term investments in financial products classified within Level 3 are valued based on a model utilizing unobservable inputs which require significant management judgment and estimation.

The Group’s assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using Significant Other Observable Inputs (Level 2)		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Short-term investments	3,084,634	562,794	81,855
Long-term investments	394,923	52,441	7,627

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(e) Fair Value Measurement - continued

	Fair Value Measurement Using Unobservable Inputs (Level 3)		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Short-term investments	—	255,237	37,123
Long-term investments	—	844,843	122,877
Contingent consideration for acquisitions - short term	26,925	25,692	3,756
Contingent consideration for acquisitions - long term	11,191	10,764	1,566

The roll forward of major Level 3 investments are as following:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Fair value of Level 3 investment at the beginning of the year	—	—	—
Addition	—	1,547,135	225,022
Decrease	—	(457,564)	(66,550)
The change in fair value of the investments	—	10,509	1,528
Fair value of Level 3 investment at the end of the year	—	1,100,080	160,000

The Company determined the fair value of its investments by using income approach with significant unobservable inputs of future cashflows and discount rate ranging from 6.0% to 9.0%.

The roll forward of contingent consideration for acquisitions is as below:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Balance at the beginning of the year	39,344	38,116	5,544
Addition	—	10,382	1,509
Net change in fair value	5,572	(5,242)	(762)
Payment	(6,800)	(6,800)	(989)
Balance at the end of the year	38,116	36,456	5,302

Contingent consideration is valued using an expected cash flow method with unobservable inputs including the probability to achieve the operating and financial targets, which is assessed by the Group, in connection with the contingent consideration arrangements.

(f) Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and demand deposits placed with banks, other financial institutions and Alipay, a third party payment processor, which are unrestricted as to withdrawal or use.

(g) Restricted Cash

Restricted cash represents cash that cannot be withdrawn without the permission of third parties. The Group's restricted cash mainly represents (i) cash deposits required by tourism administration departments as a pledge to secure travellers' rights and interests, (ii) cash deposits required by China Insurance Regulatory Commission for engaging in insurance agency or brokering activities, (iii) the deposits held in designated bank accounts for issuance of bank acceptance notes and letter of guarantee, and required by the Group's business partners.

(h) Short-term Investments

Short-term investments are comprised of (i) held-to-maturity investments such as time deposits, which are due between three months and one year and stated at amortized cost; and (ii) equity securities and investments in financial products issued by banks or other financial institutions, which contain a fixed or variable interest rate and with original maturities between three months and one year. Such investments are generally not permitted to be redeemed early or are subject to penalties for redemption prior to maturity. These investments are stated at fair value. Changes in the

fair value are reflected in the consolidated statements of comprehensive loss. There was no other-than-temporary impairment of short-term investments for the years ended December 31, 2016, 2017 and 2018.

(i) Accounts Receivable, net

The Group's accounts receivable mainly consist of amounts due from the corporate customers, travel agents, insurance companies and travel boards or bureaus, which are carried at the original invoice amount less an allowance for doubtful accounts. The Group reviews accounts receivable on a periodic basis and makes allowances when there is doubt as to the collectability of individual balances. The Group evaluates the collectability of accounts receivable considering many factors including reviewing accounts receivable balances, historical bad debt rates, payment patterns, counterparties' credit worthiness and financial conditions, and industry trend analysis. The Group recognized allowance for doubtful accounts of RMB5,297, RMB13,332 and RMB3,299 for the years ended December 31, 2016, 2017 and 2018, respectively.

The following table summarized the details of the Group's allowance for doubtful accounts:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Balance at beginning of year	—	4,856	16,905	2,459
Addition	5,297	13,332	4,200	611
Reversal	—	—	(901)	(131)
Write-offs	(441)	(1,283)	—	—
Balance at end of period	4,856	16,905	20,204	2,939

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(j) Long-term investments

Long-term investments include equity investments, held-to-maturity investments and other long-term investments.

Equity investments

The Group accounts for the investments in entities with significant influence under equity-method accounting. Under this method, the Group's 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 the intent and ability of the Group 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.

The Group adopted the ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities", effective from January 1, 2018. The Group elects a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. Under the measurement alternative, the Group measures these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. 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.

Held-to-maturity investments

The investments that the Group intends and is able to hold to maturity are classified as held-to-maturity investments and are stated at amortized cost, and interest income is recorded in the consolidated statements of comprehensive income. The Group monitors these investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

Other long-term investments

Other long-term investments include financial products with maturities over one year and securities including perpetual bonds and preferred shares issued by companies, 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 other-than-temporary impairment existed and therefore the Group did not record any impairment charges for its investments for the years ended December 31, 2016, 2017 and 2018.

(k) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment if applicable. Property and equipment are depreciated over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful life
Computers and equipment	3 - 5 years
Buildings	16 - 20 years
Furniture and fixtures	3 - 5 years
Vehicles	3 - 5 years
Software	5 years
Leasehold improvements	Over the shorter of the lease term or the estimated useful life of the asset ranging from 1 – 9 years

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(k) Property and Equipment - continued

Construction in progress represents leasehold improvements under construction or being installed and is stated at cost. Cost comprises original cost of property and equipment, installation, construction and other direct costs. Construction in progress is transferred to leasehold improvements and depreciation commences when the asset is ready for its intended use.

Gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of comprehensive loss.

(l) Land use right, net

Land use right represents the payments for usage of land for office buildings, which is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over their respective lease period which is 49.

(m) Capitalized Software Development Cost

The Group has capitalized certain direct development costs associated with internal-used software in accordance with ASC 350-40, “Internal-use software”, which requires the capitalization of costs relating to certain activities of developing internal-use software that occur during the application development stage. Costs capitalized mainly include payroll and payroll-related costs for employees who devoted time to the internal-use software projects during the application development stage. Capitalized internal-use software costs are stated at cost less accumulated amortization and the amount is included in “property and equipment, net” on the consolidated balance sheets, with an estimated useful life of five years. Software development cost capitalized amounted to RMB8,516, RMB19,545 and RMB75,443 for the years ended December 31, 2016, 2017 and 2018, respectively. The amortization expense for capitalized software costs amounted to RMB3,768, RMB5,729 and RMB14,699 for the years ended December 31, 2016, 2017 and 2018, respectively. The unamortized amount of capitalized internal use software development costs was RMB91,684 as of December 31, 2018.

(n) 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. The Group has 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. The Group 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 Group. 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 the Group’s 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.

Subsequent to the initial measurement of acquisition, adjustments to the amount of contingent consideration are recognized as a gain or loss during the period of adjustments, and are reflected in other operating income.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(o) 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. The Company's purchased intangible assets include computer software, which are amortized on a straight-line basis over their estimated useful lives 3 years. Separable intangible assets arising from acquisitions consist of trade names, customer relationship, software, technology, non-compete agreements, travel licenses, insurance agency license and business cooperation agreement with JD.com Inc., which are amortized on a straight-line basis over their estimated useful lives of 3.5 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, 2016, 2017 and 2018.

(p) 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.

The Group adopted Accounting Standards Update ("ASU") 2011-08, "*Intangibles—Goodwill and Other (Topic 350)*". This accounting standard gives the Group 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 the Group 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.

Management performed goodwill impairment test and no impairment loss was recognized for the years ended December 31, 2016, 2017 and 2018.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(q) Impairment of long-lived assets

The Group evaluates its long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the difference between the carrying amount and fair value of these assets. No impairment of long-lived assets was recognized during the years ended December 31, 2016, 2017 and 2018.

(r) Advances from Customers

Advances from customers represent the amounts travellers pay in advance to purchase packaged tours or other travelling products. Among the cash proceeds from travellers, the amounts payable to tour operators are recorded as accounts payable and the remaining are recognized as revenues when revenue recognition criteria are met.

(s) Revenue Recognition

The Group's revenue is primarily derived from sales of packaged tours and other service fees.

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 the Group expects to be entitled to in exchange for those services. The Group adopted this new revenue standard effective from January 1, 2017 by applying the full retrospective method. Refer to note 2(a) for the effects of the adoption of ASC 606 on the Group's consolidated statements of comprehensive loss for the year ended December 31, 2016. There are no significant estimates in the Group's revenue arrangements.

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

Since the beginning of 2017, the Group has implemented certain changes in its arrangements with the tour operators. The Group's 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 the Group's role, starting from January 1, 2017, revenues from organized tours (except for those that the Group takes substantive inventory risks and the self-operated local tour operators in which the Group acts as a principal, as discussed below) are generally reported on net basis, representing the difference between what the Group receives from the travellers and the amounts due to the tour operators.

Revenues from self-guided tours are recognized on a net basis, as the Group has no involvement in determining the service, and provides 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, the Group is an agent for the travel service providers in these transactions and revenues are reported on a net basis.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(s) Revenue Recognition - continued

Under certain circumstances, the Group may enter into contractual commitments with suppliers to reserve tours, and is 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, the Group would be liable to pay suppliers a pre-defined or negotiated penalty, thereby assuming inventory risks. For packaged tour arrangements that the Group undertakes inventory risk which is considered to be substantive, revenues are recognized on gross basis. Revenues for such arrangements that the Group undertakes substantive inventory risk were RMB497,918 and RMB241,181 for the years ended December 31, 2017 and 2018, which were recorded in revenues for packaged tours.

In 2018, the Group expanded self-operated local tour operators in various destinations by directly providing destination-based services to the organized tour customers, starting from their arrival at the destination and all the way until they depart from the destination. As a self-operated local tour operator, the Group integrates the underlying resources such as transportations, accommodations, entertainments, meals and tour guide services from selected suppliers, directs the selected vendors to provide services on the Group's behalf, and hence sets up the price for the tour. Besides, the Group is primarily responsible for fulfilling the promise of the whole packaged tours service, which is a single performance obligation. Accordingly, the Group is a principal for the self-operated local tour operator business and recognizes revenue on a gross basis in accordance with ASC 606. Revenues from the self-operated tour operator business are recognized over time during the period of the tours when control over the tour services is transferred to the customers. Revenues for the self-operated local tour operator business were RMB509,737 for the year ended December 31, 2018, which were recorded in revenues for packaged tours.

Under ASC 606, revenues from organized tours for which the Group was a principal for year 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 (except for the self-operated local tour operators in which the Group acts as a principal, as discussed above), for which the Group's role was changed into an agent, revenues 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: 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. Revenue is recognized when the services are rendered or when the tickets are issued.

The Group commenced the financial business in 2015. Certain domestic financial assets exchanges (the "Exchange") and trust companies offered the yield enhancement products through the Group's online platform and the Group charged these companies for the service fees which were recorded as other revenue upon the delivery of service. The service revenues were insignificant for the years ended December 31, 2016, 2017 and 2018.

Further, from 2016 in certain cases, the Group purchased yield enhancement products with maturities ranged 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 the Group's online platform. The split of the products were arranged by Exchanges. As of December 31, 2017, yield enhancement products purchased from the Exchanges and trust companies with maturities within one year and accrued interest with the balances of RMB31,337 were recorded in current assets, and balances with the maturities over one year of RMB170,505 were recorded in non-current assets. Interest revenues of RMB50,867 were recorded as other revenues for the year ended December 31, 2017. As of December 31, 2017, yield enhancement products held by the individual investors with maturities within one year of RMB177,971 were recorded in current liabilities. Interest costs of RMB34,499 were recorded as cost of revenue for the year ended December 31, 2017. In 2018, the Group terminated this financial service thus there were no related balances as of December 31, 2018. The interest revenues and costs were insignificant for the year ended December 31, 2018.

The Group also provided account receivables factoring service and cash lending service to customers and fees charged in connection with these financial services were recorded as other revenue over the period of the service rendered. The amount of such service revenue for the year ended December 31, 2018 was RMB117,537.

The Group provided online lending service in 2017 and fees charged in connection with this service was RMB220,701 for the year ended December 31, 2017. This service was terminated in late 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(s) Revenue Recognition - continued

Customer incentives

From time to time, travelers are offered coupons, travel vouchers, membership points, or cash rewards as customer incentives. For customer incentives offered where prior purchase is not required, the Group accounts 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, the Group estimates the amount associated with the future obligation to customers, and records as a reduction of revenue when the prior purchase revenue is initially recognized. Unredeemed incentives are recorded in other current liabilities in the consolidated balance sheets. The Group estimates 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. As of December 31, 2017 and 2018, liabilities recorded related to membership points and cash rewards were RMB2,142 and RMB1,395, respectively.

Business and related taxes, and value-added tax

The Group was mainly subject to business and related taxes on services provided in the PRC at applicable rates before May 1, 2016, which were deducted from revenues to arrive at net revenue. On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of value-added tax ("VAT") was expanded to all industries in China. The Group's business has been subject to VAT since that date, and the Group is permitted to offset input VAT (VAT that is paid in the acquisition of goods or services, and which is supported by valid VAT invoices received from vendors) against their VAT liability. VAT on the invoiced amount collected by the Group on behalf of tax authorities in respect of services provided, net of VAT paid for purchases, is recorded as a liability until it is paid to the tax authorities. The Group is also subject to certain government surcharges on VAT payable in the PRC and these surcharges are recorded in cost of revenues.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(t) Cost of Revenues

Cost of revenues mainly consists of salaries and other compensation-related expenses related to the Group's tour advisors, customer services representatives, and other personnel related to tour transactions, and other expenses directly attributable to the Group's 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 the Group secures availabilities of tours and bears substantive inventory risks, and for the self-operated local tour operators since 2018 and the organized tours prior to the beginning of 2017 in which the Group act as a principal, 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 above mentioned arrangements where the Group secures availabilities of tours were recorded in "cost of revenues" in the consolidated statements of comprehensive loss, which were RMB45,494 for the year ended December 31, 2016. Commencing in 2017, since the Group changed its role from principal to agent in the organized tour arrangements and revenues 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 and were insignificant for the year ended December 31, 2018.

(u) Advertising Expenses

Advertising expenses, which primarily consist of online marketing expense and brand marketing expenses through various forms of media, are recorded in sales and marketing expenses as incurred. Advertising expenses were RMB1,270,598, RMB302,987 and RMB222,073 for the years ended December 31, 2016, 2017 and 2018, respectively.

(v) Research and Product Development Expenses

Research and product development expenses include salaries and other compensation-related expenses to the Group's research and product development personnel, as well as office rental, depreciation and related expenses and travel-related expenses for the Group's research and product development team. The Group recognizes software development costs in accordance with ASC 350-40 "*Software—internal use software*". The Group expenses 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 (see Note 2(m)).

TUNIUCORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(w) Leases

A lease for which substantially all the benefits and risks incidental to ownership remain with the lessor is classified as an operating lease. All leases of the Group are currently classified as operating leases. When a lease contains rent holidays or requires fixed escalations of the minimum lease payments, the Group records the total rental expense on a straight-line basis over the lease term and the difference between the straight-line rental expense and cash payment under the lease is recorded as deferred rent liabilities. As of December 31, 2017 and 2018, deferred rent of RMB10,332 and RMB5,412 was recorded as current liabilities and RMB9,548 and RMB5,304 was recorded as non-current liabilities, respectively.

(x) Share-based Compensation

The Company applies ASC 718, "*Compensation — Stock Compensation*" to account for its share-based compensation program including share options and restricted shares. In accordance with the guidance, the Company determines whether a share-based award should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant date fair values. For options, the fair values are calculated using the binominal option pricing model. Share-based compensation expenses are recorded net of an estimated forfeiture rate over the service period using the straight-line method. The modifications of the terms or conditions of the share-based award are treated as an exchange of the original award for a new award. The incremental compensation expense is equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For options already vested as of the modification date, the Company immediately recognized the incremental value as compensation expenses. For options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these options.

The Company's 2008 Incentive Compensation Plan allows the plan administrator to grant options and restricted shares to the Company's employees, directors, and consultants. The plan administrator is the Company's board of directors or a committee appointed and determined by the board. The board may also authorize one or more officers of the Company to grant awards under the plan. Under the 2008 Incentive Compensation Plan, options granted to employees vest upon satisfaction of a service condition, which is generally satisfied over four years. Additionally, the incentive plan provides an exercisability clause where employees can only exercise vested options upon the occurrence of the following events: (i) after the Company's ordinary shares has become a listed security, (ii) in connection with or after a triggering event (defined as a sale, transfer, or disposition of all or substantially all of the Company's assets, or a merger, consolidation, or other business combination transaction), or (iii) if the employee 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. This performance condition was met upon completion of the Company's initial public offering, and the associated share-based compensation expense for awards vested as of that date were recognized on May 9, 2014.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(x) Share-based Compensation - continued

In April 2014, the Company adopted the 2014 Share Incentive Plan, which contains no such exercisability clause. For details of the 2014 Share Incentive Plan, please refer to Note 17 of the consolidated financial statements.

The Group recognized share-based compensation expense of RMB92,419, RMB98,675 and RMB68,738 for the years ended December 31, 2016, 2017 and 2018, respectively, which was classified as follows:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Cost of revenue	891	1,075	1,483	216
Research and product development	5,702	6,864	9,124	1,327
Sales and marketing	1,390	1,650	1,305	190
General and administrative	84,436	89,086	56,826	8,265
Total	92,419	98,675	68,738	9,998

(y) 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 interim condensed consolidated statements 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.

Uncertain tax positions

U.S. GAAP 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. The guidance also provides for the 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 the Group's uncertain tax positions and determining its provision for income taxes. As of December 31, 2017 and 2018, the Group 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, the Group applies 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 of being realized upon settlement.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(z) Employee Benefits

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions. The Group recorded employee benefit expenses of RMB256,801, RMB263,618 and RMB222,304 for the years ended December 31, 2016, 2017 and 2018, respectively.

(aa) Government Subsidies

Government subsidies are cash subsidies received by the Group's entities in the PRC from provincial and local government authorities. The 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 the Group's ongoing operations in the region. Cash subsidies are recorded in other operating income on the consolidated statements of comprehensive loss when received and when all conditions for their receipt have been satisfied. The Group recognized government subsidies of RMB21,098, RMB27,322 and RMB51,357 for the years ended December 31, 2016, 2017 and 2018, respectively.

(ab) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Accretion of the redeemable noncontrolling interests is deducted from the net income (loss) to arrive at net income (loss) attributable to the Company's ordinary shareholders. Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of unvested restricted shares and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted loss per share calculation when inclusion of such shares would be anti-dilutive. Except for voting rights, Class A and Class B shares have all the same rights and therefore the Group has elected not to use the two-class method.

(ac) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Comprehensive income or loss is reported in the consolidated statements of comprehensive loss. Accumulated other comprehensive income (loss), as presented on the accompanying consolidated balance sheets, consists of accumulated foreign currency translation adjustments.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(ad) Treasury stock

On August 23, 2016, the Company's board of directors authorized a share repurchase program under which the Company may repurchase up to US\$150 million worth of its ADS over the next 12 months. On January 12, 2018, the Company's board of directors authorized an additional share repurchase program under which the Company was authorized to repurchase up to US\$100 million worth of the Company's ordinary shares or American depositary shares representing ordinary shares over the next 12 months. The share repurchase programs permitted the Company to purchase shares from time to time on the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. The repurchased shares were accounted for under the cost method and presented as "treasury stock" in equity on the Group's consolidated balance sheets. For the year ended December 31, 2018, the Group reissued 564,663 shares to employees upon their exercise of share options or vesting of restricted share units under the Group's share compensation plans. The Company recognizes the difference in additional paid-in capital on the reissuance of the shares when reissuing treasury stock at an amount different from the average cost the Company paid to repurchase the treasury stock.

(ae) Segment Reporting

In accordance with ASC 280, Segment Reporting, the Group's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment.

The Group does not distinguish between markets or segments for the purpose of internal reporting. The Group's long-lived assets are substantially all located in the PRC and substantially all the Group's revenues are derived from within the PRC, therefore, no geographical segments are presented.

(af) Recently Issued Accounting Pronouncements

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"). The Group adopted this new revenue standard effective from January 1, 2017 by applying the full retrospective method. The new revenue standard has mainly changed the timing of revenue recognition. Under ASC 606, for 2016, instead of recognizing revenue at the end of the organized tours and self-guided tours in accordance with ASC 605, revenues from organized tours are now recognized over the period of the tours and revenues from self-guided tours are recognized on the departure day. In addition, the new revenue standard also changes the presentation of customer incentives. Under ASC 606, the estimated amount associated with the future obligation to customers is now recorded as a reduction of revenue instead of within sales and marketing expenses under incremental cost model in accordance ASC 605. Following the adoption of ASC 606, the revenue recognition for others services remained materially consistent with the historical practice. See Note 2(s) for details.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(af) Recently Issued Accounting Pronouncements - continued

The following table presents the full retrospective impact of the above-described changes upon adoption of ASC 606 on the Group's consolidated statements of operations for the year ended December 31, 2016:

	For the Year Ended December 31, 2016		
	As Reported	Adoption of ASC 606	As Adjusted
	RMB	RMB	RMB
Packaged tours	10,179,977	(32,829)	10,147,148
Others	385,603	15,497	401,100
Total revenues	10,565,580	(17,332)	10,548,248
Net revenues	10,548,273	(17,332)	10,530,941
Cost of revenues	(9,921,304)	29,568	(9,891,736)
Gross profit	626,969	12,236	639,205
Sales and marketing	(1,908,424)	8,027	(1,900,397)
Total operating expenses	(3,146,293)	8,027	(3,138,266)
Loss from operations	(2,519,324)	20,263	(2,499,061)
Loss before income tax expense	(2,444,306)	20,263	(2,424,043)
Net loss	(2,442,595)	20,263	(2,422,332)
Net loss attributable to noncontrolling interests	(15,470)	366	(15,104)
Net loss attributable to Tuniu Corporation	(2,427,091)	19,897	(2,407,194)
Net loss attributable to ordinary shareholders	(2,427,197)	19,897	(2,407,300)
Net loss	(2,442,595)	20,263	(2,422,332)
Comprehensive loss	(2,208,695)	20,263	(2,188,432)
Comprehensive loss attributable to noncontrolling interests	(15,470)	366	(15,104)
Comprehensive loss attributable to Tuniu Corporation	(2,193,191)	19,897	(2,173,294)
Net loss per share-basic and diluted	(6.50)	0.05	(6.45)

The following table presents the full retrospective impact of the above-described changes upon adoption of ASC 606 on the Group's consolidated statements of cash flows for the year ended December 31, 2016:

	For the Year Ended December 31, 2016		
	As Reported	Adoption of ASC 606	As Adjusted
	RMB	RMB	RMB
Cash flows from operating activities:			
Net loss	(2,442,595)	20,263	(2,422,332)
Changes in operating assets and liabilities:			
Accounts receivable	(76,810)	(15,337)	(92,147)
Accounts payable	78,768	55,041	133,809
Advances from customers	728,534	(59,967)	668,567

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

2. Principal Accounting Policies - continued

(af) Recently Issued Accounting Pronouncements – continued

In January 2016, the FASB issued ASU 2016-01, “*Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*”. ASU 2016-01 changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The guidance also changes certain disclosure requirements and other aspects of previous U.S. GAAP. ASU 2016-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Effective from January 1, 2018, the Group adopted the new guidance related to accounting for equity investments and financial liabilities under the fair value option. Upon adoption of the ASU 2016-01, the Group elected a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. Under the measurement alternative, the Group measured these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Before 2018, such investments were classified as cost method investments and were measured at cost, subject to impairment assessment. See Note 7 for details.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*” (“ASU 2016-02”), which requires lessees to recognize assets and liabilities for all leases with lease terms of more than 12 months on the balance sheet. Under the new guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. The ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. The ASU initially required a modified retrospective transition approach for existing leases, whereby the new leases standard will be applied to the earliest year presented. In July 2018, the FASB issued ASU 2018-11, which provides another transition method, the additional transition method, in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Group will adopt this new guidance by using the additional transition method for the year ended December 31, 2019 and interim periods in the year ended December 31, 2019. The Group has inventoried its leases and continues to review its other contractual arrangements to identify any implied leases. The Group currently believes that there will be no material impact on operating results or cash flows, and that the most significant effects of adoption will be the recognition of new right-of-use assets and lease liabilities on the Group’s balance sheet for its various office facility operating leases. A cumulative-effect adjustment (the amount of which has not yet been determined) will be recognized to the opening balance of retained earnings in the period of adoption with prior period financial information not been adjusted.

In June 2016, the FASB issued ASU No. 2016-13 (ASU 2016-13), “*Financial Instruments – Credit Losses*”, which introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires the entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. The standard also indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. The ASU 2016-13 is effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Group is in the process of evaluating the impact of adopting this guidance.

In August 2016, the FASB issued ASU No. 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*” (“ASU 2016-15”), which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted. The adoption of this new guidance did not have a material impact on the consolidated financial statements for 2018.

In November 2016, the FASB issued ASU No. 2016-18, “*Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*” (“ASU 2016-18”), which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU 2016-18 is effective for annual and interim periods beginning after December 15, 2017 and effective from January 1, 2018, the Group adopted the new guidance and retrospectively adjusted the prior periods presented in the consolidated statement of cash flows. The changes in restricted cash in the consolidated cash flows were RMB214,436 and RMB32,752 for the years ended December 31, 2016 and 2017, respectively, which were no longer presented within investing activities and were retrospectively included in the changes of cash, cash equivalents and restricted cash as required. As of December 31, 2018, total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows include cash and cash equivalents of RMB560,356 and restricted cash of RMB270,670 within the consolidated balance sheets.

In January 2017, the FASB issued ASU 2017-01 (ASU 2017-01), “*Business Combinations (Topic 805): Clarifying the Definition of a Business*”, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a

business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. As of January 1, 2018, the Group prospectively adopted the ASU. Upon adoption, the standard impacts how the Group assess future acquisitions (or disposals) of assets or businesses. The adoption of this new guidance did not have a material impact on the consolidated financial statements for 2018.

TUNI CORPORATION

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2. Principal Accounting Policies - continued

(af) Recently Issued Accounting Pronouncements - continued

In January 2017, the FASB issued ASU No. 2017-04, “*Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*” (“ASU 2017-04”), which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group is in the process of evaluating the impact of adopting this guidance.

In May 2017, the FASB issued ASU 2017-09, “*Compensation - Stock Compensation (Topic 718)*” that provides additional guidance around which changes to a share-based payment award requires an entity to apply modification accounting. Specifically, an entity is to account for the effects of a modification, unless all of the following are satisfied: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or as a liability instrument is the same as the classification of the original award immediately before the original award is modified. For public entities, the update is effective beginning after December 15, 2017. Early adoption is permitted. Effective from January 1, 2018, the Group adopted the new guidance, which did not have a material impact on the consolidated financial statements for 2018.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”) which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company does not expect a significant impact on its consolidated financial statements.

3. Risks and Concentration

(a) Credit and Concentration Risks

The Group’s credit risk arises from cash and cash equivalents, restricted cash, short-term investments, prepayments and other current assets, accounts receivables, yield enhancement products and other long-term investments. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates.

The Group expects that there is no significant credit risk associated with the cash and cash equivalents, short-term investments and other long-term investments which are held by reputable financial institutions in the jurisdictions where the Company, its subsidiaries and the Affiliated Entities are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality.

The Group has no significant concentrations of credit risk with respect to its customers, as customers usually prepay for travel services. Accounts receivable are typically unsecured and are primarily derived from revenue earned from corporate customers, travel agents, insurance companies and travel boards or bureaus. The risk with respect to accounts receivable is mitigated by credit evaluations performed on the corporate customers, travel agents and insurance companies and ongoing monitoring processes on outstanding balances. No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2016, 2017 and 2018.

TUNIU CORPORATION

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(All amounts in thousands, except for share and per share data, or otherwise noted)

3. Risks and Concentration - continued

(a) Credit and Concentration Risks - continued

The Group has purchased securities and financial products issued by banks, Alipay, companies and other financial institutions. The Group has set up a risk evaluation system on the issuers of credit quality, ultimate borrowers of asset management schemes, and conducts collectability assessment of the financial assets on timely basis. As of December 31, 2018, the Group believes the securities and financial assets are financially sound based on publicly available information and management's assessment does not foresee substantial credit risk with respect to these securities and financial products.

(b) Foreign Currency Risk

The Group's operating transactions and its assets and liabilities are mainly denominated in RMB. RMB is not freely convertible into foreign currencies. The value of RMB is subject to changes influenced by central government policies, and international economic and political developments. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

4. Business acquisition

Travel agencies

During the year ended December 31, 2018, the Group acquired 80% of equity interests of an online travel agency to expand Tuniu's overseas business network and further enhance the Company's competitive position. The total purchase price of RMB20,234 including cash consideration of RMB9,852 and an accrual in the amount of RMB10,382 representing the fair value of contingent consideration to be made based on the achievement of profit target over the next four years. The fair value of the contingent cash consideration was estimated using a probability-weighted scenario analysis method. Key assumption included probabilities assigned to each scenario and a discount rate. During the year ended December 31, 2018, the Group paid RMB9,852 cash consideration. The contingent consideration is due in increments annually over the next four years.

The business acquisition was accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	Amount	Estimated useful lives
Net assets (including cash acquired of RMB6.4million)	5,239	
Technology	4,300	9.4years
Goodwill	11,770	
Deferred tax liability	(1,075)	
Total consideration	20,234	

During the year ended December 31, 2016, the Group acquired 100% of equity interests of an offline travel agency to further expand the Group's overseas tourism market and promote the Group's destination service. The total purchase price of RMB28,077, including cash consideration of RMB16,507 and an accrual in the amount of RMB11,570 representing the fair value of contingent consideration to be made based on the achievement of certain revenue and profit target over the next four years. The fair value of the contingent cash consideration was estimated using a probability-weighted scenario analysis method. Key assumption included probabilities assigned to each scenario and a discount rate. During the year ended December 31, 2016, the Group paid RMB16,507 of the cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB680. During the year ended December 31, 2017, the Group paid RMB3,600 of the contingent cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB1,030. During the year ended December 31, 2018, the Group paid RMB3,600 of the contingent cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB730. As of December 31, 2018, the carrying value of total unpaid contingent consideration was RMB6,810, which is expected to be paid in increments annually over the next two years.

The business acquisition was accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	Amount	Estimated useful lives
Net assets (including cash acquired of RMB8.3 million)	12,907	
Trade names	2,464	9.5years
Non-compete agreement	3,676	6 years
Goodwill	10,565	
Deferred tax liability	(1,535)	
Total consideration	28,077	

During the year ended December 31, 2015, the Group acquired the 90%, 100%, 75.02% and 80% of equity interests in four offline travel agencies, respectively. The Group expanded its tours market and improved its capability of direct procurement of travel related products by means of these acquisitions. The total purchase price of RMB115,498 included cash consideration of RMB100,163 and RMB15,335 representing the fair value of contingent 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, the Group paid RMB7,973 of the cash consideration, and made a downward adjustment of the fair value of the contingent consideration by RMB1,905. During the year ended December 31, 2017, the Group paid RMB3,200 of the cash consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB4,542. During the year ended December 31, 2018, the Group paid RMB3,200 of the cash consideration, and made a downward adjustment of the fair value of the contingent consideration by RMB5,972. As of December 31, 2018, the total unpaid contingent consideration was RMB19,264, which is expected to be paid in increments annually over the next one to two years.

The business acquisitions were accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

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4. Business acquisition - continued

Travel agencies - continued

	Amount	Estimated useful lives
Net liabilities (including the cash acquired of RMB24 million)	(59,923)	
Travel licenses	25,100	20 years
Customer relationship	13,458	14.25-14.5 years
Trade names	39,170	7-14 years
Software	3,013	5 years
Non-compete agreement	1,683	3.5-5.25 years
Goodwill	133,324	
Deferred tax liability	(20,606)	
Noncontrolling interest	(19,721)	
Total considerations	<u>115,498</u>	

The Group measured the fair value of the trade names and travel licenses under the relief-from-royalty method. Under the methodology, fair value is calculated as the discounted cash flow savings accruing to the owner for not having to pay the royalty. Key assumptions included expected revenue attributable to the assets, royalty rates, discount rate and estimated asset lives. Customer relationships and technology were valued using the excess-earnings method, which measures the present value of the projected cash flows that are expected to be generated by the existing intangible asset after deduction of cash flows attributable to other contributory assets to realize the projected earnings attributable to the intangible asset. Key assumptions included discounted cash flow analyses, for other contributory assets, discount rate, remaining useful life, income tax amortization benefit and customer attrition rates. The Group measured the fair value of non-compete agreements based on incremental discounted cash flow analyses computed with and without the non-compete terms as described in share purchase agreement and the probability that such competition exists. The Group measured the fair value of the software under the replacement cost method.

Pro forma results of operations for all of the acquisitions described above have not been presented because they are not material to the consolidated income statements, either individually or in aggregate.

TUNI CORPORATION

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5. Transaction with JD.com, Inc.

On May 8, 2015, the Company entered into a share subscription agreement with Fabulous Jade Global Limited, an affiliate of JD.com, Inc., and a Business Cooperation Agreement (“BCA”) with JD. Com, Inc. (“JD”) for a period of five years. Pursuant to these agreements, the Company issued 65,625,000 Class A ordinary shares for a cash consideration of RMB1,528.2 million (US\$250 million) and the business resource contributed by JD. According to BCA, the business resource includes the exclusive rights to operate the leisure travel channel for both JD’s website and mobile application and JD’s preferred partnership for hotel and air ticket reservation service, the internet traffic support and marketing support for the leisure travel channel for a period of five years started from August 2015.

The acquisition of BCA is considered as assets acquisition and the intangible assets acquired include the exclusive operation right of leisure travel channel, preferred partnership of hotel and air ticket reservation service, traffic and marketing supports. The Group estimated the fair value of exclusive operation right and preferred partnership using a form of the income approach known as excess earning method. The key assumption includes expected revenue attributable to assets, margin discount rate and the remaining useful life. The Group estimated the fair value of internet traffic support and marketing support using a form of income approach known as operating cost saving method. Key assumption includes the market price of the services to be provided, the volume of the services to be provided, discount rate and the remaining useful life. The Group made estimates and judgments in determining the fair value of the assets with assistance from an independent valuation firm.

The summary of the fair value of acquired intangible assets is as follows:

	Amount	Estimated useful lives
Exclusive operation right of leisure travel channel	405,406	5 years
Preferred partnership of hotel and air ticket reservation service	1,431	5 years
Internet traffic support	139,358	5 years
Marketing support	114,020	5 years
Total consideration	660,215	

6. Prepayments and other current assets

The following is a summary of prepayments and other current assets:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Prepayments to suppliers	680,723	716,761	104,249
Interest income receivable	42,234	11,984	1,743
Prepayment for advertising expenses	7,950	9,536	1,387
Receivables in relation to factoring business	81,940	324,577	47,208
Loan receivables	34,284	454,953	66,170
Others	92,332	155,773	22,656
Total	939,463	1,673,584	243,413

Receivable in relation to factoring business and loan receivable are recorded in connection with the Group’s account receivable factoring service and cash lending service.

The Group recognized a provision for other current assets of RMB25,622 and RMB32,476 for the years ended December 31, 2016 and 2017, respectively, and had a net reversal of RMB731 for the year ended December 31, 2018.

The following table summarized the details of the Group’s provision for other current assets:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Balance at beginning of year	—	25,622	30,632	4,455
Addition	25,622	32,476	6,009	874
Reversal	—	—	(6,740)	(980)
Transfer-out	—	(27,466)	—	—
Write-offs	—	—	—	—
Balance at end of period	25,622	30,632	29,901	4,349

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7. Long-term investments

The Group's long-term investments consist of equity investments, held-to-maturity investments and other long-term investments.

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Equity investments – equity method	42,500	42,500	6,181
Equity investments – measurement alternative	—	165,253	24,035
Equity investments – cost method	47,568	—	—
Held-to-maturity investments	—	197,469	28,721
Other long-term investments	394,923	897,284	130,505
Total	484,991	1,302,506	189,442

Equity investments

In December 2016, Nanjing Zhongshan Financial Leasing Co., Ltd. (“Zhongshan”) was established and the Group invested RMB42.5 million for 25% of equity interest in Zhongshan. This investment was accounted for as an equity-method investment due to the significant influence the Group has over the operating and financial policies of Zhongshan as the Group has one of the five board seats of Zhongshan. Operating results of Zhongshan were not material in any of the years ended December 31, 2016, 2017 and 2018.

With the adoption of ASU 2016-01, the Group elected a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. During the year ended December 31, 2018, the Group remeasured certain equity investments based on the information obtained from observable transactions and recognized gains of RMB12,581 including RMB8,700 for one equity investment, which was recognized on January 1, 2018, the adoption date of this ASU. In addition, the Group made several equity investments of this kind with the total cost of RMB106,368 and disposed one equity investment of RMB1,264 in 2018. The carrying value of these equity investments using measurement alternative was RMB165,253 as of December 31, 2018. Before 2018, cost method was used for these investments with carrying value of RMB47,568 as of December 31, 2017.

Held-to-maturity investments

During 2018, the Group made investments in several corporate bonds issued by listed public companies and time deposits with maturities over one year. The Group has intention and ability to hold these corporate bonds till maturity. The Group measured these held-to-maturity investments at amortized cost and the carrying value of such investments was RMB197,469 as of December 31, 2018.

Other long-term investments

The Group also made several investments in financial products with maturities over one year and securities including perpetual bonds and preferred shares issued by companies. The Group measured other these long-term investments at the fair value and the carrying value was RMB394,923 and RMB897,284 as of December 31, 2017 and 2018 respectively.

No impairment loss was recognized for long-term investments for the years ended December 31, 2016, 2017 and 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Property and equipment, net

The following is a summary of property and equipment, net:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Computers and equipment	151,407	149,634	21,763
Leasehold improvements	87,750	106,871	15,544
Buildings	5,495	5,547	807
Furniture and fixtures	17,479	18,334	2,667
Vehicles	1,120	6,744	981
Software	51,911	127,354	18,523
Subtotal	315,162	414,484	60,285
Less: Accumulated depreciation	(177,854)	(241,030)	(35,056)
Property and equipment subject to depreciation	137,308	173,454	25,229
Construction in progress	10,970	13,906	2,021
Total	148,278	187,360	27,250

Depreciation expense for the years ended December 31, 2016, 2017 and 2018 was RMB66,510, RMB65,704 and RMB67,077, respectively.

9. Intangible assets, net

Intangible assets, net, consist of the following:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Travel license	30,590	30,956	4,502
Insurance agency license	11,711	11,711	1,703
Software	52,515	58,187	8,463
Technology	—	4,300	625
Trade names	41,634	41,634	6,055
Business Cooperation Agreements	660,215	660,215	96,025
Customer relationship	13,458	13,458	1,957
Non-compete agreements	6,399	6,399	931
Subtotal	816,522	826,860	120,261
Less: Accumulated amortization	(355,888)	(508,975)	(74,027)
Total	460,634	317,885	46,234

During 2015, the Group acquired an insurance agency for the total consideration of RMB58,720 to acquire the insurance agency license. The insurance agency was a dormant company and was not qualified as a business as it had no input or process to create output. The Group accounted for this transaction as an asset acquisition and the difference between the cash consideration and net assets of the insurance agency was recorded as an insurance agency license which is amortized over 20 years on a straight line basis.

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(All amounts in thousands, except for share and per share data, or otherwise noted)

9. Intangible assets, net - continued

Amortization expenses for intangible assets were RMB145,063, RMB150,092 and RMB153,087 for the years ended December 31, 2016, 2017 and 2018.

The annual estimated amortization expense for the above intangible assets for the following years is as follows:

Years Ending December 31,	Amortization for Intangible Assets	
	RMB	US\$ (Note 2(d))
2019	149,449	21,737
2020	96,025	13,966
2021	14,310	2,081
2022	8,630	1,255
2023	6,652	967
Thereafter	42,819	6,228
Total	317,885	46,234

10. Land use right, net

Land use right, net, consist of the following:

	As of December 31,	
	2017	2018
	RMB	RMB US\$ (Note 2(d))
Land use right	—	101,007 14,691
Less: Accumulated amortization	—	(171) (25)
Net book value	—	100,836 14,666

In December 2018, the Group obtained the certificate for a land use right and started to amortize over the remaining lease period. Amortization expense for land use right was RMB171 for the year ended December 31, 2018.

11. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2018 were as follows:

	As of December 31,	
	2017	2018
	RMB	RMB US\$ (Note 2(d))
Balance at the beginning of year	147,639	147,639 21,473
Increase in goodwill related to acquisitions during the year	—	11,770 1,712
Accumulated impairment loss	—	—
Balance at the end of year	147,639	159,409 23,185

12. Other non-current assets

Other non-current assets consist of the following:

	As of December 31,	
	2017	2018
	RMB	RMB US\$ (Note 2(d))
Prepayment for land use right (note 10)	101,007	—
Deposits	26,324	43,510 6,328
Loans receivables	20,694	31,501 4,582
Others	8,430	6,028 877
Balance at the end of year	156,455	81,039 11,787

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13. Accrued expenses and other current liabilities

The following is a summary of accrued expenses and other current liabilities:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Deposits from packaged-tour users	63,499	35,119	5,108
Payable for business acquisition	26,925	25,722	3,741
Accrued liabilities related to customers incentive program	2,142	1,395	203
Accrued professional service fees	9,878	8,028	1,168
Accrued advertising expenses	74,548	63,531	9,240
Deposits received from suppliers	70,212	90,853	13,214
Accrued operating expenses	54,834	32,391	4,711
Advanced payment from banks	18,748	15,567	2,264
Discounted bank acceptance notes	—	142,000	20,653
Short-term borrowings	—	49,312	7,172
Others	52,904	69,226	10,070
Total	373,690	533,144	77,544

Deposits from packaged-tour users represent cash paid to the Group as a deposit for overseas tours, and such amount is refundable upon completion of the tours.

Advanced payment from banks represent cash received by the Group for promotional and marketing campaigns. Banks participating in these campaigns would reimburse the Group for tours sold to their credit card holders at a specified discount. Such advanced payment is recognized as revenues when revenues from the related tour are recognized.

Discounted bank acceptance notes represent cash received from financial institutions by discounting of bank acceptance notes, which are repayable within one year with interest ranging from 3.7% to 5.8%.

Short-term borrowings represent loans from banks, which are repayable within one year with interest ranging from 5.7% to 7.5%.

14. Income Taxes

The Company is registered in the Cayman Islands. The Company generates substantially all of its income (loss) from its PRC operations for the years ended December 31, 2016, 2017 and 2018.

Cayman Islands ("Cayman")

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, upon payments of dividends to shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% since January 1, 2010. The operations in Hong Kong have incurred net accumulated operating losses for income tax purposes.

PRC

On March 16, 2007, the National People's Congress of the PRC enacted an Enterprise Income Tax Law ("EIT Law"), under which Foreign Investment Enterprises ("FIEs") and domestic companies are subject to EIT at a uniform rate of 25%. The EIT law became effective on January 1, 2008.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

14. Income Taxes – continued

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located.”

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by a FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% if the immediate holding company in Hong Kong owns directly at least 25% of the shares of the FIE and could be recognized as a Beneficial Owner of the dividend from PRC tax perspective.

Nanjing Tuniu obtained in 2010 its HNTE certificate with a valid period of three years and successfully renewed such certificate in December 2013 and December 2016 for additional three years, respectively. Therefore, Nanjing Tuniu was 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 expects to obtain an updated HNTE in December 2019 certificate under which it will be eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 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. Tuniu (Nanjing) Information Technology Co., Ltd also obtained HNTE certificate in 2017 and is eligible to enjoy a preferential tax rate of 15% from 2017 to 2019 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. Besides, Beijing Tuniu expects to obtain the HNTE certificate in 2019 under which it will be eligible to enjoy a preferential tax rate of 15% from 2019 to 2021 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 and a 50% reduction of enterprise income tax for the following three years. Nanjing Tuniu entered into the first tax profitable year for the year ended December 31, 2014.

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	For Years Ended December 31,		
	2016	2017	2018
	%	%	%
PRC Statutory income tax rates	25.0	25.0	25.0
Change in valuation allowance	(23.2)	(17.3)	(50.9)
Permanent book – tax difference	1.0	(4.0)	19.4
Difference in EIT rates of certain subsidiaries	(2.0)	(5.8)	(0.1)
Effect of tax holiday	(0.7)	—	6.5
Total	0.1	(2.1)	(0.1)

The aggregate amount and per share effect of the tax holidays are as follows:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Aggregate amount	—	—	12,877	1,873
Basic net loss per share effect	—	—	—	—
Diluted net loss per share effect	—	—	—	—

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

14. Income Taxes - continued

The following table sets forth the significant components of deferred tax assets and liabilities:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Non-current deferred tax assets:			
Accruals and others	13,828	4,468	650
Net operating loss carry forwards	1,164,433	1,180,159	171,647
Carryforwards of deductible advertising expenses	9,159	9,842	1,431
Allowance for doubtful accounts	11,452	12,957	1,885
Subtotal	1,198,872	1,207,426	175,613
Less: valuation allowance	(1,198,872)	(1,207,426)	(175,613)
Total non-current deferred tax assets, net	—	—	—
Non-current deferred tax liabilities:			
Recognition of intangible assets arising from business combination	(21,142)	(19,855)	(2,888)
Total non-current deferred tax assets, net	(21,142)	(19,855)	(2,888)

As of December 31, 2018, the Group had net operating loss carryforwards of RMB1,180,159 which can be carried forward to offset taxable income. The carryforwards period for net operating losses under the EIT Law is five years. The net operating loss carry forward of the Group will start to expire in 2019 for the amount of RMB395,272 if not utilized. The remaining net operating loss carryforwards will expire in varying amounts between 2020 and 2023. Other than the expiration, there are no other limitations or restrictions upon the Group's ability to use these operating loss carryforwards. There is no expiration for the advertising expenses carryforwards.

A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

As of December 31, 2017 and 2018, valuation allowances of RMB1,198,872 and RMB1,207,426 were provided because it was more likely than not that the Group will not be able to utilize certain tax losses carry forwards and other deferred tax assets generated by its subsidiaries and Affiliated Entities. If events occur in the future that allow the Group to realize more of its deferred tax assets than the presently recorded amount, an adjustment to the valuation allowances will increase income when those events occur.

Movement of valuation allowance

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Balance at the beginning of the year	480,905	1,068,082	1,198,872	174,369
Additions	596,944	189,090	128,464	18,684
Written-off for expiration of net operating losses	(9,767)	(16,421)	(10,584)	(1,539)
Utilization of previously unrecognized tax losses and deductible advertising expenses	—	(41,879)	(109,326)	(15,901)
Balance at the end of the year	1,068,082	1,198,872	1,207,426	175,613

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

15. Redeemable noncontrolling interests

In December 2016, the Group entered into an investment agreement with certain investors (“noncontrolling shareholders”) to establish a subsidiary. The noncontrolling shareholders contributed RMB90,000 and held 30% equity interest. Pursuant to the investment agreement, the noncontrolling shareholders have the option to request the Group to redeem their equity interests at an agreed price after three years of the investment. In April 2018, the Group agreed with one of the noncontrolling shareholders to purchase its 10% equity interest of the subsidiary at the cost of RMB30,000.

The Group recorded the noncontrolling interests as redeemable noncontrolling interests, outside of permanent equity in the Group’s consolidated balance sheets in accordance with ASC 480. The Group uses the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interests. The accretion, which increases the carrying value of the redeemable noncontrolling interests, is recorded against additional paid-in capital.

The change in the carrying amount of redeemable noncontrolling interests for the years ended December 31, 2016, 2017 and 2018 is as follows:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Balance as of January 1	—	90,072	96,719	14,067
Contribution from/(Repurchase of) redeemable noncontrolling interests	90,000	—	(30,000)	(4,363)
Net income attributable to redeemable noncontrolling interests	(34)	922	178	26
Accretion on redeemable noncontrolling interests	106	5,725	2,422	352
Balance as of December 31	90,072	96,719	69,319	10,082

TUNIUCORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data, or otherwise noted)

16. Ordinary Shares

On February 13, 2014, the Board has approved that all of the Company's existing ordinary shares would be redesignated as Class B ordinary shares and all of the Company's outstanding preferred shares would be redesignated or automatically converted into Class B ordinary shares immediately prior to the completion of the Company's initial public offering ("IPO"). All options, regardless of grant dates, will entitle holders to the equivalent number of Class A ordinary shares once the vesting and exercising conditions on such share-based compensation awards are met. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share on all matters subject to shareholders' vote. Each Class B ordinary share is 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.

On May 9, 2014, concurrently with the completion of the Company's IPO, the Company issued 5,000,000, 1,666,666 and 5,000,000 shares of Class A ordinary shares at a price per share equal to the IPO price to DCM Hybrid RMB Fund, L.P., the Company's existing shareholder, Qihoo 360 Technology Co. Ltd. and Ctrip Investment Holding Ltd., respectively.

On December 15, 2014, the Company entered into share subscription agreements with Unicorn Riches Limited, JD.com E-commerce (Investment) Hong Kong Corporation Limited, Ctrip Investment Holding Ltd. and the respective personal holding companies of the Group's chief executive officer and chief operating officer, pursuant to which the Company issued 36,812,868 numbers of Class A ordinary shares for a total proceeds of RMB905,792 (US\$148 million), net of issuance cost of RMB14,279. The transaction was closed on December 31, 2014.

On May 8, 2015, the Company entered into share subscription agreements with Fabulous Jade Global Limited, Unicorn Riches Limited, Ctrip Investment Holding Ltd., Esta Investments Pte. Ltd., DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P., and Sequoia Capital 2010 CV Holdco, Ltd., pursuant to which the Company issued 93,750,000 Class A ordinary shares for the cash consideration of US\$400 million (RMB2,445 million) and certain business resource contributed by JD as part of Business Cooperation Agreement with the Company. The total consideration was RMB3,104,457, including fair value of acquired Business Cooperation Agreement of RMB660,215 (see Note 5), net of issuance cost of RMB1,078. The transaction was closed on May 22, 2015.

On November 20, 2015, the Company entered into a share subscription agreement with HNA Tourism Holdings Group Co., Ltd. ("HNA"), pursuant to which the Company issued 90,909,091 Class A ordinary shares for a total proceeds of RMB3,279 million (US\$500 million). The transaction was closed on January 21, 2016.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

17. Share-based Compensation Expenses

The Company's 2008 Incentive Compensation Plan (the "2008 Plan") allows the plan administrator to grant share options and restricted shares to the Company's employees, directors, and consultants, up to a maximum of 11,500,000 ordinary shares. In December 2012, the Board of Directors approved an increase in the number of shares available for issuance under the plan to 18,375,140 ordinary shares. In April 2014 the Company adopted the 2014 Share Incentive Plan (the "2014 Plan"). The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan was 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, as a result of which increase the ordinary shares reserved under the 2014 Plan immediately after each such increase shall equal 5% of the then-issued and outstanding ordinary shares on an as-converted basis. In December 2016, the Board of Directors approved an increase in the number of shares available for issuance under the 2014 Plan to 7,942,675 ordinary shares.

The share options and restricted shares granted under the 2008 plan initially have a contractual term of six years, and grants under the 2014 plan have a contractual term of ten years. The incentive awards under both 2008 plan and 2014 plan generally vest over a period of four years of continuous service, one fourth (1/4) of which vest upon the first anniversary of the stated vesting commencement date and the remaining vest ratably over the following 36 months. Under the 2008 plan, incentive awards are only exercisable upon occurrence of certain defined exercisable events. The Group did not recognize any share-based compensation expense for the awards granted until the completion of the Company's IPO on May 9, 2014 upon which the performance condition was satisfied. As of December 31, 2018, 20,507,371 options and 223,399 restricted shares were outstanding under the 2008 and 2014 plan.

Share-based compensation expense of RMB92,419, RMB98,675 and RMB68,738 were recognized for the years ended December 31, 2016, 2017 and 2018, respectively.

Share options

The following table summarizes the Company's option activities:

	Number of share options	Weighted Average Exercise Price US\$	Weighted Average Remaining Contractual Life In Years	Aggregate Intrinsic Value US\$'000
Outstanding at January 1, 2018	17,164,617	2.01	6.36	13,340
Granted	7,704,003	1.67		
Exercised	(886,812)	0.75		
Forfeited	(3,474,437)	2.54		
Outstanding at December 31, 2018	20,507,371	1.81	6.77	6,879
Vested and expected to vest at December 31, 2018	19,619,273	1.81	6.68	6,856
Exercisable at December 31, 2018	10,496,642	1.74	4.72	6,615

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

17. Share-based Compensation Expenses - continued

On March 4, 2016, the Company modified the exercise price of 14,478,293 share options granted under 2014 Plan to US\$3.09. The incremental compensation expense of RMB23,197 (US\$3,341) was equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For options already vested as of the modification date, the Company immediately recognized the incremental value as compensation expenses. For options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these options.

On May 31, 2016, the Company 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. The incremental compensation expense was insignificant and was recognized over the remaining service period.

On February 15, 2017, the Company extended the contract life of 2,435,709 share options granted under 2008 plan from six years to ten years. On March 1, 2018, the Company extended the contract life of 200,523 share options granted under 2008 plan from six years to ten years. The incremental compensation expense for the modifications were insignificant and were recognized immediately since the share options were fully vested.

The total intrinsic value of options exercised for the years ended December 31, 2016, 2017 and 2018 was RMB26,587, RMB103,082 and RMB11,026(US\$1,604), respectively.

The weighted-average grant date fair value for options granted during the years ended December 31, 2016, 2017 and 2018 was US\$1.47, US\$2.66 and US\$1.28, respectively, computed using the binomial option pricing model.

The total fair value of share options vested during the years ended December 31, 2016, 2017, and 2018 was RMB67,727, RMB82,814 and RMB73,997(US\$10,762), respectively.

The Company estimated the expected volatility at the date of grant date and each option valuation date based on the annualized standard deviation of the daily return embedded in historical share prices of comparable companies. Risk free interest rate was estimated based on the yield to maturity of US treasury bonds denominated in US\$ at the option valuation date. The exercise multiple is estimated as the ratio of fair value of underlying shares over the exercise price as at the time the option is exercised, based on a consideration of research study regarding exercise pattern based on empirical studies on the actual exercise behavior of employees. The Company has never declared or paid any cash dividends on its capital stock, and the Company does not anticipate any dividend payments on its ordinary shares in the foreseeable future. Time to maturity is the contract life of the option, and estimated forfeiture rates are determined based on historical employee turnover rate.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

17. Share-based Compensation Expenses - continued

The grant date fair value of each option is calculated using a binomial option pricing model with the following assumptions:

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Expected volatility	55.86%-57.49%	51.39%-52.4%	49.9%
Risk-free interest rate	1.85%-2.4%	2.21%-2.45%	2.97%
Exercise multiple	2.2-2.8	2.2-2.8	2.2-2.8
Expected dividend yield	0%	0%	0%
Time to maturity (in years)	10	10	10
Expected forfeiture rate (post-vesting)	0-20%	0%-20%	0%-20%
Fair value of the common share on the date of option grant	US\$2.68-2.97 RMB18.6-20.60	US\$1.39-2.92 RMB9.05-18.98	US\$1.24-1.35 RMB8.54-9.31

As of December 31, 2018, there was RMB86,902 in total unrecognized compensation expense related to unvested options, which is expected to be recognized over a weighted-average period of 2.74 years.

Restricted shares

The total intrinsic value of restricted shares vested for the years ended December 31, 2016, 2017 and 2018 were RMB1,777, RMB2,468 and RMB1,470(US\$214), respectively.

The fair value of restricted shares with service conditions is based on the fair market value of the underlying ordinary shares on the date of grant.

The following table summarizes the Company's restricted shares activity under the plans:

	<u>Numbers of restricted shares</u>	<u>Weighted average grant date fair value</u>
Outstanding as of January 1, 2018	104,779	3.82
Granted	210,000	2.23
Vested	(91,380)	3.28
Outstanding as of December 31, 2018	223,399	2.54
Vested and expected to vest at December 31, 2018	223,399	2.54

As of December 31, 2018, there was RMB3,778 in total unrecognized compensation expense related to restricted shares, which is expected to be recognized over a weighted-average period of 2.69 years.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

18. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the periods indicated:

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Numerator:				
Net loss attributable to Tuniu Corporation	(2,407,194)	(767,304)	(185,512)	(26,981)
Accretion on redeemable noncontrolling interests	(106)	(5,725)	(2,422)	(352)
Numerator for basic and diluted net loss per share	(2,407,300)	(773,029)	(187,934)	(27,333)
Denominator:				
Weighted average number of ordinary shares outstanding-basic and diluted	373,347,855	378,230,039	377,744,381	377,744,381
Loss per share-basic and diluted	(6.45)	(2.04)	(0.50)	(0.07)

The Company had securities which could potentially dilute basic loss per share in the future, which were excluded from the computation of diluted loss per share as their effects would have been anti-dilutive. Such outstanding securities consist of the share options and unvested restricted shares with the number of 31,733,446, 17,269,396 and 8,316,843, for the years ended December 31, 2016, 2017 and 2018, respectively.

19. Restricted Net Assets

Pursuant to laws applicable to entities incorporated in the PRC, the Group's subsidiaries and Affiliated Entities in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires an annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of a company's registered capital; the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for specific purposes of enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. In addition, due to restrictions on the distribution of share capital from the Group's PRC subsidiaries and Affiliated Entities and also as a result of these entities' unreserved accumulated losses, total restrictions placed on the distribution of the Group's PRC subsidiaries and Affiliated Entities' net assets was RMB1,721 million, or 51.4% of the Group's total consolidated net assets as of December 31, 2018.

TUNI CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

20. Commitments and Contingencies

(a) Operating Lease Agreement

The Group leases its offices under non-cancelable operating lease agreements. Certain of these arrangements contain free or escalating rent clauses. The Group recognizes rental expense under such arrangements on a straight-line basis over the lease term. Rental expenses amounting to RMB86,830, RMB76,599 and RMB71,379 during the years ended December 31, 2016, 2017 and 2018, respectively, were charged to the consolidated statements of comprehensive loss when incurred.

As of December 31, 2018, future minimum commitments under non-cancelable agreements were as follows:

Years Ending December 31,	RMB	US\$ (Note 2(d))
2019	101,947	14,828
2020	75,523	10,984
2021	33,952	4,938
2022	3,712	540
2023 and thereafter	2,124	309
Total	217,258	31,599

(b) Capital Commitments

As of December 31, 2018, capital commitments relating to leasehold improvement, purchase of equipment and construction of office building were approximately RMB15,079.

(c) Contingencies

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. Based on currently available information, management does not believe that the ultimate outcome of these unresolved matters, individually and in the aggregate, is likely to have a material adverse effect on the Group's financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Group's financial position and results of operations for the periods in which the unfavorable outcome occurs.

The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. In 2016, the Group received a lawsuit for claim of RMB8.8 million due to the Group's delay in payments for office rental and recorded the provision in accordance with *ASC 450, Contingencies*. During the year ended December 31, 2018, based on the result of Court's final judgment that the Group's loss was limited to RMB1.4 million, which was the deposit paid by the Group, the remaining provision of RMB7.4 million was reversed accordingly.

(d) Other commitments

Deposits or guarantees are required by the Group's business partners for air ticketing and tourist attraction tickets. Letters of guarantee are issued by banks to the Group's business partners with total amount of RMB212 million and RMB242 million as of December 31, 2017 and 2018, respectively, which occupies the Group's revolving credit facilities granted by banks with the total amount of RMB520 million as of December 31, 2018.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

21. Related party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following entities are considered to be related parties to the Group:

Name of related parties	Relationship with the Group
Ctrip Investment Holding Co., Ltd. ("Ctrip")	one board director of the Group
JD.com, Inc. ("JD")	one board director of the Group
HNA Tourism Holdings Group Co., Ltd. ("HNA")	two board directors of the Group
Black Fish Group Ltd. ("Black Fish")	founded by one of the former principal shareholders of the Group
Fullshare Holdings Limited ("Fullshare")	a principal shareholder of the Group

On May 25, 2018, Fullshare completed the purchase of 4,104,137 Class A ordinary shares and 6,949,997 Class B ordinary shares from the Group's previous principal shareholder Mr. Haifeng Yan. Since then, Haifeng Yan was no longer the Group's principal shareholder and Black Fish founded by Mr. Haifeng Yan ceased to be the Group's related party.

a) Transactions with related parties:

Ctrip purchased 5,000,000 Class A ordinary shares in a private placement concurrent with the Group's initial public offering, an additional 3,731,034 Class A ordinary shares for a total of US\$15 million 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 million through a private placement transaction in May 2015.

The Group sells packaged tours through Ctrip's online platform and the commission fees to Ctrip were insignificant. Revenues from Ctrip consist of commission fees for the booking of hotel rooms and air tickets through the Group's online platform, amounted of RMB54.8 million, RMB61.5 million and RMB161.7 million (US\$23.5 million) for the years ended December 31, 2016, 2017 and 2018, respectively.

On May 8, 2015, the Company issued 65,625,000 Class A ordinary shares to Fabulous Jade Global Limited, a subsidiary of JD, for cash consideration of RMB1,528.2 million (US\$250 million) and RMB660.2 million representing the fair value of business resource contributed by JD, which include the exclusive rights to operate the leisure travel channel for both JD's website and mobile application, JD's preferred partnership for hotel and air ticket reservation service, internet traffic support and marketing support for the leisure travel channel for a period of five years starting from August 2015.

On January 21, 2016, the Company issued 90,909,091 Class A ordinary shares to HNA Tourism Holdings Group Co., Ltd., for total consideration of RMB3,279 million (US\$500 million).

In 2017, the Group 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 the Group's consolidated statement of comprehensive income.

Black Fish entered into cooperation agreements with the Group in 2017 for provision of services in relation to the Group's 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 the Group at the consideration of RMB140.0 million as the Group terminated these cooperation agreements and stopped granting loans to individuals in 2017.

HNA agreed to provide the Group with access to its premium airlines and hotels resources at a preferential rate, under fair competition market rules, and the Group undertook to acquire no less than US\$100 million products and services sourced from HNA over the next two years. The Group purchased RMB250.5 million, RMB394.7 million, RMB588.9 million (US\$85.7 million) air tickets from HNA for the year ended December 31, 2016, 2017 and 2018, respectively.

During the year ended December 31, 2018, the Group provided account receivables factoring service to an affiliate of HNA Tourism amounting to RMB500 million (US\$72.7 million) with a repayment term of 12 months.

During the year ended December 31, 2018, Fullshare made several prepayments to the Group for travelling products, which was RMB1.6 million (US\$0.2 million) in 2018.

TUNIU CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data, or otherwise noted)

21. Related party transactions and balances - continued

b) Balances with related parties:

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
Current:			
Amounts due from Ctrip	16,128	11,091	1,613
Amounts due from JD	10,942	50,336	7,321
Amounts due from HNA	143,084	635,093	92,371
Amounts due from Black Fish	1,177	—	—
Total	<u>171,331</u>	<u>696,520</u>	<u>101,305</u>
Current:			
Amounts due to Ctrip	86,923	73,229	10,650
Amounts due to JD	—	2,350	342
Amounts due to Fullshare	—	1,580	230
Total	<u>86,923</u>	<u>77,159</u>	<u>11,222</u>

**FINANCIAL STATEMENT SCHEDULE I
TUNIUI CORPORATION**

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

CONDENSED BALANCE SHEETS

(All amounts in thousands, except for share and per share data, or otherwise noted)

	As of December 31,		
	2017	2018	
	RMB	RMB	US\$ (Note 2(d))
ASSETS			
Current assets			
Cash and cash equivalents	293	250	36
Amounts due from subsidiaries and Affiliated Entities	7,035,131	7,116,514	1,035,054
Prepayments and other current assets	570	226	33
Total current assets	7,035,994	7,116,990	1,035,123
Intangible assets	343,583	211,540	30,767
Total assets	7,379,577	7,328,530	1,065,890
LIABILITIES AND EQUITY			
Current liabilities			
Accrued expenses and other current liabilities	8,232	10,989	1,598
Total current liabilities	8,232	10,989	1,598
Non-current liabilities			
Investment deficit in subsidiaries and Affiliated Entities	3,776,234	3,967,178	577,002
Total non-current liabilities	3,776,234	3,967,178	577,002
Total liabilities	3,784,466	3,978,167	578,600
Equity			
Ordinary shares (US\$0.0001 par value; 1,000,000,000 shares (including 780,000,000 Class A shares, 120,000,000 Class B shares and 100,000,000 shares to be designated by the Board of Directors) authorized as of December 31, 2017 and 2018; 388,918,015 shares (including 371,544,515 Class A shares and 17,373,500 Class B shares) and 389,331,544 shares (including 371,958,044 Class A shares and 17,373,500 Class B shares) issued and outstanding as of December 31, 2017 and 2018, respectively)	248	249	36
Less: Treasury stock	(185,419)	(304,535)	(44,293)
Additional paid-in capital	9,013,793	9,061,979	1,318,010
Accumulated other comprehensive income	272,386	284,079	41,318
Accumulated deficit	(5,505,897)	(5,691,409)	(827,781)
Total Tuniu Corporation shareholders' equity	3,595,111	3,350,363	487,290
Total liabilities and equity	7,379,577	7,328,530	1,065,890

**FINANCIAL STATEMENT SCHEDULE I
TUNIUI CORPORATION**

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Operating expenses				
General and administrative	(11,657)	(6,715)	(3,147)	(458)
Share of loss of subsidiaries and affiliated entities	(2,230,637)	(761,841)	(183,670)	(26,714)
Total operating expenses	<u>(2,242,294)</u>	<u>(768,556)</u>	<u>(186,817)</u>	<u>(27,172)</u>
Loss from operations	<u>(2,242,294)</u>	<u>(768,556)</u>	<u>(186,817)</u>	<u>(27,172)</u>
Other income/(expenses)				
Interest income	1,418	6	—	—
Foreign exchange losses, net	(167,405)	(12)	—	—
Other income, net	1,087	1,258	1,305	191
Loss before income tax expense	<u>(2,407,194)</u>	<u>(767,304)</u>	<u>(185,512)</u>	<u>(26,981)</u>
Net loss	<u>(2,407,194)</u>	<u>(767,304)</u>	<u>(185,512)</u>	<u>(26,981)</u>
Accretion on redeemable noncontrolling interests	(106)	(5,725)	(2,422)	(352)
Net loss attributable to ordinary shareholders	<u>(2,407,300)</u>	<u>(773,029)</u>	<u>(187,934)</u>	<u>(27,333)</u>
Net loss	<u>(2,407,194)</u>	<u>(767,304)</u>	<u>(185,512)</u>	<u>(26,981)</u>
Other comprehensive income/(loss)				
Foreign currency translation adjustment, net of nil tax	233,900	(128,539)	11,693	1,701
Comprehensive loss	<u>(2,173,294)</u>	<u>(895,843)</u>	<u>(173,819)</u>	<u>(25,280)</u>

FINANCIAL STATEMENT SCHEDULE I
TUNIUI CORPORATION

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

CONDENSED STATEMENTS OF CASH FLOWS

(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$ (Note 2(d))
Cash (used in)/provided by operating activities	(661,029)	(5,507)	1,266	184
Cash (used in)/provided by investing activities	(3,972,014)	402,418	133,189	19,372
Cash provided by/(used in) financing activities	3,264,610	(98,805)	(134,485)	(19,560)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	281,764	(301,241)	(13)	(3)
Net decrease in cash, cash equivalents and restricted cash	(1,086,669)	(3,135)	(43)	(7)
Cash, cash equivalents and restricted cash at the beginning of year	1,090,097	3,428	293	43
Cash, cash equivalents and restricted cash at the end of year	3,428	293	250	36
Supplemental disclosure of non-cash investing and financing activities				
Receivables related to exercise of stock option	(163)	(385)	(23)	(3)

**FINANCIAL STATEMENT SCHEDULE I
TUNI CORPORATION**

CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

Note to Financial Statement Schedule I

Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04-(c) of Regulation S-X, which require condensed financial information as to the financial position, change in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The condensed financial information has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries and Affiliated Entities. Such investments in subsidiaries and Affiliated Entities are presented as investment deficit in subsidiaries and Affiliated Entities and the loss of the subsidiaries and Affiliated Entities is presented as share of loss of subsidiaries and Affiliated Entities.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosures to the consolidated financial statements contain information relating to the operations of the parent company and, as such, this schedule should be read in conjunction with the notes to the accompanying consolidated financial statements.

As of December 31, 2018, the parent company had no significant capital and other commitments, long-term obligations, or guarantee, except for those which have separately disclosed in the consolidated financial statements.

EXHIBIT 8.1

List of Principal Subsidiaries, Consolidated Affiliated Entity and its Principal Subsidiaries

	Place of Incorporation
Subsidiaries	
Tuniu (HK) Limited	Hong Kong
Tuniu (Nanjing) Information Technology Co., Ltd.	PRC
Beijing Tuniu Technology Co., Ltd.	PRC
Xiamen Suiwang International Travel Service Co., Ltd.	PRC
Tianjin Tuniu International Travel Service Co., Ltd.	PRC
Consolidated Affiliated Entity and its Subsidiaries	
Nanjing Tuniu Technology Co., Ltd.	PRC
Beijing Tuniu International Travel Service Co., Ltd.	PRC
Nanjing Tuniu International Travel Service Co., Ltd.	PRC
Shanghai Tuniu International Travel Service Co., Ltd.	PRC
Nanjing Tuzhilv Tickets Sales Co., Ltd.	PRC
Beijing Global Tour International Travel Service Co., Ltd.	PRC
Tuniu Insurance Brokers Co., Ltd.	PRC

Exhibit 12.1

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Dunde Yu, certify that:

1. I have reviewed this annual report on Form 20-F of Tuniu Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 4, 2019

By: /s/ Dunde Yu

Name: Dunde Yu

Title: Chief Executive Officer

Exhibit 12.2

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Maria Yi Xin, certify that:

1. I have reviewed this annual report on Form 20-F of Tuniu Corporation.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 4, 2019

By: /s/ Maria Yi Xin

Name: Maria Yi Xin

Title: Chief Financial Officer

Exhibit 13.1

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Tuniu Corporation (the “Company”) on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dundu Yu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 4, 2019

By: /s/ Dundu Yu

Name: Dundu Yu

Title: Chief Executive Officer

Exhibit 13.2

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Tuniu Corporation (the “Company”) on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Maria Yi Xin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 4, 2019

By: /s/ Maria Yi Xin

Name: Maria Yi Xin

Title: Chief Financial Officer

EXHIBIT 15.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-198111) of Tuniu Corporation of our report dated April 4, 2019 relating to the consolidated financial statements, financial statement schedule I, and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
April 4, 2019

EXHIBIT 15.2



Office: +852 2801 6066
Mobile: +852 9718 8740
Email: rthorp@tta.lawyer

Tuniu Building no. 699-32
Xuanwudadao, Xuanwu District
Nanjing, Jiangsu Province 210042
People's Republic of China

4 April 2019

Dear Sirs

Re: Tuniu Corporation

We have acted as legal advisers as to the laws of the Cayman Islands to Tuniu Corporation, an exempted limited liability company incorporated in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2018 ("**Form 20-F**").

We hereby consent to the reference of our name under the headings, "Item 10.E Additional Information—Taxation—Cayman Islands Taxation" and "Item 16G. Corporate Governance" in the Form 20-F, and further consent to the incorporation by reference of the summaries of our opinions under these captions into Tuniu Corporation's registration statement on Form S-8 (File No. 333-198111) that was filed on August 13, 2014.

Yours faithfully

/s/ TRAVERS THORP ALBERGA

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Cayman Islands & British Virgin Islands Attorneys-at-Law
Resident Hong Kong Partners: Anthony Travers
Richard Thorp, Jos Briggs, Anna Peccarino

EXHIBIT 15.3

方達律師事務所
FANGDA PARTNERS

上海 Shanghai • 北京 Beijing • 深圳 Shenzhen • 广州 Guangzhou • 香港 Hong Kong
<http://www.fangdalaw.com>

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文号 Ref.: 19GC0021

27/F, North Tower, Kerry Center
No. 1, Guanghua Road, Chaoyang District
Beijing 10020, PRC

Consent of Fangda Partners

April 4, 2019

Tuniu Corporation
Tuniu Building No. 699-32
Xuanwudadao, Xuanwu District
Nanjing, Jiangsu Province 210042
The People's Republic of China

Dear Sirs:

We hereby consent to the reference of our name under the heading "Item 3.D. Key Information—Risk Factors", "Item 4.B. Information on the Company—Business Overview—PRC Regulation", "Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions—Contractual Arrangements" and "Item 18. Financial Statements—Notes to the Consolidated Financial Statements" in Tuniu Corporation's Annual Report on Form 20-F for the year ended December 31, 2018 (the "**Annual Report**"), which will be filed with the Securities and Exchange Commission (the "**SEC**") in the month of April 2019. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Fangda Partners
